

RIETI-IZA World of Labor Policy Symposium

# Reforming Labor Market Institutions to Promote Elderly Employment

## Handout



# TSURU Kotaro

Chair of Employment Working Group, The Regulatory Reform Council,  
Cabinet Office / Program Director and Faculty Fellow, RIETI / Professor,  
Graduate School of Business and Commerce, Keio University

## May 26, 2015

Research Institute of Economy, Trade and Industry (RIETI)  
<http://www.rieti.go.jp/en/index.html>

# The Use of Limited-type Regular Workers to Promote Elderly Employment

26/05/2015

RIETI/IZA World of Labor Policy Symposium  
Reforming Labor Market Institutions to Promote Elderly  
Employment

Kotaro Tsuru  
Graduate School of Business and Commerce,  
Keio University  
RIETI

# Japanese employment system in the post war period:

## Stylized facts from international comparison

- More prevalent long-term employment relationships
- Steeper wage profile (in terms of tenure or age)
- Late promotion
  - The majority are not differentiated from their cohort until 10 to 15 years
- These features were more prevalent in regular workers in large Japanese firms.
- See Itoh(1991), Aoki(1988), Koike (1988), Hashimoto (1989)

# Blind side of Japanese employment system:

## “Unlimited scope of job duties”

- Standard definition of regular employees
  - Permanent employment status
  - Full-time work
  - Directly-employed
- In Japan, “implicit contracts” are made with regular employees.
  - They are obliged to accept future transfers to different workplaces, change of job duties, and overtime.
  - There are some cases where a disciplinary dismissal of a permanent employee who refused a job transfer or overtime work was considered legally relevant by a court.
- In this sense, regular employees have no limit to the scope or location of their work duties
  - No limitations on the scope of job assignment, place of work, and working hours
- Job demarcation is more ambiguous and fluid and wages are not attached to particular jobs.
- They should be called as “unlimited type regular employees”

# What are limited-type regular employment ?

- Job duties are clearly defined and specified ("job-based regular employment").
- They typically receive slightly lower wages compared to unlimited-type regular workers while performing the same tasks.
- No legal constraint in employing limited-type regular workers
- The survey of MHLW (2012)
  - About half of the major corporations are said to have embraced the system
  - The number of unlimited type / that of limited type = 7 : 3 <sup>4</sup>

# The role of personnel department

- Employers have far-reaching discretionary authority over their human resource arrangement.
- Periodic job rotation by the personnel department (centralized and synchronized labor reallocation within companies) (in large Japanese companies)
- In the US or Europe, however, job rotation is not centralized. Workers must apply for vacant posts if they want to move to different posts within companies.

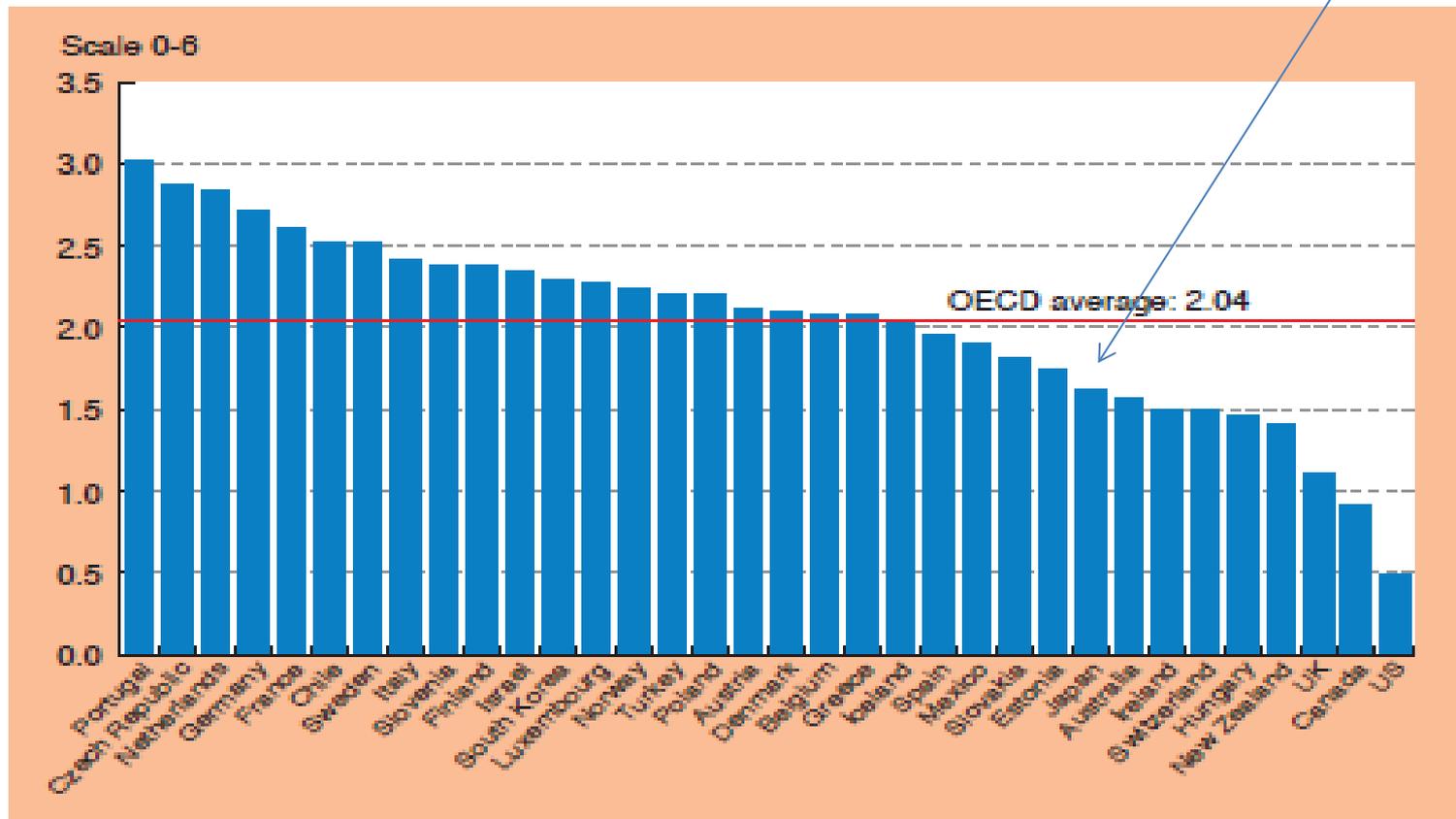
# Unlimited type regular employment system and the issues of work

- The unlimited type regular employment system has created several issues with respect to the way Japanese people work today.
- Expansion of the non-regular workforce
  - Unlimited-type regular employment is “costly” (difficult to dismiss), businesses have become cautious about hiring such employees, resulting in the increase in the number of non-regular employees.
- Long working hours
  - Difficult to refuse overtime
  - The buffer for avoiding employment adjustment due to economic downturns
- Inhibiting women's active workforce participation
  - Wives are often expected to stay at home to look after the family.
  - Even when women seek regular employment, the need to raise children and care for the elderly members of their family has created an obstacle in maintaining their professional careers.

# Strict dismissal rule ?

- On the question of protection of permanent workers against individual dismissal, Japan is among the group of nations with lower protection than average among OECD nations (the next slide).
- Dismissals can be more easily done at small and medium-sized enterprises (SMEs) than at large companies in Japan.
- The legal logic to prevent abusive use of an employer's right of dismissal adopted by Article 16 of the Labor Contract Law requires an objective rationality and social acceptability of individual dismissal in order to make it effective.
  - In Europe as well the principles are written into law as in Japan, and each specific case would be argued in a court.

# Protection of permanent workers against individual dismissal



Note: Data refer to 2013 for OECD countries and Latvia, 2012 for other countries. The figure presents the contribution of different subcomponents to the indicator for employment protection for regular workers against individual dismissal (EPR). The height of the bar represents the value of the EPR indicator.

Source: OECD Employment Outlook 2013

Why do some managers of large Japanese companies perceive dismissal regulation to be strict?

- Following one of the four criteria to judge the legal relevancy of a dismissal for economic reasons, it must be proved that the best efforts to avoid dismissal on the part of the employers were made before the dismissal, such as asking the employee to relocate, transfer to another company or voluntarily retire.
- A court would examine whether such efforts were sufficient or not.
- This is supposed to protect job opportunities for those unlimited type permanent workers even with a change of workplace or job assignment.
- This obligation might be some burden on employers.

# Costly middle-aged workers

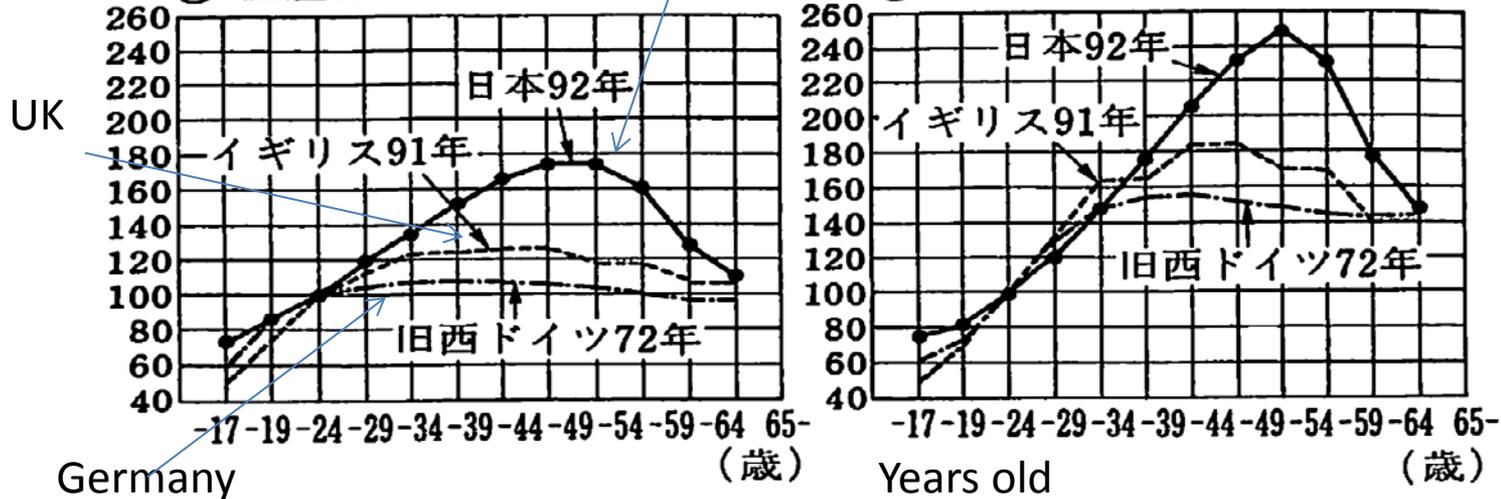
- Wage is not related to particular jobs and continue to rise during the course of workers' career in large companies under the presumption that their occupational ability should increase with their tenure or age.
- Wage rises to the level that is much higher than that of their own productivity.
- Also, it is more difficult to dismiss unlimited type regular workers (due to the need for job reallocation in economic downturns).
- They have a good incentive to stay in their companies even under some negative pressure from employers, since their high wage would fall significantly if they move to another job.

Age-wage profiles Japan

第3-3図 年齢別賃金プロファイル (製造業)

Office workers

① 生産労働者 Production workers ② 管理・事務・技術労働者



- (備考) 1. 労働省「賃金構造基本統計調査」, イギリス雇用省「New Earnings Survey」, EC「Structure of Earning in Industry」(1972年)により作成。
2. 日本は20~24歳を100, イギリス, 旧西ドイツは21~24歳を100とした指数。
3. 日本は製造業男子の所定内給与, イギリスは全産業男子フルタイム労働者の週当たり実収賃金。旧西ドイツは製造業男子の実収賃金で, 生産労働者については時間当たりベース, 管理・事務・技術労働者については月当たりベース。
4. イギリスの年齢階級は, 18歳未満, 18~20歳, 21~24歳, 25~29歳, 30~39歳, 40~49歳, 50~59歳, 60~64歳。旧西ドイツの24歳以下の年齢階級は, 18歳未満, 18~20歳, 21~24歳。

(出所) 経済企画庁「平成六年度経済白書」

White paper of Japanese Economy 1992

Figure 1. The median monthly wage profile of the manufacturing industry

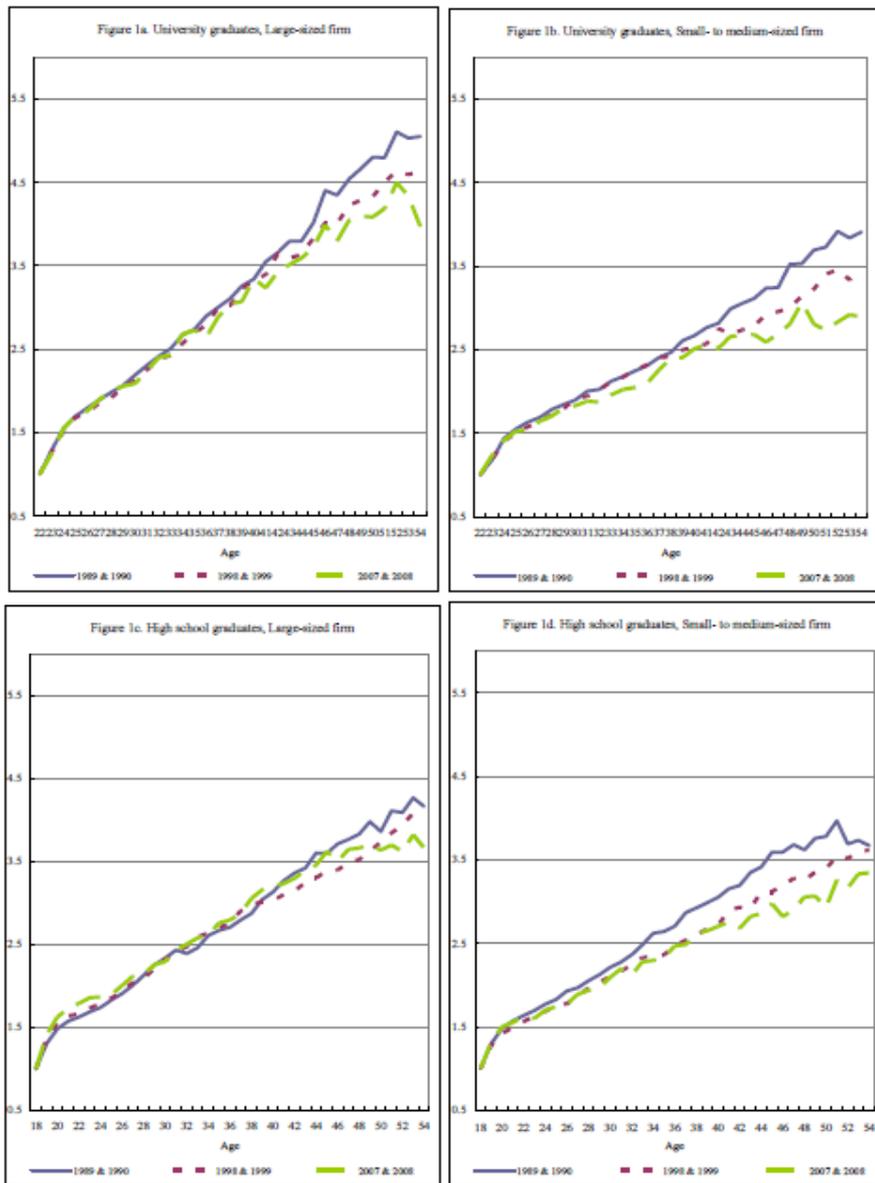
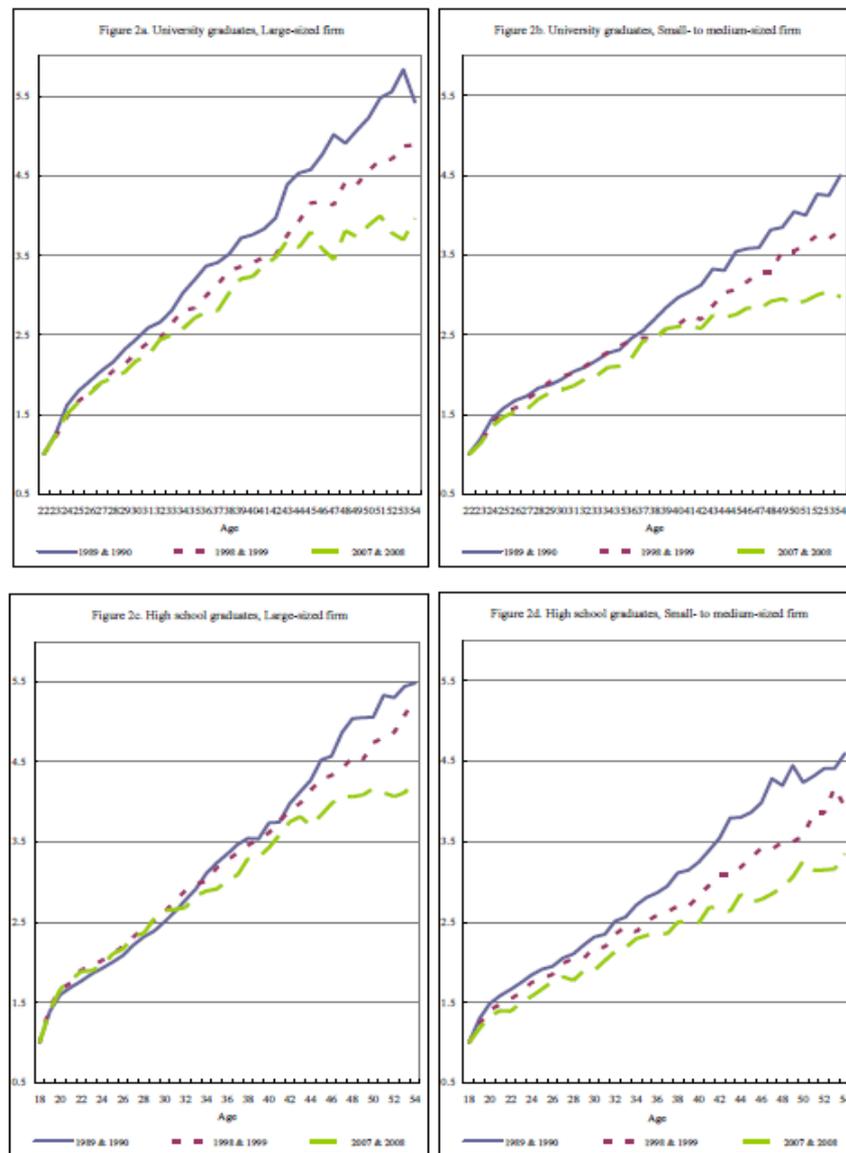


Figure 2. The median monthly wage profile of the non-manufacturing industry



Source: *Basic Survey on the Wage Structure* (various issues)

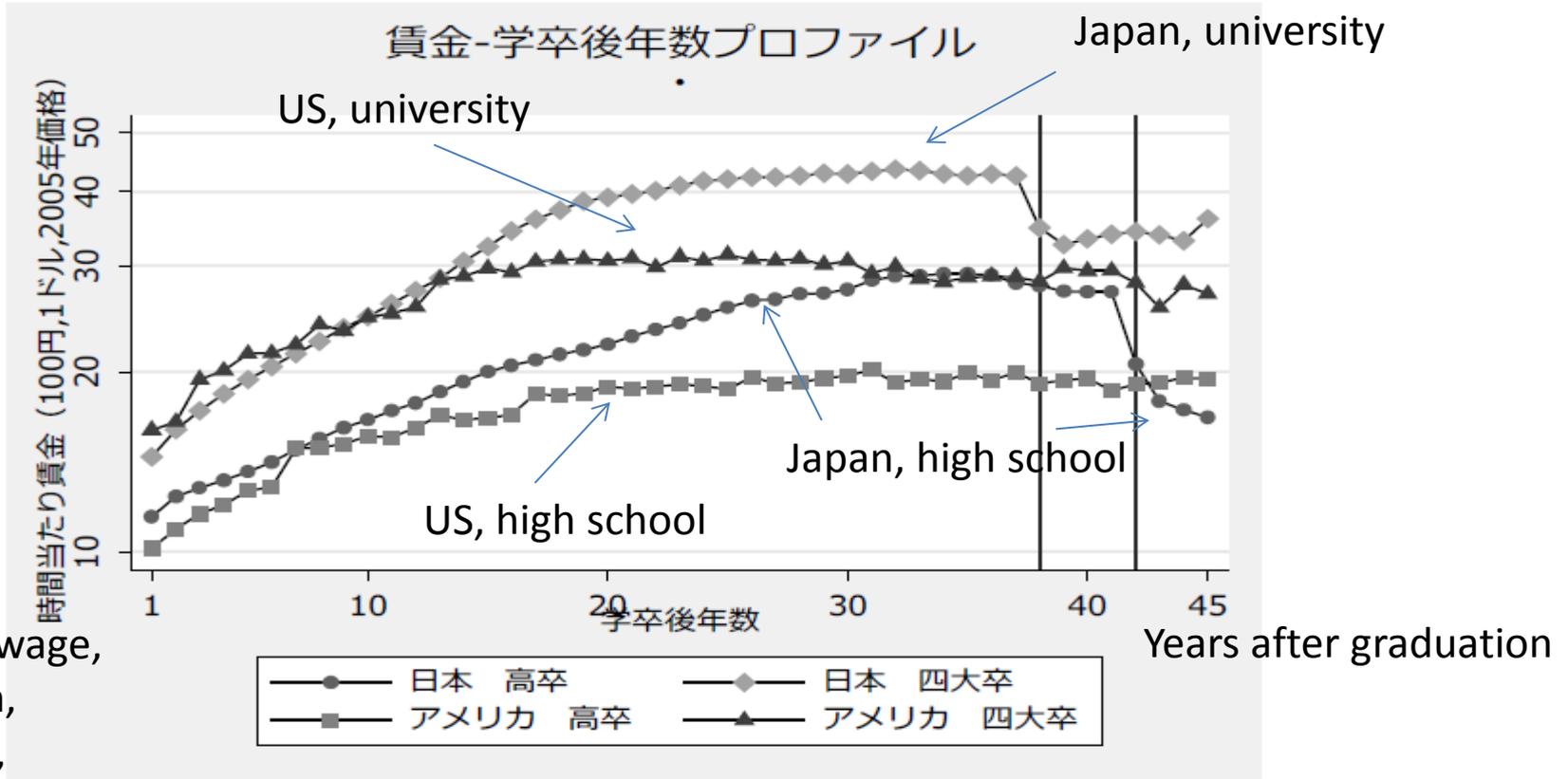
Note: The median monthly wage is calculated based on the total amount of monthly contractual cash earnings and the twelfth part of annual special cash earnings of previous year. This is deflated by the consumer price index for Japan (general, excluding imputed rent). "Large-sized firm" has more than 1000 indefinite-contract employees. "Small- to medium-sized firm" has less than 1000 indefinite-contract employees.

Source and Note: The same as Figure 1.

# 日米賃金プロフィール, 男性

Japan-US wage profiles  
,men

## 2005 - 2008年



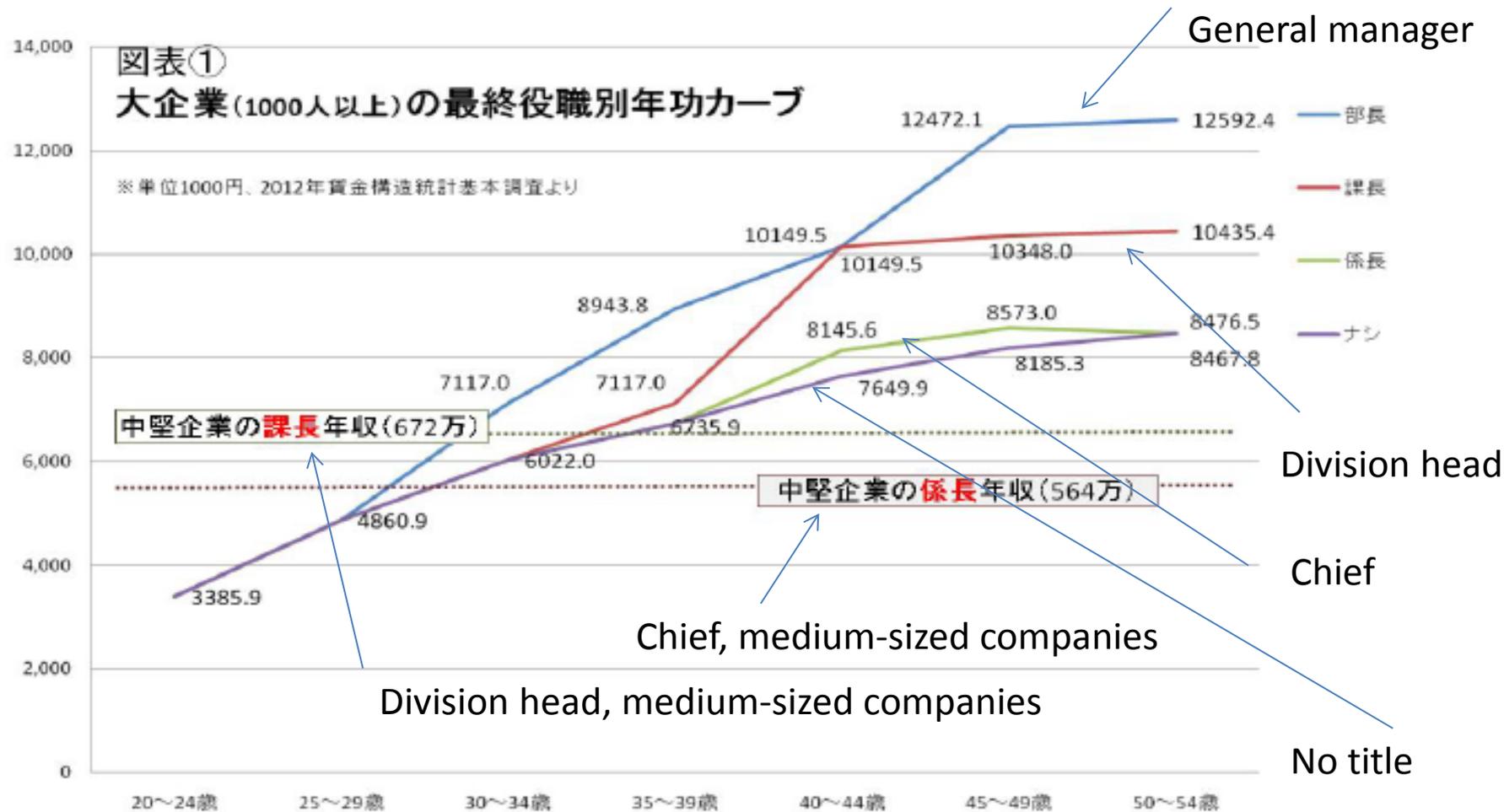
Hourly wage,  
100 yen,  
1 dollar,  
2005 year price

日本:賃金構造基本統計調査, 米国:CPS ORG

Kawaguchi(2011)

# Age-wage profile for large Japanese companies by the final job rank (more than 1000 employees)

1000 yen, annual wage



# Deferred compensation (“seniority wage”)

- In an international comparison of wage systems, the Japanese system is characterized by a deferred compensation (a “Lazear” type).
  - Steeper wage profile (lower than productivity in the younger period and higher than productivity in the older period)
  - A large decline after mandatory retirement
- Although the steepness of wage profile has slowed down over the last 20 years....
- The Japanese system still demonstrates a clear difference from that of Western systems, in which wages typically stop increasing once workers turn 40 years old and thereafter.
- International difference in the meaning of “seniority” in employment system
  - Senior workers have higher wages in Japan.
  - Senior workers have less opportunities to be dismissed for economic reasons in the US or Europe.

# EESL

## (Elderly Employment Stabilization Law)

- The law requires employers that have an company mandatory retirement age (“MRA”) set at an age less than 65 to provide continuing employment opportunities for their retiring employees until the age of 65.

### Revision in 2006

- Employers are compliant by adopting either one of the 3 measures:
  - To raise the current MRA to 65.
  - To keep the current MRA (if less than 65) while introducing a system of continuation of employment (or “Rehire System”) to provide employment opportunities to all employees who wish to continue working beyond the MRA.
  - To completely eliminate the MRA system of forcing employees to retire at a certain age.

### Revision in 2013

- All employees who wish to continue working beyond 60 must be given the opportunity to do so.
- Companies using the Rehire approach would typically apply a different work contract to the rehired employees which may include changing their job roles and reducing the salary level.
- The working conditions including pay and benefits may differ from those prior to 60 and may be set out separately from other employees.

# To promote elderly employment

- Keeping older workers in their jobs at the same elevated wages is difficult.
- They must accept lower pay and reshuffled work duties.
- In order to establish retirement age postponement or adapt the newly-introduced mandatory rehire system smoothly, businesses must shift to the Western system of curbing wage growth at an early stage.
- This can be done with the introduction of limited type regular employment practice in the middle of worker's career.

# How to cope with wage decrease

- People in their 40s and 50s are the generations that are saddled with mortgages and heavy costs of children's education, and cannot maintain their livelihood unless their wages continue to increase.
- Thus, Japan can no longer sustain the social model of men being the breadwinner of the family and women staying at home to look after domestic affairs.
- Both the husband and wife must work to bring in a reasonable combined income.
- For working parents to raise their children, it is not possible for both parents to be unlimited type regular workers subject to long working hours.
- The spread of limited type regular employment is needed.

Thank you for your attention !