

New Forms of Employment in Japan
—*On the Increasing Influence of*
Part-time, Dispatched, and Contracted Workers—

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“Non-regular employment,” such as part-time, dispatched, and contracted workers in Japan, has expanded in recent years. This trend reflects a wider variety of lifestyles, the shift from fixed labor costs to variable labor costs by many firms, and deregulation. This augmentation of non-regular employment has shortened the employment period and reduced wages. On the other hand, many new jobs have been created under this process through improvements in corporate vitality. In line with these developments, an increasing number of firms are making adjustments to employment and wages through the labor market, instead of making adjustments within firms, implying a more prominent role for the labor market. A closer examination of today’s labor market, however, shows that various mismatches exist. The employment situation has been relatively severe for male workers, who are inclined toward full-time employment, and the unemployment rate has remained high among the younger generation. The infrastructure of the labor market—including the training and reeducating facilities of human resources—is in need of further improvements to make the matching function work more efficiently.

1. The remarkable increase in part-time, dispatched, and contracted workers

Over the past few years, “non-regular employment,” such as part-time, dispatched, and contracted workers, has increased sharply, while overall employment has been sluggish (see the BOX on the following page for definitions of these terms). First, let us present an overview of this employment situation using some data (Chart 1).¹

The scope and growth rate of overall employment can be observed in two major labor statistics: the number of employees in the *Labour Force Survey*, and the number of regular employees in the *Monthly Labour Survey*.² Looking at movements in the past few years, the number of employees has been almost flat in the *Labour Force Survey*, while the number of regular employees has been on a gradual downtrend in the *Monthly Labour Survey*. With regard to the latter statistic, figures are available for general workers (most of which are full-time workers) and for part-time workers. Part-time workers have continued to increase noticeably. They have posted high growth rates—more than five percent—on a year-on-year

basis, especially in the past two years.

Dispatched workers and contracted workers are also included in the above two statistics. Not all of these workers are included, however, nor are they aggregated separately. Hence, we need to use other statistics to get a clearer picture of these workers. According to the paper, “Aggregated Results of Reports on Temporary Employment Businesses” (available in Japanese only), dispatched workers increased at an annual pace of 20-30 percent until 2002, the year for which the most recent figures are available; the 2002 level surpassed 2 million workers. There are no statistics that capture nationwide figures for contracted workers, but the number of job listings for them in recruitment magazines surged beyond 50 percent in 2003.

This paper discusses the following three points: (i) the background of the expansion of non-regular employment; (ii) its impact on the labor market and the economy; and (iii) future issues.

[BOX] Definitions of Part-time, Dispatched, and Contracted Workers

The following are the basic differences of each employment type using definitions of related statistics.

Part-time workers	Like full-time workers, part-time workers sign a contract directly with the employer of their actual workplace. They differ from full-time workers, however, since either their scheduled working hours per day are shorter or the number of scheduled working days per week is fewer, even though the scheduled working hours per day are the same.
Dispatched workers	There are two types of dispatched workers: (i) "registered-type" dispatched workers who register their names and other information at temporary staffing agencies in advance, sign an employment contract, and start work when they find their workplace of dispatch; and (ii) "full-time employed-type" dispatched workers who are recruited as full-time workers of temporary staffing agencies; these are typically skilled workers such as programmers. For both types, an employment contract is signed between the temporary staffing agency and the worker, since dispatching workers is a type of outsourcing human resources, whereas full-time and part-time workers sign their employment contracts directly with the employer of their actual workplace.
Contracted workers	Like dispatched workers, they are categorized into a type of outsourcing. An employment contract is signed between the contractor and worker. However, contracted workers work under the supervision of contractors who have undertaken a whole part of a work process, whereas dispatched workers work under the direct supervision of their workplace.

Freeters are defined in the "White Paper on the National Lifestyle" released by the Cabinet Office as: "among those in the 15-34 year-old age group who are currently employed and referred to as part-time or *arbeit* (temporary workers), including dispatched workers, and those not engaged in work but wish to be employed as workers." This definition largely overlaps the above three definitions. According to the "White Paper on the National Lifestyle," the number of *freeters* as of 2001 present was about 4.17 million.

Chart 1 Recent developments by type of employment

10,000 persons; y/y % chg. in parentheses

	FY 00	FY 01	FY 02	FY 03
No. of employees (y/y % chg.)	5,372 (+0.9)	5,354 (-0.3)	5,329 (-0.5)	5,340 (+0.2)
No. of regular employees (y/y % chg.)	4,331 (-0.3)	4,313 (-0.4)	4,284 (-0.7)	4,267 (-0.4)
Full-time (y/y % chg.)	3,433 (-1.2)	3,386 (-1.4)	3,295 (-2.7)	3,220 (-2.3)
Part-time (y/y % chg.)	882 (+3.6)	913 (+3.5)	977 (+7.1)	1,042 (+6.6)
Dispatched workers (y/y % chg.)	139 (+29.8)	175 (+26.1)	213 (+21.8)	— —

No. of job listings for contracted workers	Kanto area				
		—	(+7.8)	(+10.6)	(+55.1)
	Kansai and Tokai areas	—	(+3.7)	(+17.4)	(+56.9)

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey"; Ministry of Health, Labour and Welfare, "Monthly Labour Survey," "Aggregated Results of Reports on Temporary Employment Businesses" (available in Japanese only); AiDEM CO., LTD, "Report on the Hourly Payments of Contracted Staff Workers at the Time of Job Listings and Developments in Recruitment" (available in Japanese only).

2. Background against the expansion of non-regular employment

The following three main factors form the background of the expansion of non-regular employment: (i) a wider variety of lifestyles; (ii) a shift from fixed labor costs to variable labor costs by many firms; and (iii) deregulation on the dispatch of workers. Factor (i) has followed a long-term trend, (ii) has been observed previously but has accelerated in recent years, and (iii) can be seen since 1999.

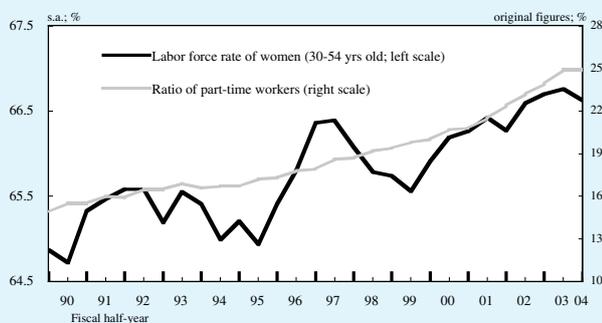
(1) A wider variety of lifestyles

As the economy prospered, a wider variety of social values and lifestyles has been observed. In line with these changes, people have come to seek various types of employment. As for women in particular, the number of those wanting to work while juggling their marriage and child-rearing has been on the rise, reflecting the increase in the ratio of university graduates among them. Part-time work has become an effective strategy for firms that hire those workers (mainly female) seeking flexible working hours and days (Chart 2).

(2) The shift from fixed labor costs to variable labor costs

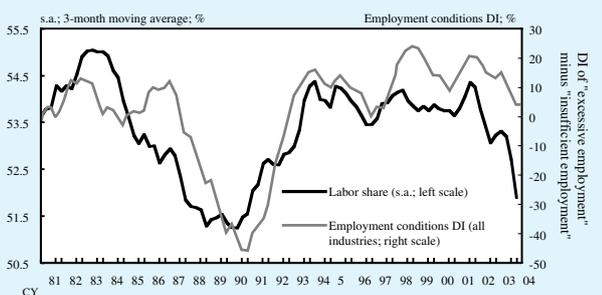
In recent years, firms have been endeavoring to cut back persisting excess labor and to shift their labor costs from fixed to variable costs, as part of their plans to reinforce profitability. This was carried out after many firms experienced the financial crisis in 1997-98 and the IT recession in 2001. This trend has also been reinforced by exposure to increasingly fierce global competition, mainly from the emergence of China. For many firms, the shift from full-time workers to part-time, dispatched, and contracted workers has played an essential role.

Chart 2 Ratio of part-time workers and labor force rate of women (30-54 yrs old)



Note: Figures of Apr.-May 2004 are used for the first half of FY2004.
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey"; Ministry of Health, Labour and Welfare, "Monthly Labour Survey."

Chart 3 Labor share and employment conditions DI



Notes: 1. Labor share = compensation of employees/gross domestic expenditure.
2. The *Tankan*—Short-term Economic Survey of Enterprises in Japan was revised from the March 2004 survey. Figures up to the December 2003 survey are based on the previous data sets. Figures from the December 2003 survey are on a new basis.
Sources: Cabinet Office, "National Accounts"; Bank of Japan, "Tankan—Short-term Economic Survey of Enterprises in Japan."

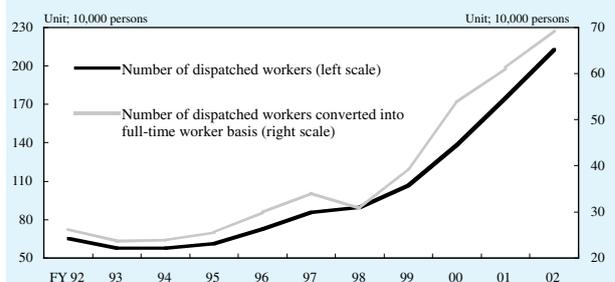
Corporate profits have recently been improving smoothly, partly due to the economic recovery at home and abroad. Hence, the labor share, which remained high throughout the 1990s, has been decreasing rapidly. Even under these circumstances,

however, many firms perceive that excess employment has been improving only at a relatively mild pace, as shown in the employment conditions D.I. of the *Tankan* survey (Chart 3). Although restructuring pressures have eased considerably, firms are aware that their profitability can be reinforced further by squeezing their labor costs. In this respect, it is highly likely that firms will continue to make a shift of emphasis in their labor costs from fixed to variable costs for some time ahead.

(3) Deregulation on the dispatch of workers

The augmentation of dispatched workers has been fueled by deregulation on the dispatch of workers. With the amendment of the Worker Dispatching Law in 1999,³ the use of dispatched workers, which until then had been limited to 26 types of professional work (such as financial processing and filing), has been basically approved for all but five types of work (manufacturing, coastal transportation, construction, security services, and medical care). Also in 2000, a new system was introduced that provides dispatched workers opportunities to switch their status to full-time workers later on. As a result of these changes, the increase in the number of dispatched workers has accelerated from FY1999 (Chart 4).

Chart 4 Number of dispatched workers



Note: Number of dispatched workers converted into full-time worker basis = (i) total annual working hours of "registered-type" dispatched workers/total annual working hours per regular employee of an establishment + (ii) number of "full-time employed-type" dispatched workers.
Source: Ministry of Health, Labour and Welfare, "Aggregated Results of Reports on Temporary Employment Businesses" (available in Japanese only).

The Worker Dispatching Law was amended again in 2003 and became effective on March 1, 2004. It includes the following four amendments: (i) allowing dispatched workers for manufacturing work; (ii) abolishing the three-year upper limit of dispatching period, which had been imposed on 26 types of professional work; (iii) expanding the upper

limit of dispatching period from one to three years for other types of works; and (iv) enhancing the use of a new system that enables dispatched workers to switch their status to full-time workers later on. In terms of (i), for instance, the dispatch of workers to manufacturing sectors had originally been approved only for contracted workers, but the amendment now allows the entry of dispatched workers as well. Thus, various alternatives for employment types are gradually becoming available, supported by these system changes.

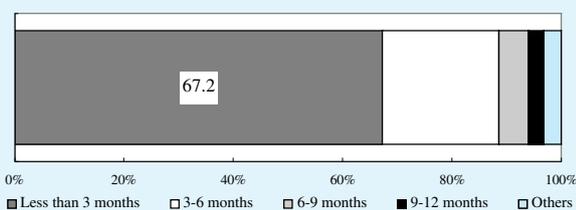
3. Impacts from the expansion of non-regular employment

Here, we discuss the impacts of the expansion of non-regular employment, such as part-time, dispatched, and contracted workers, on the labor market and the economy. We analyze (i) the shortened employment period, (ii) the downward pressure on wages, and then look at (iii) the positive effects on the economy and eventually on households through the improvement in corporate vitality.

(1) Shortened employment period

The employment period of non-regular employment is shorter in general compared to full-time workers. For example, two thirds of dispatched workers were on employment contracts of fewer than three months (Chart 5). Judged from this, the augmentation of non-regular employment has shortened the average employment period for overall workers.

Chart 5 Employment contract period of dispatched workers (FY2002)

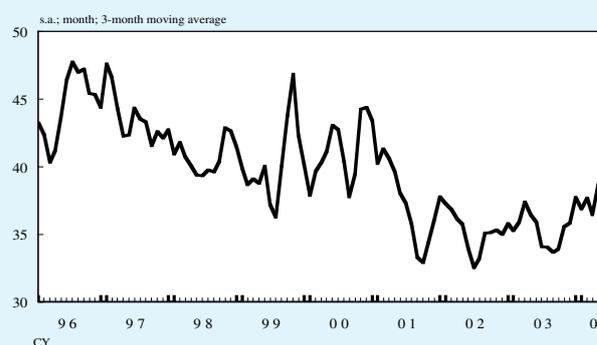


Source: Ministry of Health, Labour and Welfare, "Aggregated Results of Reports on Temporary Employment Businesses" (available in Japanese only).

Let us confirm this by estimating the "average employment period." In the *Labour Force Survey*,

half of the samples are rearranged each month. In other words, the same household is surveyed for two months in a row. By using this point, we can calculate the ratio of those no longer employed for the month among those employed in the previous month. We then assume its reciprocal as the average employment period (= number of months).⁴ The results show that the period has been at a considerably lower level in recent years than previously observed (Chart 6). This means that the average employment period of workers has become shorter, due to the expansion of non-regular employment.

Chart 6 Average employment period



Notes: 1. Average employment period =

$$\frac{1 - \text{Person employed in both the previous and current months}}{\text{Number of employees in the previous month}}$$

2. Seasonally adjusted by X-11.

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

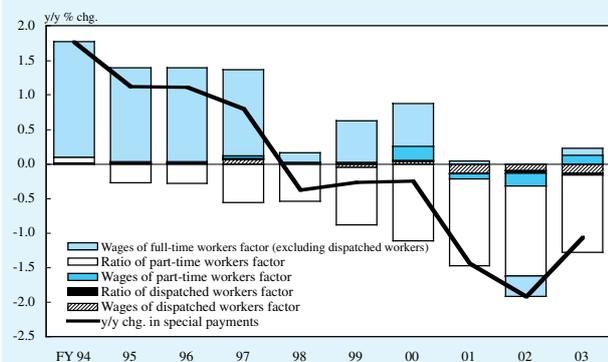
(2) Constraining effects on wages per worker

There is a gap in the level between the average wage of full-time workers, which include many managers and long-service workers, and that of non-regular employees, in which fixed work comprises a large weight. In terms of the monthly pay per worker, the gap between the two groups becomes considerably wide, mainly due to the shorter monthly working hours of part-time workers. In detail, we can estimate the monthly pay of dispatched workers, using payments by the hour and by the day obtained from the "Aggregated Results of Reports on Temporary Employment Businesses" and the number of monthly working days from the "Reports on the Actual Situation of Temporary Employment Businesses" (both reports are available in Japanese only). According to this calculation, the monthly pay of dispatched workers was about 70 percent of that of

full-time workers (or about 80 percent when converted into payment by the hour). Moreover, the *Monthly Labour Survey* shows that the monthly pay of part-time workers was approximately 20 percent of that of full-time workers (or about 40 percent when converted into payment by the hour).⁵

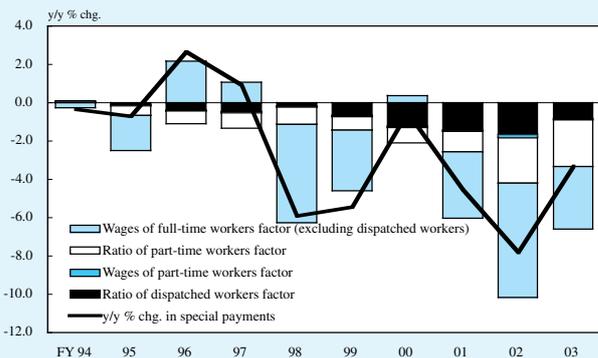
This rise in the share of non-regular employment naturally pushes the average wage per worker downward. Estimation on the nonmanufacturing sector, in which the ratio of part-time workers is rising remarkably, reveals that the decline in regular payments per worker in FY 2003 was mostly due to the decrease in the “average” pay per worker, caused by the rise in the ratio of part-time workers (Chart 7). The decrease in special payments per worker (such as bonuses) was affected by the increase in the ratio of dispatched workers, in addition to that of part-time workers (Chart 8). These developments tell us that firms have been able to restrain their labor costs as a whole through the active use of non-regular employment, even though they have not reduced wages for individual workers; in fact, some firms have even raised these wages more or less.

Chart 7 Constraining pressures on regular payments (nonmanufacturing)



Notes: 1. Here, all dispatched workers are included in full-time employees on estimation. Ratio of dispatched workers = ratio of dispatched workers among full-time employees. Ratio of part-time workers = ratio of part-time workers among the number of regular employees.
 2. The number of dispatched workers in FY2003 is calculated using the year-on-year figures for FY2003 aggregated by the Japan Staffing Services Association (an increase of 7.24%). Charges for dispatching workers are calculated by using the year-on-year figures of “temporary employment services” in the CSPI (a decrease of 1.65%).
 3. The *Monthly Labour Survey* is conducted on establishments with 5 employees or more.
 Sources: Ministry of Health, Labour and Welfare, “Monthly Labour Survey,” “Aggregated Results of Reports on Temporary Employment Businesses” (available in Japanese only), “Reports on the Actual Situation of Temporary Employment Businesses” (available in Japanese only); Bank of Japan, “Corporate Service Price Index”; Japan Staffing Services Association, “Report on Temporary Employment Businesses Statistics” (available in Japanese only).

Chart 8 Constraining pressures on special payments (nonmanufacturing)



Note: Here, in addition to the assumption in Chart 7, it is assumed that special payments are not paid to dispatched workers when breaking down the factors.
 Sources: Ministry of Health, Labour and Welfare, “Monthly Labour Survey,” “Aggregated Results of Reports on Temporary Employment Businesses” (available in Japanese only); Japan Staffing Services Association, “Report on Temporary Employment Businesses Statistics” (available in Japanese only).

(3) Positive impact on households through improvements in corporate vitality

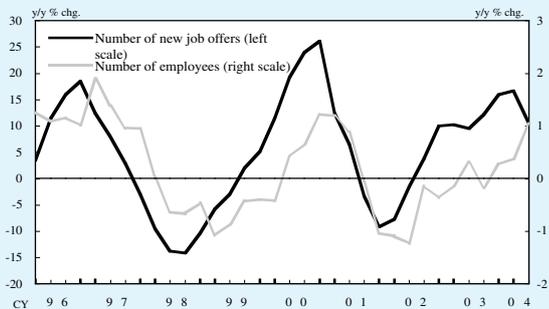
The augmentation of non-regular employment has shortened the employment period and restrained the average wage per worker, as mentioned above, and this in turn has prevented compensation of employees from increasing, even though job offers have been on the rise. Considering the high labor share observed just two or three years ago (Chart 3), however, it is appropriate to say that total labor costs were inevitably restrained to improve corporate vitality. The expansion of non-regular employment has enabled firms to achieve this.

For the economy to continue a sustainable recovery with increases in employment and household income, corporate activity—the source of income—needs first to regain strength. Backed partly by deregulation, flexible employment styles have been increasing. This is likely to have reinforced the profitability and risk-taking behaviors of firms. For example, in the retail industry, whose ratio of part-time workers is rising most notably, improvements in cost control, including those of labor, have been supporting corporate vitality; note, for example, the recent aggressive openings of new stores.

If the economy continues to follow this recovery path, it will gradually exert positive effects on households. In fact, the uptrend in the number of

employees is recently becoming clear, and job offers have been increasing since last year (Chart 9).⁶ Hence, the economy seems to be gradually heading toward a recovery in which firms and households are well-balanced.

Chart 9 Number of new job offers and employees



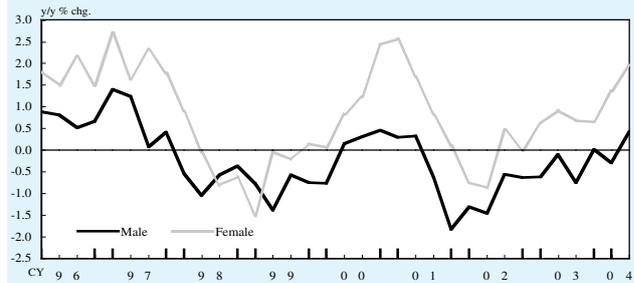
Note: Figures of Apr.-May 2004 are used for 04/2Q.
Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey"; Ministry of Health, Labour and Welfare, "Report on Employment Service."

4. Future issues

An increasing number of firms are making various adjustments to employment and wages through the labor market, instead of making time-consuming adjustments within firms. This trend is expected to facilitate both the efficient allocation of human resources and the ongoing economic growth in this rapidly changing era. Here, we mention a few recent movements that seem to be related to the expansion of non-regular employment, to see whether the function of the labor market is actually increasing.

First, the employment of male workers, most of whom are inclined toward full-time jobs, is recovering more slowly than that of female workers (Chart 10). The unemployment rate—which used to be about the same for both men and women in the past—has been 0.5 percentage points higher for men than women since 2000-2001, when the increase in non-regular employment started to accelerate. The gap between the two has remained unchanged, even though the overall unemployment rate has recently been heading toward a decline.

Chart 10 Number of male and female employees

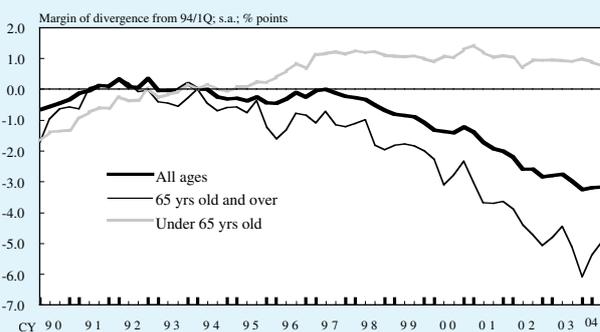


Note: Figures of Apr.-May 2004 are used for 04/2Q.
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Second, the younger generation is facing a severe employment situation, including a high unemployment rate, reflecting persisting excess employment of the middle-aged and elderly, and resulting in cutbacks in the recruitment of new graduates in many firms. Furthermore, full-time work, which used to be routinely provided to new graduates, is now being taken over by part-time workers and other non-regular employees.

Third, the intention of the elderly to participate in the labor force has plunged in recent years (Chart 11). Although it is difficult to ascribe the reasons behind this complex development to just one factor, downward pressure on wages caused by the expansion of non-regular employment is likely to have discouraged the working intentions of the elderly.

Chart 11 Labor force rate by age (divergence from 94/1Q)

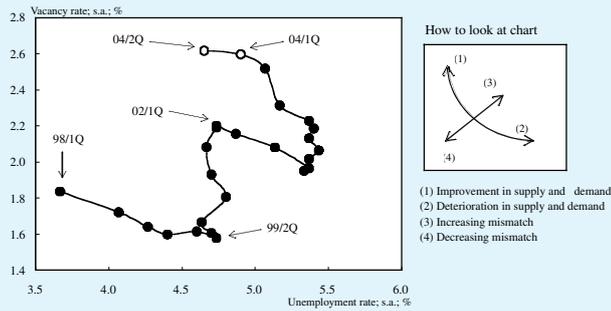


Note: Figures of Apr.-May 2004 are used for 04/2Q.
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, "Labour Force Survey."

Fourth, in conjunction with the above movements, we have the mismatch problem in employment. Recent developments show that the mismatch, which had previously increased substantially, is decreasing only modestly, although a clear improvement in the labor supply and demand conditions has been

observed (Chart 12).

Chart 12 Employment mismatch



Note: Vacancy rate = (effective job openings–number of employment) / (effective job openings–number of employment + number of those employed)*100. Figures of Apr.-May 2004 are used for 04/2Q.

Sources: Ministry of Public Management, Home Affairs, Posts and Telecommunications, “Labour Force Survey”; Ministry of Health, Labour and Welfare, “Report on Employment Service.”

While the unemployment rate remains high despite its recent drop, it has been said that there has been a chronic labor shortage of workers, especially among salespersons and professional workers, in the labor market for dispatched workers.

An efficient labor market is indispensable to workers and firms to take full advantage of the wider variety of employment styles provided. The infrastructure of the labor market—including the training and reeducating facilities of human resources—is in need of further improvements to make the matching function work more efficiently. —

¹ Data for the charts in this paper are the same as those used in the Japanese original released in July 2004.

² The *Labour Force Survey* is a sample survey focusing on households; it captures labor from the supply side (half of the samples are rearranged each month). Hence, the monthly figures tend to fluctuate due to sampling factors, but its trend shows only a relatively small bias. On the other hand, the *Monthly Labour Survey* is conducted on establishments that are on the demand side of labor. Most of the samples are fixed for the survey after they are chosen, based on establishment and corporate statistics released every 2-3 years. Hence, the figures tend to be somewhat weaker than the actual trend, since it is unable to capture the picture of workers in new establishments. On the other hand, the monthly fluctuations in this survey are relatively small.

Moreover, even workers on short-term contracts are included in the *Labour Force Survey*, whereas in the *Monthly Labour Survey* workers on a contract period of less than one month are included in regular workers, on the condition that their working days are 18 days or more for two consecutive months when the contract is rolled over after a month at an establishment. As a result of these differences in definition, figures of the *Monthly Labour Survey* tend to be slightly weaker than those of the *Labour Force Survey* when non-regular employment is expanding substantially.

The number of employees in the *Monthly Labour Survey* was somewhat weaker on the whole than the number of regular employees in the *Labour Force Survey* in Chart 1, a trend that reflects the characteristics of the survey discussed above.

³ The full title of this law is the “Law for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers.”

⁴ For details, see “Reference material 1-2: Revision of the flow data of the *Labour Force Survey*” (available in Japanese only) in the “White Paper on Labour 1985.”

⁵ While the level of monthly payment is about 410,000 yen for full-time workers (full-time employees in the *Monthly Labour Survey*), it is about 90,000 yen for part-time workers (both actual figures for FY2003), and about 310,000 yen for dispatched workers (estimated for FY2002 by the authors).

⁶ The number of new job offers is increasing most notably in the service industries. Unlike manufacturing industries, service industries have a large capacity to create jobs, since there are limits to labor-saving innovations for these industries. Hence, it is rather natural for job offers and employment to increase in the services industries at times of economic recovery. In addition to this, dispatched and contracted workers—since they are categorized in “information services, etc.”—are included in job offers and employment of services industries even though they are actually working in industries other than services, such as manufacturing. This indicates that the expansion of non-regular employment has also affected the breakdown by industry of employment-related statistics.

According to the “Survey on the Mismatch in Supply and Demand in the Labor Force” (released by the Ministry of Health, Labour and Welfare; available in Japanese only), job offers for “miscellaneous business services” as of November 2003 (most of which are dispatched or contracted workers) comprised about 40 percent of job offers for “information services, etc.” In this survey, the ratio of job offers of contracted workers to dispatched workers was around 5 to 1, although this was obtained from only two samples: *Hello Work Shinjuku* and *Hello Work Umeda* (employment security offices). Extrapolating from these data, the developments in industrial production have brought about an increase in demand for contracted workers, and this is likely to have affected job offers and employment of the services industries, rather than manufacturing industries, in the statistics.

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