

The consequences of labour market liberalisation and non-regular employment: the ‘lost 30 years’ of the Japanese economy

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Abstract

Japan is the only country in the world where growth has been stagnant for nearly 30 years since the bursting of the bubble economy in 1991. Various factors can be attributed to this situation, but the most important is the stagnation of consumption expenditure, which accounts for about 60% of GDP. This paper aims to quantitatively verify that this economic stagnation has been maintained by the decline in households' propensity to consume due to the fall in real wages caused by the expansion of non-regular employment.

Non-regular employment, which currently accounts for 40% of all employment, earn a low income of about one-third of the annual income of regular employees, and the expansion of non-regular employment has led to a decline in disposable income and poverty among the population as a whole.

The main findings of the analysis are as follows. (i) the increase in non-regular employment, along with the rate of trade union organisation, which has been declining over the past few decades, has a significant negative correlation with GDP growth; and (ii) non-regular employment has led to a decline in household expenditure through a fall in household disposable income associated with lower wages. In other words, it is clear that the expansion of non-regular employment and the decline in wage levels have contributed to the stagnation of the Japanese economy. Finally, this paper proposes a number of policies to reduce non-regular employment and increase regular employment in the labour market.

JEL: O15, J31, J38, J48,

Key Words: Non-regular employment, Unionisation, GDP Growth, Worker Dispatching Act

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Introduction

Japan is the only country in the world where growth has been stagnant for almost 30 years since the bursting of the bubble economy in 1991. Various factors have contributed to this, but the most important is the stagnation of consumer spending, which accounts for approximately 60% of GDP. Japan's 'lost 30 years' of economic stagnation can be attributed to the growing number of people in non-regular employment, which has led to an increase in poverty among the population as a whole. In particular, the consistent decline in real wages since the late 1990s has led to a decrease in household disposable income, resulting in a prolonged economic downturn. This has been a major factor in the long-term stagnation of the Japanese economy.

This paper seeks to attribute this downturn in household income and expenditure largely to the expansion of non-regular employment associated with the liberalisation of the labour market over the past few decades, which has led to a consistent decline in the (real) wage level. The objective of this thesis is to present and evaluate the hypothesis that the expansion of non-regular employment has resulted in a real decline in consumption expenditure and continued economic stagnation.¹

Companies normally seek to maximise profits, but in traditional Japanese-style companies, the emphasis has been not only on seeking profits, but also on serving the interests of consumers and, through this, contributing to the development of society. Furthermore, they also take into account the employees and their families and, therefore, traditionally do not easily dismiss them under the lifetime employment system. However, with the generalisation of non-regular employment in recent years, it has become possible and common for companies to easily dismiss employees/workers (formally in the form of voluntary retirement) or not extend their employment at their convenience, simply as a means (or as machinery and equipment).²

In particular, the Corona disaster from 2020 has made many workers in non-regular employment jobless. Accounting for about 40% of all employed people (workers and most women), non-regular employment is increasing, especially among young people and senior citizens (due to declining pension amounts and

1. Mamiya (2007) pointed out the possibility of sluggish economic growth due to the decline in household consumption propensity associated with an increase in non-regular employment (a decrease in regular employment), and the Japanese economy has followed exactly this path since then.

2. Yokoyama et al. (2018) note that companies use casual employment as a means of adjusting employment and tend to restructure when performance deteriorates.

eligibility issues), adding to the decline in overall household disposable incomes. Furthermore, the 'technical internship system', which was introduced for the purpose of technical cooperation to enable foreign workers to learn the skills of Japanese companies, has become commonplace as a system that effectively allows low-paid workers from foreign countries to work in Japan.³ This has further contributed to the decline in the wage level of non-regular workers and wages that do not even reach the minimum wage.

Japan's wage levels are now lower than those of South Korea after a long period of stagnation in the 'lost 30 years'. This coincides exactly with a period of increasing labour market liberalisation. The formal employment system, which supported Japan's rapid post-war growth and was common until the 1970s, has been gradually collapsing since the 1980s, with the liberalisation of labour policy based on neo-liberalism, and non-regular employment has expanded significantly and become more common. This was triggered by the Worker Dispatching Act (1985) introduced by the LDP (Liberal Democratic Party)-based Nakasone Cabinet (1982-1987). Worker Dispatching Act was initially limited to special occupations. However, through the Koizumi Government in the 2000s, and further succeeded by the Abe Government, dispatch work has finally been fully liberalised.

The non-regular work that became generalised accordingly was initially limited to 13 industries, which were extremely limited in the labour market where regular employment was the principle, but the scope of application was gradually expanded, and by 1996 it had become generalised, limited to application in 26 specialised industries. A particularly important turning point was the extension of the application of the Worker Dispatching Act to the manufacturing industry (March 2003), which was introduced under the Koizumi Government (2001-2006), which further promoted neo-liberalism in the 2000s. It is undeniable that this undermined the foundations of the development of Japan's manufacturing industry. Furthermore, the dispatch period for 26 industries covered by the worker Dispatching Act was made unlimited by removing the limit (three years) on the dispatch period, which further spurred the expansion of non-regular workers. The application of the Worker Dispatching Act to the manufacturing industry is related to the fact that Japanese companies have lost their technological edge in the high-tech sector since the 2000s, as the law has been extended to intellectual workers as well as factory workers with important technical elements.

3. A major problem is the divergence between the original official objectives of the system when it was introduced in 1993 and its more recent realistic operation, which has been implemented simply from the perspective of recruiting people to work for lower wages.

Sustainable economic growth cannot be achieved under conditions of expanding non-regular employment. Most of the people in Japan is becoming poorer, especially the growing number of low-income young people, who are finding it more difficult to get married as they become poorer, resulting in a further decline in the birth rate. Furthermore, the number of households in non-regular employment who cannot afford the pension and medical insurance that support social security is expanding, making it difficult for the social security system itself to survive. On the other hand, part-time, non-regular workers usually leave work on time, so the overall workload falls on regular employees, spurring the trend towards longer working hours in general. The growing labour market distortions and structural labour market mismatches have also been related to the generalisation of labour-intensive low productivity following the lifting of the ban on non-regular employment in the manufacturing sector⁴.

Despite these problems, demand for non-regular employment has grown rapidly amid the trend towards liberalisation of temporary employment, as non-regular workers can be hired at a low cost for companies and employers, at about one-third of the annual salary of a full-time regular employee. Part-time and temporary workers have become essential in low-priced service and consumer industries, especially in a deflationary economy and declining consumer demand, and the LDP Government has sought to expand temporary employment to promote non-regular employment, reflecting the wishes of such employers. The Abe administration, following the neo-liberal trend, also amended the Worker Dispatching Act (2015), but reflecting the demands of the dispatch agencies, the method of freely replacing workers and allowing dispatch work to continue has in fact become entrenched.⁵ It is no exaggeration to say that the Abe Government effectively lifted the ban on the temporary employment industry altogether and promoted it. It can be said that these policies have further accelerated the increase in low-income households.

4. Suzuki (2011) points out that prolonged structural distortions in the labour market have been the background to Japan's economic stagnation. He points to the need for labour market efficiency through measures to promote job mobility and initiatives for equal pay for equal work.

5. The amendment clearly reflects the interests of *Pasona*, a temporary employment agency chaired by Heizo Takenaka, who has been a member of a particularly important government committee in the revision of the Worker Dispatching Act. For example, the 2015 amendment to the Dispatching Act had previously made it impossible to dispatch the same person for the same job continuously for more than three years, but now it can be extended beyond three years if the client company hears the opinion of the trade union (note: the dispatched workers are in most cases not trade union members). This enabled them to extend the dispatch in the same department if they changed the person. Furthermore, as the agency can change the personnel (employees) it dispatches as much as it likes, the agency has become more prosperous.

Most of the conventional articles and discussions on non-regular employment have been from a socio-economic perspective, and have raised issues such as the increase in non-regular employment leading to a cycle of poverty as well as the fixation of the employment hierarchy.⁶ While these points were correct in themselves, there was little consideration of them from an economic perspective.⁷ Therefore, in order to clarify the economic impact of non-regular employment, this paper uses quantitative methods to examine the relationship and impact on economic growth, wage levels, etc. using relevant indicators such as the ratio of non-regular employment, trade union organisation rates and labour productivity.

First, the political and social background to the expansion of non-regular employment in Japan is set out, followed by a discussion of its impact and problems regarding labour policy, which has a particularly strong neoliberal influence in economic policy. Furthermore, the results of a quantitative analysis of the impact of the expansion of non-regular employment show that the expansion of non-regular employment is intricately linked to the stagnation of the Japanese economy. Finally, policy recommendations are made for the reduction of non-regular employment and the expansion of regular employment through tighter and stricter regulation of non-regular employment as a major step towards achieving sustainable growth to revive the Japanese economy.

1. Labour market liberalisation and the expansion of non-regular employment in Japan

One of the major factors behind the long-term stagnation of the Japanese economy after the burst of the bubble economy (1991), which can be described as the 'lost 30 years', is the expansion of the low-paid labour force due to the generalisation and expansion of non-regular employment as a result of the liberalisation of the labour market. This chapter explores the background and causes of the fact that the ratio of non-regular employment has continued to expand over the past few decades. This is due to (i) the liberalisation of the labour market that has been promoted in line with the introduction of economic policies based on neoliberalism. In Japan, this started in the 1980s with the Nakasone administration (1982-87), was further accelerated after the financial crisis of the 1990s, accelerated with the

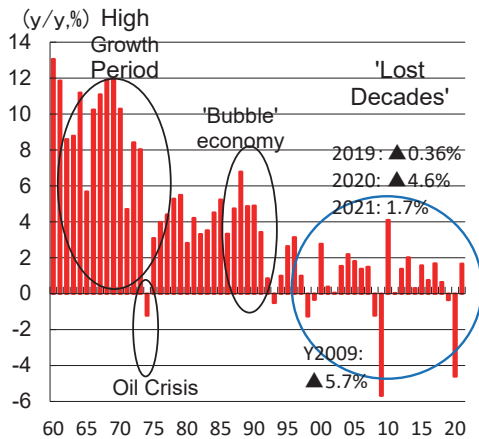
6. See Nagata (2007).

7. The analysis by Mamiya (2007) is an analysis using so-called Marxian economic methods, using capital accumulation rates, money wage rates, etc., and is not an economic analysis using modern economic methods.

Koizumi administration (2001-06) and completed more recently with the Abe (2013-20) and Suga (2020-21) administrations. In the following, the immediate causes, motivations, and background to the increase in non-regular employment are discussed in detail.

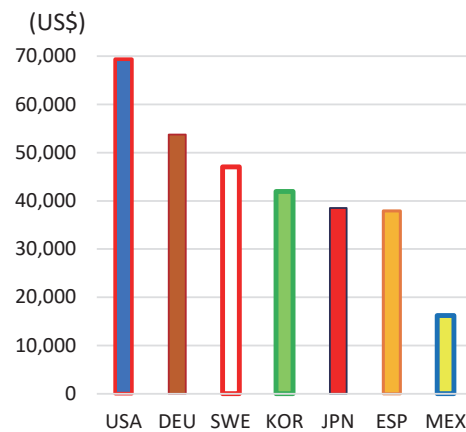
1-1 The increase in non-regular employment and the ‘lost 30 years’

After a prolonged economic recession, also known as Japan’s ‘lost 3 decades’, wage levels in Japan are now below those in South Korea. (Fig. 1 and 2). This coincides exactly with the period of labour market liberalisation under neoliberal-based economic policies. The regular employment system, which had supported Japan’s rapid post-war growth and was common until the 1970s, collapsed with the liberalisation of labour policy based on neoliberalism in the 1980s.



Sources: Cabinet Office, Japan, WEO (IMF)

Fig.1: Real GDP Growth (Japan)



Source: OECD

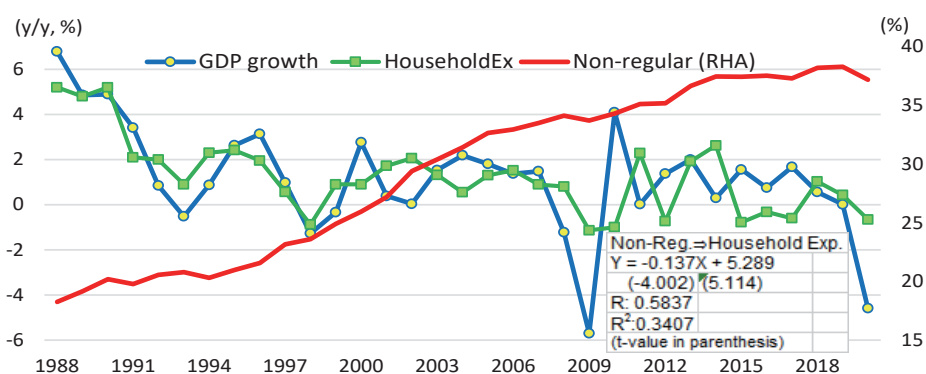
Fig.2: Average Annual Wage [2020]

According to the National Tax Agency’s Statistical Survey of Private Sector Salaries (2020), the average annual salary of non-regular employees is approximately one third of that of regular employees, at 1.76 million yen, compared to 4.96 million yen for regular employees. The average annual salary for men and women is also only 1.53 million yen for women in non-regular employment, compared to 2.28 million yen for men. Employees’ pensions and various types of insurance (employment insurance, health insurance and workers’ accident compensation insurance), which are applicable to regular employment, are rarely applied to non-regular employment.

An increase in the ratio of non-regular employment lowers the wage level of

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workers, leading to a decrease in household expenditure through a fall in household income and disposable income. In other words, the expansion of non-regular employment has been one of the major causes of the suppression of Japan's economic growth rate over the past few decades (Fig.3).



Sources: Cabinet Office, Ministry of Internal Affairs & Communications

Fig. 3: Japan: GDP Growth/ Household Expenditure & Non-regular Employment

Furthermore, the consumption propensity of working-age households is declining, with the consumption propensity of households with two or more workers aged 29 or younger falling significantly by -25.2% by 2019, taking 2000 as 100. Private consumption, especially household consumption, is therefore sluggish: the correlation coefficient (R) for the period 1995-2021 is 0.80 and the coefficient of determination (R²) is very high at 0.64% between GDP growth and household consumption. In 2019-2021 in particular, the contribution of household consumption to GDP growth also stagnated at -0.4%, -3.1% and 0.5% respectively. (Fig.4).

The liberalisation of the labour market that began with the Nakasone administration, particularly the expansion of non-regular employment, followed the financial crisis of the 1990s, and the Koizumi administration, which came to power in 2001, expanded the scope of non-regular employment to include the manufacturing sector. As a result, productivity in Japan's manufacturing sector has not risen to date, preventing wages from rising, which in some respects has accelerated the economic slowdown.⁸ One of the underlying causes of the long-term stagnation of

8. Kato (2017) points out that wage levels in the non-manufacturing sector are linked to the expansion of informality in manufacturing labour, as low labour productivity in a structure dependent on informality leads to low productivity.

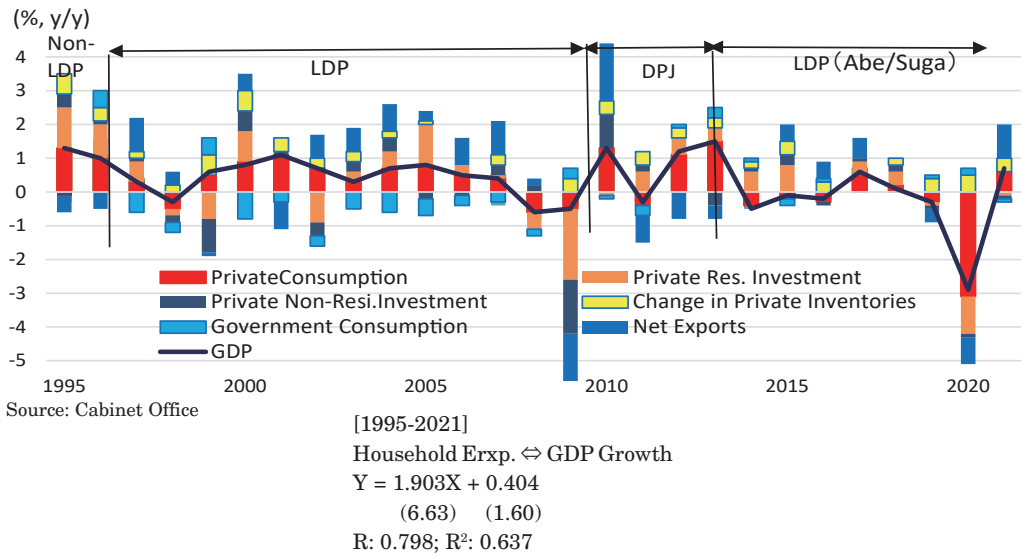
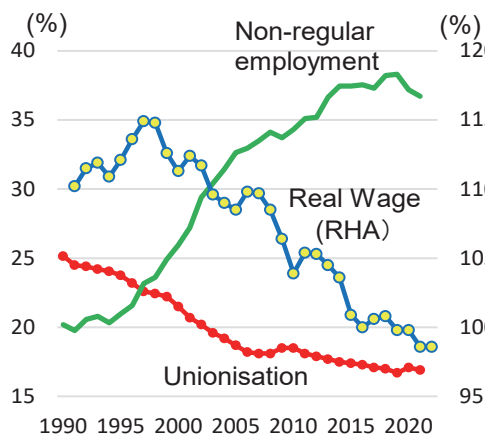


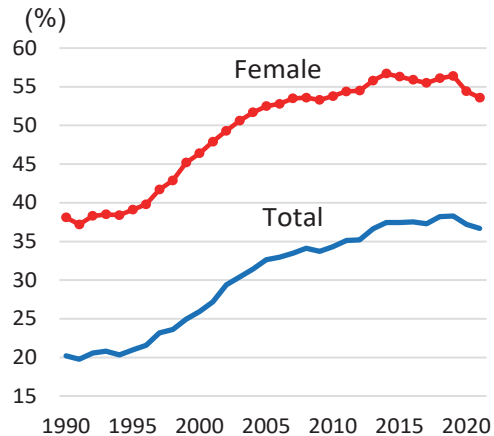
Fig.4: Real GDP Growth (Japan)

the Japanese economy is the expansion of non-regular employment, which has also created downward pressure on the overall wage level, including that of regular employment (Fig.5). This is a natural consequence of the lack of growth in personal and private consumption. The ratio of non-regular employment averages 38.3%



Source: Ministry of Internal Affairs & Communications

Fig.5: Wage levels and trade union organisation (Japan)



Source: Ministry of Internal Affairs & Communications

Fig.6: Non-regular Employment (Japan)

9. The non-regular employment ratios for 2020 and 21 may differ from the normal situation due to the Covid-19, which has caused some people to give up looking for work or been laid off.

(2019), but is higher for women (56.4%) and the average annual income of women in part-time employment was 1,677,000 yen (JTUC [Japanese Trade Union Confederation] survey in February 2022)(Fig.6).⁹

Falling real wages have led to a decline in household income, which has been a major factor in the lack of demand growth and, as mentioned above, has contributed to the long-term stagnation of the economy and the decline in the GDP growth rate. Thus, the increase in non-regular employment has steadily increased under neo-liberal regimes of LDP, which has suppressed private (private) consumption.

In contrast, during the Democratic Party of Japan (DPJ) administration (Sept. 2009-Dec. 2012), the GDP contribution of private consumption was the highest in the past 20 years or so, and households' disposable incomes were recovering. Under the neo-liberal regimes, the increase in non-regular employment has conversely been halted and the GDP growth rate has been raised.

There are differences in annual income even among non-regular employees depending on their employment status: 40.2% of part-timers and 33.9% of part-time workers earn less than 1 million yen per year, temporary workers have the highest annual income in the 2 million yen range at 55.7%, and 27.0% of fixed-term and contract employees have the highest annual income of 3 million yen (average 2.68 million yen). Furthermore, the proportion of young people in non-regular employment is extremely high and the number of people who can become regular employees in the future is limited, and if this trend continues, average wages will fall further in the future, which will reduce the potential for growth of the Japanese economy.

Non-regular workers have been hit hard by the post-2020 Corona disaster, and employment adjustments and restructuring are steadily increasing, which has reduced overall household disposable income and may have led to a decline in consumer demand. The expansion of non-regular employment is a major obstacle to Japan's economic recovery, and unless this situation is reformed, the economic downturn is likely to continue in the future.¹⁰

1-2 Increased non-regular employment and reduction of labour costs for companies

In the 1980s, the Nakasone Cabinet (1982-1987) promoted the introduction of

10. In the US, unlike Japan, the labour market functions relatively normally and the ratio of non-regular employment is not extremely high, so real GDP growth recovered sharply to -31.4% in Q2 2020 under the impact of the Corona disaster (-31.4% in the previous quarter, seasonally adjusted), compared with a sharp recovery to 33.1% in Q3.

the Worker Dispatching Act (1985) and the privatisation of state-owned enterprises (1985), but the labour market had not yet accelerated the real increase in the ratio of non-regular employment due to restrictions on dispatch industries (limited to 13 industries). At that time, non-regular employment consisted mainly of part-time work for full-time housewives, while most workers were in regular employment.

However, with the bursting of the bubble economy in 1991, the following restraining factors on real wage growth expanded. (1) the expansion of the ratio of non-regular employment due to the expansion of the types of work covered by the Worker Dispatching Act; (2) the increasing difficulty for trade unions to demand higher wages and other improvements in treatment from management due to the economic downturn and the significant decline in the rate of trade union organisation; (3) the increased pressure for lower wages due to the use of foreign training programmes; (4) the restraint on the wage level of regularly employed workers due to the expansion of non-regular employment; (5) restraint on minimum wage increases as a result of the generalisation of non-regular employment.

1-3 Neoliberalism and labour market liberalisation Background

The liberalisation of the labour market has been in full swing since the Nakasone administration. In particular, the introduction of the Worker Dispatching Act (1985) under his government played a major role in changing labour policy and markets in Japan. The Worker Dispatching Act was initially limited to special occupations (13 industries) and the dispatch period was in principle one year (maximum three years), but after the Koizumi (Apr.2001-Sept.2006) in the 2000s and then the Abe (Sept.2006-Sept.2007; Dec.2012-Sept.2020) administrations, dispatch work was finally liberalised to the full extent (Table 1). Non-regular employment increased rapidly under the LDP governments that introduced neoliberal policies in the past, especially under the Koizumi and Abe Cabinets. In contrast, under the non-Liberal Democratic Party (LDP) governments of Hosokawa (Aug.1993-Apr.1994), Murayama (June1994-Jan.1996) and DPJ (Sept.2009-Dec.2012), the ratio of non-regular employment did not increase, even temporarily.

Both the Koizumi (2001-06) and Abe (2013-20) cabinets clearly reflected policies that served the interests of the largest temporary employment staffing agency (*Pasona*) in Japan, chaired by Heizo Takenaka, who was always involved in the policy-making process related to promoting the introduction of neoliberal policies, in the revision of the Worker Dispatching Act.¹¹ Examples include the lifting of the

11. Takenaka was a key member of the Koizumi Cabinet (Minister of State for Economic and Fiscal Policy, Minister of State for Special Missions in the Cabinet Office, Minister of State for

Table 1: Worker Dispatching Act in Japan

1985	Worker Dispatching Act, covering 13 jobs, in principle enforced for a one-year term (maximum of three
1986	Expanded to 16 jobs requiring specialist knowledge, ban on dispatching.
1996	After the burst of the bubble economy (1991), demand for temporary staffing increased and the number of jobs covered by the ban expanded to 26 jobs.
1999	Liberalisation of temporary staffing sectors in principle (negative list of target jobs). Progress in deregulation, target work is liberalised in principle.
2000	Lifting of the ban on introductory dispatching: upon agreement at the end of the dispatch contract period, The employment can be switched from dispatch to direct employment if agreed at the end of the dispatch contract period, and placement dispatching is possible.
2003	Lifting of ban on dispatching workers to manufacturing operations: removal of restrictions on the duration of
2004	Maximum period of acceptance for introductory dispatching is six months; ban on pre-interviews lifted.
2006	Lifting of ban on dispatching to medical work, which was previously prohibited in principle
2007	Maximum period of dispatch for manufacturing work increased from one year to three years.
	Revision of the Dispatch Law, tightening of regulations: ban in principle on day-time dispatching, restrictions
2012	Restrictions on dispatch of workers who have left the company, protection of dispatched staff, obligatory disclosure of information such as margin ratio, enhanced improvement of compensation.
2015	Major amendment to Worker Dispatching act, introduction of 'three-year rule' (review of term limits).
2020	Start of 'equal pay for equal work' to eliminate unreasonable differences in treatment.

Source: Ministry of Health, Labour and Welfare

ban on dispatch work in the manufacturing sector under the Koizumi Administration (2004) and the three-year limit on dispatch periods under the Abe Administration (2015). The latter was rather favourable for the dispatch agencies themselves, as it made it impossible to dispatch the same person for a maximum of three years, leading to an increase in the number of temporary workers with a fixed term. For the staffing firms/agencies like Pasona, however, this has contributed to increase their profits. The original (or nominal) reason given for these restrictions on the duration of dispatches - the promotion of the transition from non-regular to regular employment - has not actually been realised. Rather, it can be said that these amendments to the Worker Dispatching Act were deliberately implemented

Postal Privatisation, etc.) and a key member of the government's Industrial Competitiveness Council in the Abe administration, where he has exerted significant influence. Despite his position as chairman of Pasona, the largest staffing agency and an insider, Takenaka was directly involved in the revision of the Worker Dispatching Act, a policy favourable to his company, under the Koizumi and Abe administrations, which promoted neoliberal policies. This is seen as a conflict of interest. Sasaki (2014), for example, states that "the involvement of conflicted interests in the deregulation of employment is a 'rent-seeker' in pursuit of profits generated by politics." And he states that Takenaka is one such person. Examples include the lifting of the ban on manufacturing dispatching under the Koizumi Administration and the three-year limit on dispatch periods under the Abe Administration. The latter was rather favourable for the dispatch agencies themselves, as it made it impossible to dispatch the same person for less than three years and increased the number of fixed-term and irregularly employed temporary workers. However, for the temporary employment agencies, it contributed to increased profits. Therefore, it can be said that the revision of the Dispatch Law was deliberately conducted in line with Takenaka's intentions: the original (or nominal) reason for the dispatch term limit, which was to promote the transition from non-regular employment to regular employment, has not actually been realised and, on the contrary, dispatch workers have been placed at a disadvantage.

to maintain non-regular employment.

Labour market deregulation under the Nakasone administration, was a major trigger for the expansion of non-regular employment. The subsequent successive of the Worker Dispatching Act has led to a significant expansion of non-regular employment, which until then had mainly been part-time work for housewives and students.

The Nakasone administration's promotion of neoliberal policies and privatisation of state-owned enterprises and the public sector was largely due to the role of labour policy, in addition to aspects in line with US demands aimed at facilitating entry into the Japanese market. Among the privatisation of the three public corporations (Nippon Telegraph and Telephone Public Corporation, Japan National Railways and Japan Monopoly Public Corporation), the privatisation of Japan National Railways is said to have been aimed at weakening the opposition parties (especially the Socialist Party) following a series of strikes in the 1970s, including the right to strike.¹² The implementation of privatisation in order to kill the power of the National Union and the Transport Workers' Union, which are the largest support groups for the opposition forces, the General Council of Trade Unions (Sohyo), has had a very significant impact on labour policy and the labour market in Japan, as well as on JR and NTT, which have since been privatised.

1-4 Labour cost reductions in the post-1990 economic downturn

Japan's bubble economy of the late 1980s collapsed in 1991, and under the deflationary economy associated with the globalisation of Japanese companies, demand for non-regular employment expanded rapidly, mainly in low-priced service and consumer industries, due to declining consumer demand. In particular, the expansion of temporary agency work to 26 industries in 1996 was an important turning point. This was implemented under the LDP (Hashimoto) government, which succeeded the Murayama Socialist government. Since then, deregulation has essentially continued under the succeeding LDP governments (Obuchi and Mori), with the Koizumi administration (2001-06) lifting the ban on temporary agency work in the manufacturing sector, which is the backbone of the Japanese economy. Then, under the Abe Government (2013-20), the Worker Dispatching Act was almost completed, completing the liberalisation of the labour market since the 1980s. Alongside this, workers' real wages have consistently declined since 1997. This has

12. This is preserved in Nakasone's own statements made in his final years. For example, Nakasone said, "I did what I did with the clear awareness that if the National Workers' Party collapsed, the General Council of Trade Unions would also collapse". See Maki (2020).

coincided with the expansion and generalisation of non-regular work.

The expansion of non-regular employment not only widens the income gap with workers in regular employment, but also acts as a drag on the overall increase in wage levels. This is because the annual income of non-regular workers is about one-third of that of regular employees, and it cannot be denied that it has played a role in generalising a subconscious awareness of regular employees as being 'better off' compared to the existence of lower-income workers who are even worse off than them.¹³

In addition, the system initiated with the aim of spreading Japanese technology to people in developing countries (foreign technical internship system) was institutionalised in 1993, based on a training system that had been in place since the late 1960s to educate employees of overseas subsidiaries, etc. In recent years, however, it has become common simply as a means of low-paid labour. These foreign nationals who have come to Japan for the purpose of acquiring foreign 'skills' have in fact been used as mere low-wage workers at wage levels far below the minimum wage level. As "foreign trainees" have been subjected to wage levels that are even much lower than those of non-regular Japanese employees, it can be said that Japanese companies have fundamentally disrupted the incentive to raise wages, including for increasingly non-regular employees.¹⁴

Amendments to the worker Dispatching Act have been implemented under the Abe Administration until recently (2015, 2021). These include amendments such as prohibiting, in principle, the employment of the same person as a non-regular worker for more than three years and encouraging client employers to take measures including technical training. Fundamentally, however, it has been pointed out that the ban on dispatching itself has been lifted in almost all industries and, moreover, various loopholes are possible. Dispatched workers are not converted to regular employment, but are simply replaced by other temporary workers, and in the majority of cases, the former end up losing their jobs or finding other non-regular employment. This system has been completed that allows dispatch agencies to generate significant revenues from their operations. The increase in the employed population under the Abe Government (2013-2020) is merely an increase in non-regular employment, including almost the majority of women, and the more

13. The average annual income of non-regular employees is JPY 1.75 million (2019), which is significantly lower than the average annual income of regular employees of JPY 5.01 million (see National Tax Administration Agency, Statistical Survey of Private Salaries).

14. The US Trafficking in Persons Report 2021 takes up the same system in Japan, pointing out that it is simply a means of 'exploitation' (Yamada 2021).

the proportion of non-regulars in the overall labour force increases, the lower the wages of the overall workforce.¹⁵ This leads to a decline in household income and disposable income, which in turn leads to a decline and stagnation of consumption.

Therefore, as discussed in this paper, the expansion of non-regular employment has led to a decline in the (real) wage level, which in turn has been a drag on economic growth, a fact that will be analysed and verified in the next chapter.

2. Impacts and challenges of the increase in non-regular employment

This chapter points out the various problems and challenges associated with the increase in non-regular employment, and then compares systems in other countries.

2-1 Impacts and problems of non-regular employment

While the increase in non-regular employment brings short-term labour cost savings for companies, the medium- and long-term effects may not always be considered. Particularly, non-regular workers have difficulty in accumulating knowledge and skills within the company. Technicians and skilled workers in the manufacturing sector and technically skilled and experienced employees in the service sector cannot be expected to accumulate expertise. Temporary employees are outsiders and have less loyalty and responsibility towards the company and less motivation than permanent employees at the client company or the office to which they belong. This is even more so if they are paid low wages.

In the past few decades, Japanese companies have already introduced US-style management systems based on neoliberalism, outside directors, a higher dividend payout ratio and a lower share of labour distribution to employees in the name of prioritising shareholders. But will these systems really benefit companies in the medium to long term?

Firstly, if the focus is on share price indices reflecting quarterly performance can lead to an emphasis on short-term perspectives and a lack of the issue of ensuring sustainable profits for the company in the long term, and less awareness of the contribution to employees and society. For example, there is an emerging tendency

15. Noguchi (2022a) estimates using independently calculated full-time equivalent (FTE) of workers, including those in part-time employment, that only 39.3% of women in Japan (63.1% of men, similarly below) (2020), compared with 65.6% (74.7%) in Sweden and 54.7% (76.4%) on average in the OECD. This is significantly below the OECD average of 54.7% (76.4%).

to prioritise share price earnings so much as to increase the dividend payout ratio to shareholders, neglecting legitimate increases in labour wages. As a result, wage increases will be neglected. A further problem is the possible decline in R&D investment as a long-term investment. This will make it difficult for companies to grow in a sustainable manner over the long term. Indeed, at Japanese car manufacturer Mazda, the parent company (Ford) was asked to abandon the maintenance and development of the Rotary Engine, the company's original technological identity, in the 1990s and 2000s, when American management set company policy.¹⁶

Secondly, from a managerial perspective, the emphasis on short-term profit recovery is likely to lead to neglect of the above-mentioned investments in research and development and in new fields. This will result in a policy of emphasis on cost reduction, which will lead to a deterioration in the treatment of employees, including a reduction in salary levels. This leads to a lack of meaning and incentive to work, which in turn affects labour productivity and performance. In recent years, an increasing number of companies are adopting US-style management methods, particularly job-based occupations and treatment resulting in less investment in human resources and making it more difficult to develop high value-added technologies and products.

Thirdly, the lifetime employment and seniority system, which are typical of Japanese companies, do not fit in with US-style management. In the first place, such systems do not apply to non-regular workers. For this reason, typical Japanese-style management is gradually becoming a skeleton in many companies. However, this trend may also make it difficult to find and train potentially competent personnel, and ultimately make it difficult to develop innovative technologies.¹⁷

Fourth, the lifting of the ban on non-regular workers in the manufacturing industry since the 2000s is likely to have hindered the long-term development of Japanese companies. Long-term basic research personnel cannot be secured and developed without regular employment. Without this, employees' motivation for life, long-term acquisition of knowledge, skills and technology, progress and growth cannot be expected.

Fifth, labour productivity is defined in terms of output per worker and the only

16. Mazda's engineers and management have not agreed to such demands and have survived with the option of scaling down.

17. A typical example is Fujitsu's experience in developing a supercomputer in which the engineer responsible broke company regulations and did not show up for work, but the company recognised his talent and entrusted him with the responsibility, which eventually led to the development of a computer with performance surpassing that of the USA.

way to increase value added per worker. However, the expansion of non-regular employment in Japan has naturally led to a decline in the productivity of the workforce. To increase added value, in addition to mechanisation and other rationalisation measures, it is necessary to increase the wage level and actively promote the conversion of non-regular workers into regular employees.

Finally, the expansion of non-regular employment associated with neoliberal labour market liberalisation has led to a decline in productivity per capita. Japan has had the lowest labour productivity growth of any developed country over the past few decades. If improvements in human resources are curtailed, morale, which contributes to the development of enterprises in the long term through lower employee motivation, will decline, hindering the development of manufacturing technology and eventually leading to national losses.

2-2 Differences with other countries: non-standard and non-regular employment

Non-regular employment in Japan is specific compared to other countries. In Europe, for example, non-standard employment workers register as part-time workers and are treated like regular workers, with only a slight reduction in overall pay for those with time constraints who do not work full-time. In Japan, on the other hand, workers based on regular employment receive bonuses (usually twice in a year), benefits and company-paid insurance. However, there is a significant difference if various benefits other than salary are included, as non-regular employees are usually paid on an 'hourly wage' basis and are not subject to the various benefits and other systems that apply to regular employment workers. In addition to wages and bonuses, regular employees receive various allowances (e.g., performance, role, skill, family, housing, and retirement allowances). In addition, regular employees are offered various benefits by the company, such as access to welfare facilities, a company-specific fund system, an asset-building system, and non-statutory leave (summer holiday, year-end and New Year holiday, congratulatory and condolence leave, menstrual leave, refreshment leave, etc.). The gap between regular and non-regular employees is large, as not only part-time workers but also non-regular workers in Japan are not entitled to any of these benefits. In addition, most non-regular workers do not have trade unions and the rate of trade union participation is extremely low, making it difficult for them to demand better wages and conditions from management in the first place.

In contrast to this situation in Japan, the distinction is made between 'full time' or 'part time' (or 'irregular') employment as a difference in working hours rather than 'irregular', or between 'fixed-term' or 'indefinite-term' contracts, and

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the principle of ‘equal pay for equal work’ is applied (Table 2).¹⁸

In the EU, the ‘principle of equal treatment’ regarding employment status prohibits disadvantageous treatment, mainly in terms of wages and working conditions, of part-time workers and others. The counterpart to the situation in Japan is in developed European countries such as Scandinavia and the Netherlands. In particular, the Netherlands has made national efforts to improve the treatment of part-time and women workers over the past 30 years and, despite the high proportion of workers who now work part-time, there is no significant difference in terms of pay and other benefits to the level of workers in regular employment (Table 2).

Table 2: Labour related Laws in Europe

UK	1970 Equal Pay Act, 2010 Equality Act, NHS and local authorities introduced job evaluation
France	Labour Code - Developed from equal pay for equal work between men and women Principle of equal treatment of part-time, fixed-term and temporary workers
Netherlands	1994 Decree on non-discriminatory treatment, 1994 1996 Law on prohibition of discrimination on the basis of working hours
Sweden	2002 Part-time and Fixed-term Non-Discrimination Act, 2008 Non-Discrimination Act
Canada	1987 Ontario Pay Equity Act.
EU	[Prohibits discrimination in employment on the basis of sex, race or other attributes], Article 15 of the Governing Treaty, Gender Equality and Treatment Integration Directive, Prohibits disadvantageous treatment based on employment status, such as part-time work, Part-time Work Directive, Temporary Work Directive, etc.

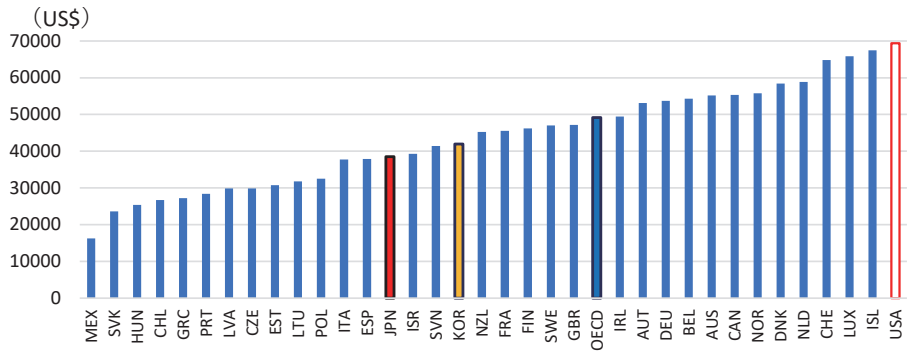
Source: Co-operative Union

In the first place, very few workplaces in Japan apply strict equal pay for equal work. As a result, wage levels in Japan are lower than the OECD average and in South Korea (Figure 7). In South Korea, where US-style management was brought in after the 1997 Asian crisis, part-time and fixed-term (temporary) employment has become common, with the latter accounting for a higher share than in Japan (Figs 8, 9).

As described above, the form of non-regular employment in Japan is itself unique compared to other countries in Europe and elsewhere, and ‘equal pay for equal work’ has not been realised in practice. Moreover, it is not easy to convert non-regular workers into regular workers, and the Worker Dispatching Act is rather promoting this. Therefore, it is necessary to completely review these current labour-related laws and regulations.

18. Wage determination is largely related to job type, not employment status. In the Japanese employment system, there is personnel rotation whereby departments and job titles change every few years, whereas in Europe the job title is basically determined from the outset, which makes it easier to apply the ‘principle of equal treatment (principle of no disadvantageous treatment)’.

Hideaki OHTA



Source: OECD

Fig.7: Average Wage (OECD)

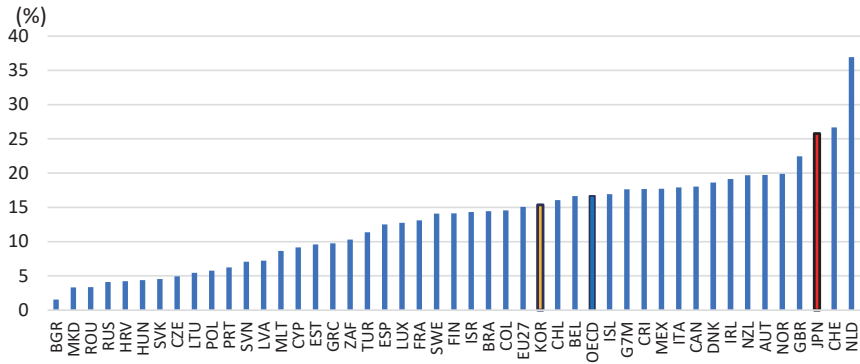


Fig.8: Share of Part-time Workers (OECD)

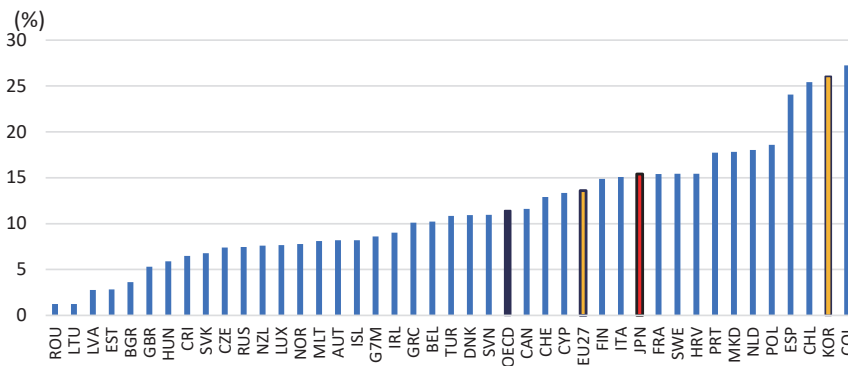


Fig.9: Share of Temporary Workers (OECD)

3. Analysis of the impact of non-regular employment on wage levels and economic growth

3-1 Overview

As the annual income of non-regular workers is about one-third of that of regular employees, an increase in the ratio of non-regular employment lowers the average wage level of workforce as a whole, leading to a reduction in household expenditure through a fall in household income and disposable income, which in turn constrains economic growth. This has restrained Japan's economic growth rate over the past few decades. The increase in the number of non-regular workers has lowered households' real incomes, which has reduced consumption and economic growth. This is one of the causes of the long-term stagnation of the Japanese economy. Fig.10 shows the causal relationship in this regard.

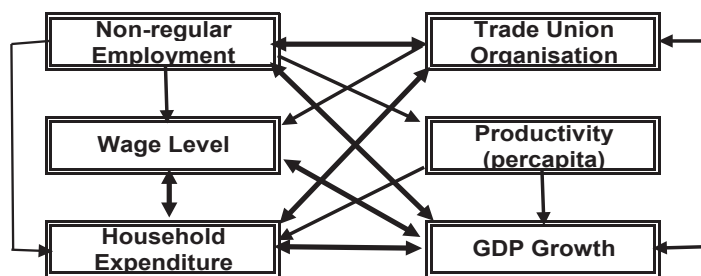


Fig.10: Non-regular Employment & GDP Growth

This chapter demonstrates this by means of regression analysis of relevant variables such as the ratio of non-regular employment, the rate of trade union organisation and the GDP growth rate will show that they are closely related. The correlation between the variables will be clarified by considering (i) the GDP growth rate, non-regular employment, and the rate of trade union organisation, (ii) household expenditure and the GDP growth rate, and (iii) changes in wage levels and non-regular employment ratios.

3-2 Analytical method

In addition to the ordinary regression analysis model (Ordinary Least Square, OLS), a Generalised Method of Moments (GMM) model was used to analyse the relationship between GDP growth rate and non-regular employment. It also identifies the factors behind the increase and decrease in informal employment and the determinants of wage levels for relevant indicators such as trade union

organisation rates, household expenditure, labour productivity and total factor productivity in the models. The period covered differs depending on the period for which the variables are available. The variables covered were as follows.

Indicators / variables

Indicators/variables	Abbreviatrion	Period	Sources	Note
Real GDPGrowth	GDP GROWTH	1980-2020	Cabinet Office	
Percentage of non-regular employment	NONREGULAR	1984-2020	Statistics Bureau of the Ministry of Internal Affairs and Communications	
Household Expenditure	HOUSEHOLDEX	1981-2020	Statistics Bureau of the Ministry of Internal Affairs and Communications	
Trade union organisation rate	UNION	1980-2020	Ministry of Health, Labour and Welfare	
Wage level	WAGE	1980-2020	Ministry of Health, Labour and Welfare, FRED (FRB)	Index 2015=100
Labour compensation per hour worked	Labcomp	1995-2020	OECD	
Total factor production	TFP	1980-2020	FRED (FRB)	Index 2017=100
Labour Productivity	LProductivity	1980-2020	Japan Productivity Centre	

This analysis attempts to combine the variables employed in each regression equation by considering the correlation coefficient between each variable (Table 3). In addition, considering the endogenous nature of each variable, there are restrictions in the combination of variables in the grids, and the variables employed in each equation have been determined with this in mind. Furthermore, in the GMM model, the variables are employed as instrumental variables (IV), including the variables from which the explanatory variables are taken from the factorial, and further related variables are added to the analysis.

Table 3: Correlations between each variable

	GDP growth	NON-REGULAR	HOUSE-HOLD EX.	UNION	WAGE	Unit Lab. Cost	LabComp	dTFP	Labour Productivity	PRODUCTIVITY
GDP GROWTH	1.0000	-0.1239	0.2244	0.1291	0.1394	0.0511	-0.2098	0.9008	0.8993	0.8422
NONREGULAR	-0.1239	1.0000	-0.2442	-0.9924	-0.8503	0.9718	-0.0828	0.0644	-0.3264	-0.2376
HOUSEHOLDEX	0.2244	-0.2442	1.0000	0.2432	0.2243	-0.2037	-0.1033	0.0841	0.2060	0.0715
UNION	0.1291	-0.9924	0.2432	1.0000	0.8234	-0.9736	0.0778	-0.0512	0.3256	0.2430
WAGE	0.1394	-0.8503	0.2243	0.8234	1.0000	-0.8052	0.4769	-0.0961	0.1727	0.2397
ULC	0.0511	0.9718	-0.2037	-0.9736	-0.8052	1.0000	-0.1643	0.1917	-0.1739	-0.1139
Labcomp	-0.2098	-0.0828	-0.1033	0.0778	0.4769	-0.1643	1.0000	-0.2057	-0.3684	-0.1441
dTFP	0.9008	0.0644	0.0841	-0.0512	-0.0961	0.1917	-0.2057	1.0000	0.8552	0.7685
L Productivity	0.8993	-0.3264	0.2060	0.3256	0.1727	-0.1739	-0.3684	0.8552	1.0000	0.8413
PRODUCTIVITY	0.8422	-0.2376	0.0715	0.2430	0.2397	-0.1139	-0.1441	0.7685	0.8413	1.0000

Sources: Author's calculation based on Cabinet Office, Ministry of Health, Labour and Welfare, FRB(FRED), etc

3-3 GDP growth rate and non-regular employment/trade union organisation rate

As shown in Tables 4-1 and 4-2, an increase in the ratio of non-regular employment is significantly negatively correlated with GDP growth. Furthermore, the rate of trade union organisation (Unionisation) is strongly positively correlated with the GDP growth rate. This confirms that, as envisaged from the outset, the Worker Dispatching Act, introduced in the 1980s, has discouraged the formation of trade unions since the 1990s. Moreover, it shows that it has been further reinforced by the typically neo-liberal governments of Koizumi in the 2000s and Abe in the 2010s.

Non-regular employment also leads to lower household expenditure through lower household disposable income associated with lower wages (Table 4-1 (2),(10), Table 4-2 (2), (9)). Most non-regular workers are not members of trade unions like regular workers and are forced into employment conditions that put them at the mercy of their employers.¹⁹ This is shown by the fact that as the ratio of non-regular employment increases, the rate of trade union organisation also decreases.

Furthermore, Total Factor Productivity (TFP) also clearly shows a positive and significant correlation with GDP growth. This is not surprising as productivity per worker directly leads to an increase in productive activity in that sector, which also increases the growth rate (Table 4-1(3), (11) and Table 4-2(4)).

19. The union organisation rate among part-time workers, a typical form of casual employment, is only 8.4%(2021).

Table 4-1: Relations of Wage levels, Non-regular employment, Unionisation, GDP growth (OLS)

(Explanatory Variables)	[Dependent Variable : GDP growth]											
	1984-2020			1984-2020			1985-2020			1980-2020		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Nonregular (%)	-0.1738 *** (0.046)	-0.0491 (0.054)	-0.1081 *** (0.018)	-0.088 (0.054)	-0.2629 *** (0.047)	-0.1629 *** (0.048)	-0.1458 ** (0.060)	-0.1506 * (0.076)				
Unionisation (%)									0.3230 *** (0.069)	0.1464 (0.094)	0.2370 *** (0.027)	0.1076 ** (0.048)
Household Expenditure		0.8208 *** (0.241)							(4.711)	(1.562)	(8.680)	(2.225)
Total Factor Productivity(Δ)			1.431 *** (0.1068)						0.6864 *** (0.234)			
Labour Productivity										(2.939)	1.343 *** (0.099)	
Dummy 1980s				2.903 ** (1.129)							(13.57)	0.8153 *** (0.170)
Dummy 1990s					-3.0405 ** (0.747)							(4.804)
Dummy 2000s												
Dummy Koizumi (2001-06)												
Dummy Abe (2013-20)												
Constant	6.3902 *** (1.335)	1.6437 *** (1.817)	3.8924 *** (0.532)	3.5177 ** (1.667)	9.731 *** (1.479)	6.2898 *** (1.341)	5.459 *** (1.815)	5.7752 ** (2.204)	-5.4525 *** (1.553)	-2.667 (1.827)	-4.117 *** (0.616)	-1.713 (0.966)
R ²	0.2901 (4.792)	0.471 (0.905)	0.8852 (7.318)	0.4056 (2.110)	0.3637 (6.578)	0.3071 (4.690)	0.2598 (3.008)	0.2492 (2.621)	0.3627 (-3.511)	0.4915 (-1.459)	0.8909 (-6.683)	0.8569 (-1.773)
Obs.	37	37	37	37	37	37	36	36	41	40	40	40

Notes: 1. *, **, *** indicate errors with 10%, 5%, 1% each.

2. Figures in parentheses in middle section are standard deviation and t-value in lower section.

Sources: Authors' calculations based on data from Cabinet Office, Ministry of Health, Labour and Welfare, FRB (FRED), etc.

Table 4-2: Relations of Wage levels, Non-regular employment, Unionisation, GDP growth (GMM)

[Explanatory Variables]	[Dependent Variable : GDP growth]									
	1984-2020	1985-2020	1985-2020	1985-2020	1985-2020	1985-2020	1985-2020	1985-2020	1985-2020	1985-2020
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Nonregular (%)	-0.162 *** (0.056)	-0.0142 (0.044)	-0.0477 (0.039)	-0.0855 *** (0.021)	-0.2703 (0.200)	-0.1458 ** (0.060)	-0.1506 * (0.076)			
Unionisation (%)								0.4003 *** (0.050)	0.0843 (0.206)	0.1076 ** (0.048)
Household Expenditure		1.096 *** (0.208)						(8.020)	(0.409)	(2.225)
Labour Productivity			0.828 *** (0.171)						1.0162 * (0.485)	0.815 *** (0.170)
Total Factor Productivity (Δ)				1.494 *** (0.087)						(4.804)
Dummy 1980s					-0.136 (3.511)					
Dummy 1990s					(-0.039)					
Dummy Koizumi (2001-06)					-3.139 (2.673)	0.371 (1.226)				1.336 *** (0.176)
Dummy Abe (2013-20)					(-1.175)	(0.303)	-0.400 (1.390)			
Constant	5.865 *** (1.705)	0.144 (1.451)	1.890 (1.295)	3.232 *** (0.629)	9.985 * (6.805)	5.459 *** (1.815)	5.775 ** (2.204)	-6.774 *** (1.040)	-1.961 (3.711)	-1.713 * (0.966)
R ²	0.2578	0.4345	0.8406	0.8752	0.3614	0.2598	0.2492	0.3445	0.4405	0.8569
Obs.	36	36	36	36	36	36	36	37	36	40

Notes: 1. *, **, *** indicate errors with 10%, 5%, 1% each.

2. Figures in parentheses in middle section are standard deviation and t-value in lower section.

Sources: Authors' calculations based on data from Cabinet Office, Ministry of Health, Labour and Welfare, FRB (FRED), etc.

3-4 Non-regular employment and trade union organisation rate / household expenditure / GDP growth rate

Regression equations showing the non-regular employment ratio as the explained variable and GDP growth rate, trade union organisation rate, wage level and household expenditure as explanatory variables are shown in Tables 5-1 (OLS) and 5-2 (GMM).

GDP growth rates are generally negatively correlated with the non-regular employment ratio (Table 5-1 (1), (4),(5), Table 5-2 (2), (3), (9)), like the results presented in the previous section 3-3. The rate of trade union organisation is also negatively correlated with the ratio of non-regular employment (equations 5-1(2), (3), Table 5-2 (1)-(8)).

It is noteworthy that the non-regular employment ratio was negatively correlated during the Socialist Party-LDP coalition governments in the 1990s and the DPJ government in the 2000s (2009-12), indicating that the non-regular employment ratio may have rather decreased during this period (Table 5-1 (2),(3), Table 5-2 (4)). Unlike the LDP government, the Democratic Party of Japan (DPJ) government, which attempted to correct inequalities and improve the conditions of non-regular employment, can be said to have achieved some results in these respects.

On the other hand, during the Koizumi (2001-06) and Abe (2013-20) cabinets, which were typical neo-liberal governments, the dummy variable showed a positive and significant relationship with the ratio of non-regular employment (Table 5-1 (4)), Table 5-2 (6)), clearly indicating the results of policies to actively promote non-regular employment. This is clearly shown in the following table.²⁰

20. Both the Koizumi and Abe administrations clearly reflected policies in the revision of the Worker Dispatching Act that benefited the largest staffing agency (Pasona), chaired by Heizo Takenaka, who is an insider in policies related to the promotion of the introduction of neoliberal policies. Examples include the lifting of the ban on manufacturing dispatching under the Koizumi Government and the three-year limit on dispatch periods under the Abe Government. The latter, in particular, was rather favourable for the dispatch agencies themselves, as it made it impossible to dispatch the same person for less than three years and increased the number of fixed-term and irregularly employed temporary workers. However, for the temporary employment agencies, it contributed to increased profits. It can be said that the revision of the Dispatch Law was done intentionally because the original (or nominal) reason for the dispatch term limit - to promote the transition from non-regular to regular employment - has not actually been realised.

The consequences of labour market liberalisation and non-regular employment: the 'lost 30 years' of the Japanese economy

Table 5-1: Relations of Wage levels, Non-regular employment, Unionisation, GDP growth (OLS)

[Explanatory Variables]	[Dependent Variable : Non-regular Employment]								
	1984-2020 (1)	1984-2020 (2)	1990-2020 (3)	1984-2020 (4)	1990-2020 (5)	1990-2020 (6)	1990-2020 (7)	1996-2020 (8)	1990-2020 (9)
GDP Growth	-0.664 (0.589) (-1.128)			-1.087 *** (0.321) (-3.385)	-0.845 * (0.486) (-1.738)				
Unionisation (%)		-2.336 *** (0.075) (-30.95)	-2.164 *** (0.057) (-37.82)						
Wage					-0.948 *** (0.306) (-3.094)	-0.960 *** (0.317) (-3.030)	-0.966 *** (0.269) (-3.587)	-1.447 *** (0.140) (-10.36)	-0.903 *** (0.304) (-2.972)
Household Expenditure							-2.311 *** (0.664) (-3.481)		
Labour Compensation							0.510 *** (0.149) (3.416)		
Labour Productivity									-1.094 * (0.559) (-1.956)
Dummy 1980s		5.090 *** (0.769) (6.620)							
Dummy 1990s (Non-LDP)		-0.151 (0.710) (-0.212)							
Dummy DPJ (2009-12)			-0.132 (0.354) (-0.372)						
Dummy 2010-20			1.847 *** (0.334) (5.529)						
Dummy Koizumi (2001-06)				6.667 *** (2.026) (3.291)					
Dummy Abe (2013-20)				12.048 *** (1.995) (6.039)					
Constant	30.879 *** (1.267) (24.37)	76.92 *** (1.495) (51.47)	72.821 *** (1.237) (58.86)	25.771 *** (1.189) (21.67)	128.56 *** (31.61) (4.067)	129.044 *** (32.69) (3.948)	132.07 *** (27.81) (4.750)	130.18 *** (16.93) (7.691)	123.85 *** (31.32) (3.954)
R ²	0.0434	0.9838	0.9921	0.6759	0.3143	0.2404	0.4731	0.8299	0.3317
Obs.	37	37	31	37	31	31	31	25	31

Notes: 1. *, **, *** indicate errors with 10%, 5%, 1% each.

2. Figures in parentheses in middle section are standard deviation and t-value in lower section.

Sources: Authors' calculations based on data from Cabinet Office, Ministry of Health, Labour and Welfare, FRB (FRED), etc.

Table 5-2: Relations of Wage levels, Non-regular employment, Unionisation, GDP growth (GMM)

[Explanatory Variables]	[Dependent Variable : Non-regular Employment]								
	1985-2020 (1)	1985-2020 (2)	1985-2020 (3)	1990-2020 (4)	1990-2020 (5)	1990-2020 (6)	1995-2020 (7)	1984-2020 (8)	1996-2020 (9)
GDP Growth		0.0432 (0.216) (0.200)	-0.4827 (0.584) (-0.827)						-1.2900 ** (0.473) (-2.727)
Unionisation (%)	-2.062 *** (0.122) (-16.85)	-2.516 *** (0.103) (-24.47)	-1.490 *** (0.378) (-3.942)	-2.494 *** (0.210) (-11.89)	-2.071 *** (0.130) (-15.88)	-1.575 *** (0.158) (-9.968)	-1.984 (2.375) (-0.835)	-1.728 *** (0.293) (-5.895)	
Household Expenditure							-3.427 (13.64) (-0.251)		
Wage									-1.471 *** (0.158) (-9.284)
Labour Compensation							-0.267 (1.064) (-0.251)		
Labour Productivity								-0.678 (0.563) (-1.204)	
Dummy 1980s		7.458 *** (1.350) (5.523)							
Dummy 1990s			-6.385 ** (2.743) (-2.328)						
Dummy DPJ (2009-12)				-3.289 (6.647) (-0.495)					
Dummy Koizumi (2001-06)					-2.622 (2.968) (-0.884)				
Dummy Abe (2013-20)						6.979 *** (2.099) (3.324)			
Constant	71.96 *** (2.47) (29.13)	80.49 *** (2.00) (40.26)	62.24 *** (6.70) (9.286)	80.46 *** (5.041) (15.96)	72.93 *** (2.387) (30.55)	60.07 *** (3.847) (15.61)	0.533 *** (5.009) (17.05)	65.69 *** (5.49) (11.96)	185.24 *** (17.16) (10.79)
R ²	0.9543	0.9753	0.9360	0.9525	0.9532	0.9329	0.5328	0.9237	0.4282
Obs.	37	36	36	31	31	31	25	37	26

Notes: 1. *, **, *** indicate errors with 10%, 5%, 1% each.

2. Figures in parentheses in middle section are standard deviation and t-value in lower section.

Sources: Authors' calculations based on data from Cabinet Office, Ministry of Health, Labour and Welfare, FRB (FRED), etc.

3-5 Relationship between the ratio of formal employment, the rate of trade union organisation, household expenditure and other factors on the wage level

A strong negative and significant correlation is shown between the ratio of non-regular employment and the wage level (Table 6-1 (1)-(6) and Table 6-2 (1)-(6) equations), which is consistent with the results presented in 3-3 and 3-4. In addition, the rate of trade union organisation clearly shows a positive and significant relationship with the wage level (equations (7)-(9) in Table 6-1, (7)-(9) in Table 6-2).

Household expenditure relative to the wage level does not show a significant result in the OLS analysis but shows a positive and significant relationship in the GMM (Table 6-1 (2), (9), Table 6-2 (2), (8)). Furthermore, a positive and significant

The consequences of labour market liberalisation and non-regular employment: the 'lost 30 years' of the Japanese economy relationship with the wage level is shown for the labour compensation rate (Table 6-1 (2), Table 6-2 (3), (9)).

Both the Koizumi administration in the 2000s (2001-06) and the Abe administration (2013-20) in the 2010s generally show a negative relationship with the wage level in equations that include the ratio of non-regular employment (equations 6-1 (6), Table 6-2 (5), (6)). This coincides with a period when non-regular employment was fully promoted and generalised.

Table 6-1: Relations of Wage levels, Non-regular employment, Unionisation, GDP growth (OLS)

[Explanatory Variables]	[Dependent Variable : Wage]								
	1991-2020 (1)	1996-2020 (2)	1984-2020 (3)	1990-2020 (4)	1990-2020 (5)	1990-2020 (6)	1991-2021 (7)	1996-2020 (8)	1996-2020 (9)
GDP Growth	0.0244 (0.246) (0.099)							0.3667 ** (0.153) (2.390)	
Nonregular (%)	-0.3161 *** (0.077) (-4.095)	-0.559 *** (0.055) (-10.11)	-0.147 (0.200) (-0.736)	-0.097 (0.124) (-0.781)	-0.259 *** (0.082) (-3.151)	-0.223 *** (0.113) (-1.981)			
Unionisation (%)							0.6998 *** (0.186) (3.769)	1.4121 *** (0.150) (9.420)	1.4599 *** (0.209) (7.000)
Household Expenditure		0.3537 (0.257) (1.378)							0.1700 (0.361) (0.471)
Labour Compensation		0.3791 *** (0.088) (4.296)						0.4612 *** (0.099) (4.652)	
Dummy 1980s			-18.67 *** (3.734) (-5.000)						
Dummy 1990s			1.239 (2.830) (0.438)						
Dummy 2000 s				-1.817 (2.003) (-0.907)					
Dummy 2010-20				-2.441 (1.842) (-1.325)					
Dummy Koizumi (2001-06)					1.615 (1.294) (1.248)				
Dummy Abe (2013-20)						-0.613 (1.696) (-0.361)			
Constant	112.93 *** (2.439) (46.29)	82.78 *** (9.239) (8.960)	107.19 *** (6.866) (15.61)	107.10 *** (3.325) (32.21)	110.57 *** (2.522) (43.84)	112.87 *** (2.874) (39.27)	89.45 *** (3.707) (24.13)	29.53 *** (10.24) (2.882)	75.39 *** (3.952) (19.08)
R ²	0.3962	0.8625	0.7995	0.3446	0.2804	0.2439	0.3288	0.8529	0.7029
Obs.	30	25	37	31	31	31	30	25	25

Notes: 1. *, **, *** indicate errors with 10%, 5%, 1% each.

2. Figures in parentheses in middle section are standard deviation and t-value in lower section.

Sources: Authors' calculations based on data from Cabinet Office, Ministry of Health, Labour and Welfare, FRB (FRED), etc.

Table 6-2: Relations of Wage levels, Non-regular employment, Unionisation, GDP growth (GMM)

[Explanatory Variables]	[Dependent Variable : Wage]									
	1991-2020 (1)	1996-2020 (2)	1996-2020 (3)	1985-2020 (4)	1996-2020 (5)	1996-2020 (5)	1991-2020 (6)	1991-2020 (7)	1996-2020 (8)	1996-2019 (9)
GDP Growth			0.681 ** (0.260) (2.615)	0.277 (0.170) (1.633)						0.210 ** (0.093) (2.256)
Non-regular	-0.401 *** (0.121) (-3.317)	-0.515 *** (0.113) (-4.558)	-0.541 *** (0.072) (-7.538)	-0.325 * (0.158) (-2.053)	-0.287 *** (0.410) (-0.701)	-0.611 *** (0.075) (-8.200)	-0.233 (0.169) (-1.374)			
Unionisation (%)								0.769 *** (0.169) (4.548)	1.300 *** (0.254) (5.127)	1.436 *** (0.122) (11.82)
Household Expenditure		1.364 ** (0.561) (2.433)							1.166 * (0.561) (2.078)	
Labour Compensation			0.923 *** (0.160) (5.752)							0.672 *** (0.143) (4.681)
Dummy 1980s				-25.89 *** (2.850) (-9.084)						
Dummy 1990s				-0.245 (3.174) (-0.077)						
Dummy 2000 s					-6.448 (4.022) (-1.603)					
Dummy 2010-20					-5.515 (6.529) (-0.845)					
Dummy Koizumi (2001-06)						-3.243 * (1.770) (-1.832)				
Dummy Abe (2013-20)							-1.879 (1.994) (-0.943)			-5.996 (3.658) (-1.639)
Constant	116.01 *** (4.053) (28.62)	118.79 *** (3.707) (32.04)	26.728 (17.71) (1.509)	113.10 *** (5.457) (20.72)	117.38 *** (9.617) (12.21)	124.24 (2.125) (58.46)	111.38 *** (5.092) (21.87)	88.245 *** (3.415) (25.84)	77.666 *** (4.960) (15.66)	7.7349 (13.482) (0.574)
R ²	0.3484	0.5816	0.7266	0.6897	0.6015	0.5388	0.3440	0.3205	0.5983	0.8503
Obs.	30	25	25	36	25	25	30	30	25	24

Notes: 1. *, **, *** indicate errors with 10%, 5%, 1% each.

2. Figures in parentheses in middle section are standard deviation and t-value in lower section.

Sources: Authors' calculations based on data from Cabinet Office, Ministry of Health, Labour and Welfare, FRB (FRED), etc.

3.6 Summary of analysis: links between non-regular employment, GDP growth, wage levels, etc.

The results of the above analysis can be summarised as follows.

- (1) An increase in the ratio of non-regular employment (Nonregular) is significantly negatively correlated with the GDP growth rate
- (2) The rate of trade union organisation (Unionisation) has a strong positive correlation with the GDP growth rate.
- (3) Non-regular employment leads to lower household expenditure through lower household disposable income associated with lower wages.
- (4) The rate of trade union organisation shows a strong negative correlation with the ratio of non-regular employment

- (5) Unlike the LDP governments, the ratio of non-regular employment shows a negative correlation when the DPJ was in power.
- (6) There is a positive and significant relationship between the dummy variables of those regimes under the neoliberal regimes (Koizumi Cabinet [2001-06] and Abe Cabinet [2013-20]) and the ratio of non-regular employment.
- (7) There is a strong negative and significant correlation between the ratio of non-regular employees and the wage level.
- (8) The rate of trade union organisation shows a positive and significant relationship with the wage level
- (9) Labour compensation shows a positive and significant relationship with the wage level.
- (10) Equations including the trade union organisation rate in both the 2000s and 2010s generally show a positive and significant relationship with the wage level, and a positive impact on household expenditure.

The above results show that the increase in non-regular employment increases with labour market liberalisation and is negatively correlated not only with the rate of economic growth but also with the wage level. In addition, the decline in the rate of trade union organisation is linked to the expansion of non-regular employment, and household expenditure also declines through the wage level, supporting the background to the long period of sluggish GDP growth in Japan.

4. Measures to reduce non-regular employment and maintain/increase regular employment

Growth in the Japanese economy is slowing, along with the growth of non-regular employment. Labour productivity has not increased and there are increasing areas where Japan's strength in manufacturing cannot maintain its international competitiveness. This chapter explains the benefits of reducing informal employment and increasing regular employment and provides policy directions that should be introduced.

4-1 Long-term benefits of maintaining and expanding regular employment

The expansion of the ratio of non-regular employment in the labour market is not only a fact of sluggish GDP growth, but also of declining competitiveness in terms of long-term sustainable scientific and technological competence and human resources development. An increase in regular employment (and a decline in

non-Western Lake employment) is highly beneficial to the Japanese economy and industry in the long term, and as an economic policy will reduce non-regular employment and increase overall household disposable income and demand by expanding regular employment. In other words, expanding regular employment will increase household disposable income along with an increase in real wages as the ratio of non-regular employment declines, expanding private consumption and positively affecting the GDP growth rate (Ohta 2017, 2021).

4-2 Recommendations for the future labour market

It is important to prioritise the reduction of non-regular employment and the expansion of regular employment in all sectors as economic policy in the future. Already in 2009 when the Democratic Party of Japan (DPJ) was in power, the government aimed to revise the Worker Dispatching Act (Table 7), but the subsequent Abe/Suga administration have implemented amendments in ‘name only’ rather than real reforms and not actual improvements. In particular, the 2015 revision of the Worker Dispatching Act has in fact completed a system in which loopholes were prepared from the beginning to benefit staffing /dispatch agencies. Therefore, this paper proposes the following policies to reduce non-regular employment.

Table 7: Focus of the proposed amendments to the Worker Dispatching Act (2009)

June 2009 opposition party draft (DPJ, SDP and New People's Party)	
1	Purpose of the law: clearly states worker protection
2	Day worker dispatching: prohibited (prohibition of employment for less than two months, deemed as two months plus one day)
3	Manufacturing dispatching: prohibited in principle (exception: specialised work, etc.)
4	Registered dispatching (exceptions: 26 jobs, maternity leave replacement, etc.)
5	Deemed direct employment (notice by worker)
6	Ensuring equal treatment
7	Strengthening of responsibilities of dispatch clients (11 items, e.g. cross-subsidies, etc.)
Report of the Labour Policy Council, 28 December 2009	
1	Purpose of the law: clearly states worker protection
2	Day work dispatching: prohibited (exc: certain types of work, not deemed to be 2 months + 1 day)
3	Manufacturing dispatching: prohibited in principle (exception: dispatching for permanent employment)
4	Registered dispatching: Prohibited in principle (exceptions: 26 jobs, maternity leave replacement, elderly, placement)
5	irect employment (deemed to be the same contract as the working conditions at the dispatch centre)
6	Provisions for consideration of balance
7	Deferment of enforcement for 3 years (possible maximum of 5 years for registered type)

Source: Hosoda (2010)

(1) Stricter application of non-regular employment

It is important to tighten the conditions for permitting non-regular employment work and close the loopholes that exist to date. For example, under the current Worker Dispatching Act, the maximum period of dispatch is three years, but temporary employment agencies can introduce other personnel and maintain low-cost personnel as a company in the same workplace. Although it is originally desired that the same person who has worked for more than three years should be employed on a permanent basis, most companies do not do this and simply do not employ the same person for a period of up to three years. This increases the likelihood that a previously employed person will be dismissed after the three-year limit. This provision was originally supposed to facilitate the continuation of employment by the company concerned as a permanent employee beyond three years. However, the resulting prevalence of such loopholes, which could have been foreseen at the design stage of the system, is precisely what the staffing firms (e.g., Pasona) intend. Temporary staffing commissions are incurred on a case-by-case basis and the agencies benefit from this. Policies that do not reflect the interests of the population should be immediately abolished or amended.

(2) Legislation to prohibit the unfair treatment of non-regular workers (including part-time workers).

In the EU, protection for workers in temporary or part-time employment has already been legislated and implemented. In Japan, the Government should reflect on the fact that it has not been actively involved in this area, as the existing Labour Standards Law and related legislation state that the criteria for application are unclear and the Worker Dispatching Act does not provide for penal provisions. Even for violations, the focus has been on mere recommendations and the like, with few contractors being penalised. Therefore, the Government should hasten the development of relevant legislation, including specific monitoring and supervision measures and penalties.

(3) Revision of the 'Worker Dispatching Act' and measures to curb non-regular employment

The current law places few restrictions on the type of temporary work, but it is important to limit it to 26 sectors, at least as it was practised until the mid-1990s, and it is desirable to prohibit dispatches to the manufacturing industry. This should have a positive impact on areas such as the retention of skills and technological development.

(4) Introduction of an *ombudsman* system to promote regular employment (stricter application of the Labour Standards Law)

The Worker Dispatching Act is currently at the heart of the promotion of non-regular employment. However, it is important to actively use the Labour related laws and regulations, as well as to tighten the conditions for the application of the dispatch industry, which was attempted to be introduced during the Democratic Party of Japan (DPJ) administration (2009-2012). For example, in applying the principle of ‘equal pay for equal work’, the current legislation has a clause that excludes the application of ‘unfair discrimination’, but it does not specify this, which has allowed ambiguous operational conditions and resulted in the expansion of non-regular employment. Alternatively, when employers dismiss workers unfairly in non-regular employment, it is necessary to establish an ombudsman system specialising in the labour market to ensure compliance with various labour-related laws and regulations (Table 8).

It aims to improve not only the issue of non-regular employment, but also the labour market, by having the Ombudsman monitor and solve problems and issues in individual companies.

Table 8: Provisions on improving the treatment of non-regular workers

<p>Worker Dispatching Act</p> <p>The employer may, at the request of a fixed-term dispatched worker whose period of employment is one year or more</p> <p>(1) Conversion to permanent employment, (2) direct employment at the client, (3) promotion of conversion to permanent employment, in accordance with the wishes of the client.</p>
<p>Part-time Labour Law</p> <p>Employers must ensure that part-time workers are informed when they are employed as regular workers and that they are provided with a testing system for conversion to regular workers in order to promote their conversion.</p>
<p>Labour Contract Law</p> <p>When a fixed-term labour contract has been repeatedly renewed for a total of five years, the worker's application for a new contract shall be processed by the employer.</p>

Source.: Hoshino (2016) Tab.4

(5) Reform and strict management of the current foreign traineeship system

The substance of the ‘foreign trainee system’ has now simply become one that contributes to the expansion of low-paid workers who earn far less than the minimum wage, thus lowering the overall labour wage level and acting as a drag on rising wage levels. Therefore, to ensure the strict application of these schemes, companies that have adopted them need to be regularly monitored and caught in breach. In particular, the government needs to strengthen its thorough monitoring

and guidance of companies in Asian countries that use the system by concluding agent contracts with their counterparts. Furthermore, it may be necessary to abolish the current system after a transition period, leaving the original apprenticeship function intact.

(6) Incentives for companies that increase the ratio of regular employment

The Government should introduce some form of incentive for companies that have increased the proportion of regular employees. However, companies that have taken measures such as 'corrective' measures, such as reducing the treatment of regular employees and bringing it closer to that of non-regular employees, should be excluded.²¹

Conclusion

The expansion of non-regular employment in Japan's 'lost 30 years' clearly shows that long-term sustainable economic growth could not be achieved. This is because the expansion of non-regular labour following the liberalisation of the labour market in line with neoliberalism since the 1980s has led to a consistent decline in the (real) wage level. This has resulted in a real decline in household consumption expenditure, which has been a drag on GDP growth. Japan's prolonged economic stagnation has been caused by the liberalisation of the labour market, as evidenced by non-regular employment, which has led to a decline in disposable income and increased poverty among the population as a whole. As the proportion of young people in non-regular employment rises, the number of people in low-income brackets is increasing and marriage is becoming more difficult, resulting in a further decline in fertility.

The expansion of non-regular employment means that a growing number of people are unable to afford social insurance such as pensions and medical care, which support the current social security system, making it difficult for the social security system itself to continue to exist. Furthermore, as the proportion of non-regular employment has expanded in recent years, the proportion of those who

21. It should be noted that in the privatised Japan Post, the treatment of regular employees has been reviewed year by year, and reduced it to the same level as that of non-regular employees. This is against the background that Japan Post, whose disparity in treatment between permanent and contract employees was deemed 'unreasonable' by the Supreme Court in October 2020, has rather lowered the treatment of its permanent staff as a measure to eliminate the disparity. Such company policies are likely to increase during the economic downturn as well, and it will be important to make it the main objective to raise the treatment of the entire workforce.

leave work on time has increased, placing the burden on regular workers, and accelerating the trend towards longer working hours in general. These labour market distortions could become an obstacle to the sustainable development of the Japanese economy. In particular, the lifting of the ban on non-regular employment in the manufacturing sector since the 2000s has further depressed labour productivity.

Conventional problems related to non-regular employment have largely been considered from a socio-economic perspective, with issues such as the increase in non-regular employment leading to a cycle of poverty as well as the fixation of the employment hierarchy. While these points are correct in themselves, there has been little consideration of them from an economic perspective. Therefore, this paper uses econometric methods to examine the economic problems of non-regular employment and the impact of the expansion of non-regular employment on economic growth.

The Worker Dispatching Act, first introduced by the Nakasone administration in the 1980s, was initially limited to special occupations, but was then taken over and expanded by the Kozumi and Abe administrations. Under such neoliberal-based regimes, non-regular employment was promoted rather than regulated, resulting in a prolonged economic slump as consumer spending fell as disposable income declined for many households in Japan. This is consistent with the results of the quantitative analysis in Chapter 3.

The main results of the analysis are:(i) an increase in the ratio of non-regular employment is significantly negatively correlated with GDP growth; (ii) the rate of trade union organisation (Unionisation) is strongly positively correlated with GDP growth; (iii) non-regular employment leads to lower household expenditure through lower disposable income for households as wages fall; (iv) the rate of trade union organisation has a very strong negative correlation with the ratio of non-regular employment; (v) unlike the LDP government, the ratio of non-regular employment is negatively correlated during the DPJ government; (vi) there is a positive and significant relationship with the ratio of non-regular employment under neoliberal regimes (Koizumi [2001-06] and Abe [2013-20]); (vii) the ratio of non-regular employment and wage levels have a strong negative and significant correlation; (viii) the rate of trade union organisation has a positive and significant relationship with the wage level; (ix) the labour compensation rate (Labour compensation) has a positive and significant relationship with the wage level; (x) in both the 2000s and 2010s, equations including the rate of trade union organisation generally show negative significance for the wage level. In other words, the expansion of

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non-regular employment and the decline in the wage levels are closely linked to the stagnation of the Japanese economy.

Finally, as a major step towards achieving sustainable growth with the aim of reviving the Japanese economy, policies to realise the reduction of non-regular employment include (i) stricter application of non-regular employment; (ii) legislation to prohibit the unfair treatment of non-regular employees (including part-time workers); (iii) Revision of the 'Worker Dispatching Act' and measures to curb non-regular employment (return to 26 industry sector restrictions); (iv) introduction of an ombudsman system to promote regular employment; (v) reform and strict management of the current foreign traineeship system; and (vi) incentives for companies that increase the ratio of regular employees.

While other studies are awaited on the specific measures to be taken in relation to these policy recommendations, they are an inevitable task for achieving sustainable growth of the Japanese economy in the future.

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