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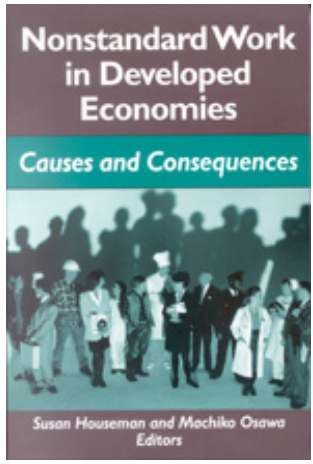
A Comparison of Causes and Consequences



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Chapter 6 (pp. 175-214) in:
Nonstandard Work in Developed Economies: Causes and Consequences
Susan Houseman, and Machiko Osawa, eds.
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2003
DOI: 10.17848/9781417505326.ch6

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The Growth of Nonstandard Employment in Japan and the United States

A Comparison of Causes and Consequences

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Employment in nonstandard work arrangements, especially part-time employment, grew dramatically in Japan over the last two decades, and in recent years, nonstandard jobs have accounted for the overwhelming majority of new jobs in Japan. Although growth in nonstandard employment was not as great in the United States, evidence suggests that the share in certain nonstandard arrangements, especially temporary agency employment, expanded rapidly in the 1980s and 1990s.

In this chapter, we examine whether the growth in nonstandard employment in these two countries reflects similar or unrelated forces, and, as a corollary, why the growth in nonstandard employment was so much greater in Japan than in the United States. In particular, we look at potential causes of this growth: a shift in employer demand toward arrangements that increase productivity and reduce labor costs; a shift in the supply of workers seeking more flexible staffing arrangements; and government policies promoting the expansion of nonstandard employment. Finally, we examine the implications of the growth in nonstandard employment for workers.

DEFINITIONS OF NONSTANDARD EMPLOYMENT ARRANGEMENTS

Comparison of the magnitude of and trends in nonstandard work arrangements in Japan and the United States is complicated by the fact that the definitions of arrangements differ between the countries. For instance, in U.S. statistics on part-time employment, which come from the Current Population Survey (CPS), individuals are classified as part-time if they usually work fewer than 35 hours per week. In Japanese surveys, workers are classified as part-time if they work fewer hours per day or days per week than regular workers (e.g., the Survey on the Diversification of Employment) or if they are termed part-time in their place of employment (e.g., the Employment Status Survey). The Japanese definition of part-time, therefore, includes some individuals who work more than 35 hours per week, and this difference between the U.S. and Japanese statistics should be borne in mind.

In 1999, about 30 percent of Japanese workers classified as part-time by their employers worked almost the same number of hours per week as full-time workers (Ministry of Labor 1997a). In cases where Japanese part-time and full-time employees work similar hours, part-time refers to a lower status of employment within the firm. Traditionally, part-time workers were hired to do relatively simple tasks requiring little training and were not expected to work overtime. In contrast, regular full-time workers would be asked to perform a wide variety of tasks beyond their normal work duties, would be expected to work overtime, often for no additional compensation, and might be transferred to distant offices (Sato et al. 1999). These differences, some argued, justified the better pay, promotion opportunities, training, benefits, and job security received by full-time workers compared with part-time workers. However, since the 1980s, part-time workers have been given more responsibility and training by companies, and differences in the scope of tasks performed by part-time and regular full-time workers are narrowing (Miyama 1991; Ministry of Labor 1997b, 1999).[1]

Temporary workers in Japan are hired on a contract for a limited duration. Often the distinction between temporary workers and day laborers is made. The former are hired for one month or longer, while

the latter are hired for less than one month. In addition, some Japanese surveys make the distinction between temporary and contract workers; the latter have professional skills and are hired on fixed-term contracts. The data on temporary workers in the United States are not comparable to the Japanese data. In the figures reported below, temporary workers in the United States are defined as workers who indicate their job is temporary for economic, rather than personal, reasons, as reported in recent supplements to the CPS, and thus the definition of temporary worker is somewhat broader in the United States than in Japan. Both Japanese and U.S. surveys report employment in temporary help agencies.[2]

TRENDS IN NONSTANDARD ARRANGEMENTS

Table 6.1 shows the levels of and trends in part-time, temporary, and temporary agency employment in Japan and the United States in the 1980s and 1990s. The fraction of the workforce that is part-time has been similar in Japan and the United States in recent years, although the part-time statistics in Japan include some employees who work more than 35 hours per week. The proportion of the workforce that is temporary is much higher in Japan than in the United States, although the share of employees who work for temporary help agencies is smaller.

The most striking trend in Japan has been the dramatic rise in the share of part-time employment. Part-time employment grew from 11.0 percent to 18.8 percent of paid employment and accounted for 45 percent of the net growth in paid employment from 1982 to 1997. It accounted for 77 percent of the net growth in paid employment from 1992 to 1997. Published statistics on part-time employment in the United States would suggest that the share of paid employment that is part-time rose modestly in the 1980s and 1990s. However, the CPS, from which part-time statistics are derived, was redesigned in 1994 and part-time statistics before and after the redesign are not comparable. Adjusting for the redesign, the share in part-time employment rose slightly in the 1980s but fell in the 1990s.[3]

Table 6.1 Trends in Nonstandard Employment (as percentage of paid employment)

Japan				
		Temporary		Agency
	Part-time	Day laborers	Other	temporary
1982	11.0	3.7	7.9	NA
1987	14.2	3.1	8.9	0.2
1992	16.1	2.8	8.4	0.3
1997	18.8	2.6	9.2	0.5
Δ1982–97	7.8	–1.1	1.3	0.3[a]
United States				
	Part-time (published)	Part-time (adjusted)	Temporary	Agency temporary
1979	16.4	18.0		
1982	18.2	20.0		0.5
1989	17.0	18.7		1.1
1999	17.4	17.4	4.1	2.5
Δ1979–99		–0.6	NA	NA
Δ1982–99		–2.6	NA	2.0

[a] Change from 1987–97.

SOURCE: Figures on U.S. part-time employment were derived from the Current Population Survey (CPS) and are expressed as a percentage of total employment. Figures for the years 1979, 1982, and 1989 were adjusted to account for the redesign of the CPS and to make them comparable to the 1999 figures. The figure on U.S. temporaries comes from the February 1999 supplement to the CPS. The figures for agency temporaries represent the percentage of nonfarm payroll employment in the Help Supply Services Industry, which is primarily composed of temporary help agencies. These data come from the Current Employment Statistics (CES) series. Japanese data come from Bureau of Statistics Management Coordination Agency, Employment Status Survey.

The share of Japanese employment in temporary help agencies rose steadily in recent years, albeit from a very small base. Regulation of the temporary help industry was relaxed in 1999, and further growth is expected. In the United States, temporary help employment expanded rapidly, increasing its share of nonfarm payroll employment from 0.5 percent in 1982 to 2.5 percent in 1999 and accounting for

about 10 percent of net employment growth in the 1990s, according to the U.S. Bureau of Statistics establishment survey (Current Employment Statistics).

Although the share of day laborers in Japan fell over the period, the share in other temporary contracts rose.[4] It appears that most of the growth in temporary contracts is accounted for by the growth in temporary part-time contracts. According to the Ministry of Labor, the fraction of part-time workers reporting that they were on a temporary contract grew from 30.4 percent in 1990 to 40.6 percent in 1996. Among workers in other nonstandard arrangements, such as temporary agencies, the fraction who were in temporary contracts also grew dramatically over the period.[5] The survey from which we computed temporary employment in the United States was first conducted in 1995. Between 1995 and 1999, there was little change in the fraction of temporary workers in the United States.

The employment categories reported in Table 6.1 overlap. To gain a better sense of the overall size of the workforce in nonstandard employment arrangements, we constructed mutually exclusive categories of employment for the most recent years of data available for Japan and the United States (Table 6.2).[6] If one defines standard workers as those who work full-time and who are not temporary, and nonstandard as everyone else, then the levels of nonstandard employment are similar in the two countries. In Japan, 76.5 percent of wage and salary workers are in regular, full-time jobs compared with 78.5 percent in the United States. However, within nonstandard employment arrangements, the fraction that is temporary is much higher in Japan than in the United States.

It is also noteworthy that at least half of temporary agency workers in both countries do not report themselves as holding temporary jobs. In Japan, many temporary agency workers still have a regular employment contract with the agency. In the United States, this finding is a bit puzzling, but suggests that many temporary agency workers believe that their employment with the temporary agency is relatively secure, even if their assignments with clients change.[7]

Overall, these data suggest that the growth in nonstandard employment arrangements has been much stronger in Japan than in the United States. Although temporary agency employment has grown rapidly in the United States, at least in percentage terms, nothing comparable to

Table 6.2 Distribution of Employment by Employment Arrangement and Temporary Status, Japan and the United States (% of paid employment)

	Japan 1997		
	(1) Not temporary	(2) Temporary	Sum 1 + 2
Full-time	76.5	0.6	77.1
Part-time	9.6	9.2	18.8
Shokukaku[a]	1.2	0.6	1.8
Temporary agency	0.3	0.2	0.5
Other	0.7	1.2	1.9
Total	88.2	11.8	100
	United States 1999		
	(1) Not temporary	(2) Temporary	Sum 1 + 2
Full-time	78.5	1.4	79.9
Part-time	14.8	1.4	16.2
On-call or day laborer	1.3	0.6	1.9
Temporary agency	0.5	0.5	1.0
Contract company/ independent contractor	0.9	0.1	1.0
Total	95.9	4.1	100

[a] *Shokukaku* are employees who do not have a formal labor contract and are asked to perform a specific task for the company.

SOURCE: Data for Japan come from special tabulations of the Bureau of Statistics Employment Status Survey. Figures for the United States were tabulated by the authors from the February 1999 supplement to the Current Population Survey.

the dramatic Japanese rise in part-time employment has been recorded in the United States. This conclusion is subject to the caveat that data for some types of nonstandard employment arrangements have only recently been collected in the United States and, thus, direct evidence on trends in these arrangements is not available. Evidence from several employer surveys suggests that U.S. companies increased their use of direct-hire temporaries, contract company workers, and independent

contractors in the 1980s and 1990s (Conference Board 1995; Abraham and Taylor 1996; Abraham 1990; Houseman 2001).

THE CHARACTERISTICS OF WORKERS IN NONSTANDARD ARRANGEMENTS

Table 6.3 shows the distribution of part-time, temporary, and temporary agency workers in Japan and the United States by gender and age and the incidence of each nonstandard arrangement within age-gender cells. Although women in both countries are more likely than men to hold part-time or temporary jobs, the male-female differentials are much less in the United States than in Japan. The incidence of temporary employment and temporary agency employment is only slightly higher among women than men in the United States.

Although there is a higher incidence of part-time employment among American than Japanese men, temporary employment is more common among Japanese men. This reflects a difference in the type of employment found among the youngest and oldest working men in the two countries. Younger and older American working men are more likely to be employed part-time, while in Japan, those age groups display a greater incidence of temporary employment. Among women, older (65 and over) and teenage American women have higher rates of part-time employment compared with Japan, whereas rates of part-time employment are higher among prime-age women in Japan. Temporary employment is much higher among Japanese women than American women in all age brackets.

THE IMPLICATIONS OF NONSTANDARD EMPLOYMENT FOR WORKERS

The growing number of workers in nonstandard arrangements has raised concern primarily because these jobs are often associated with low wages, few benefits, and little job security. Below, we study evidence on the extent to which these stereotypes are, in fact, true. Fur-

Table 6.3 Distribution and Incidence of Nonstandard Employment by Gender and Age in Japan and the United States (%)

Age and gender	Part-time		Temporary		Temporary agency	
	U.S.	Japan	U.S.	Japan	U.S.	Japan
Male	31.1	20.2	48.6	34.1	42.2	20.6
	(10.5)	(6.3)	(3.8)	(6.7)	(0.8)	(0.2)
16–19	11.1	3.1	6.1	3.6	3.2	0.4
	(68.3)	(46.6)	(8.9)	(33.9)	(1.2)	(0.0)
20–24	6.5	6.7	10.6	7.4	9.6	4.7
	(22.8)	(20.8)	(8.1)	(14.5)	(1.8)	(0.4)
25–29	2.0	1.9	6.4	2.9	4.6	3.9
	(5.8)	(4.8)	(4.1)	(4.5)	(0.7)	(0.2)
30–39	2.6	1.4	10.3	2.7	12.1	5.1
	(3.6)	(2.0)	(3.0)	(2.5)	(0.9)	(0.2)
40–49	2.0	1.1	7.9	3.1	6.2	1.9
	(2.9)	(1.4)	(2.5)	(2.5)	(0.5)	(0.1)
50–64	3.3	3.3	5.4	8.6	4.9	3.1
	(5.9)	(4.0)	(2.3)	(6.6)	(0.5)	(0.0)
65+	3.5	2.8	2.0	5.8	1.6	1.9
	(48.9)	(18.7)	(4.1)	(24.3)	(1.4)	(0.3)
Female	68.9	79.8	51.4	66.0	57.8	79.4
	(25.3)	(37.8)	(4.3)	(19.6)	(1.2)	(1.0)
16–19	12.7	3.5	7.3	3.8	2.5	0.4
	(81.2)	(59.1)	(10.6)	(40.6)	(0.9)	(0.2)
20–24	9.6	7.6	10.1	7.8	11.3	13.2
	(35.5)	(24.3)	(8.3)	(15.7)	(2.3)	(1.0)
25–29	5.3	5.7	6.9	5.5	9.2	25.3
	(18.2)	(20.8)	(4.9)	(12.6)	(1.6)	(2.3)
30–39	13.9	14.2	10.0	11.0	14.3	26.5
	(19.9)	(37.5)	(3.3)	(17.9)	(1.2)	(1.7)
40–49	12.7	24.8	8.6	17.8	12.1	9.3
	(17.8)	(46.2)	(2.8)	(20.8)	(1.0)	(0.4)
50–64	10.7	21.4	6.4	17.1	7.2	5.1
	(20.2)	(44.0)	(2.9)	(22.1)	(0.8)	(0.3)
65+	4.0	2.6	2.2	3.0	1.3	0.0
	(57.5)	(39.3)	(7.5)	(28.2)	(1.1)	(0.0)
Total	100	100	100	100	100	100
	(17.4)	(18.8)	(4.1)	(11.8)	(1.0)	(0.5)

NOTE: Figures in parentheses are the percentage within the group that are part-time, temporary, or temporary agency workers.

SOURCE: Figures for Japan come from the 1997 Employment Status Survey, Bureau of Statistics. Figures for part-time employment in the United States are authors' tabulations from the outgoing rotation groups of the 1999 Current Population Survey. Figures for temporary and temporary agency employment in the United States come from the authors' tabulations of the February 1999 supplement to the CPS.

ther, where differentials between workers in regular and nonstandard arrangements exist, we examine why they exist.

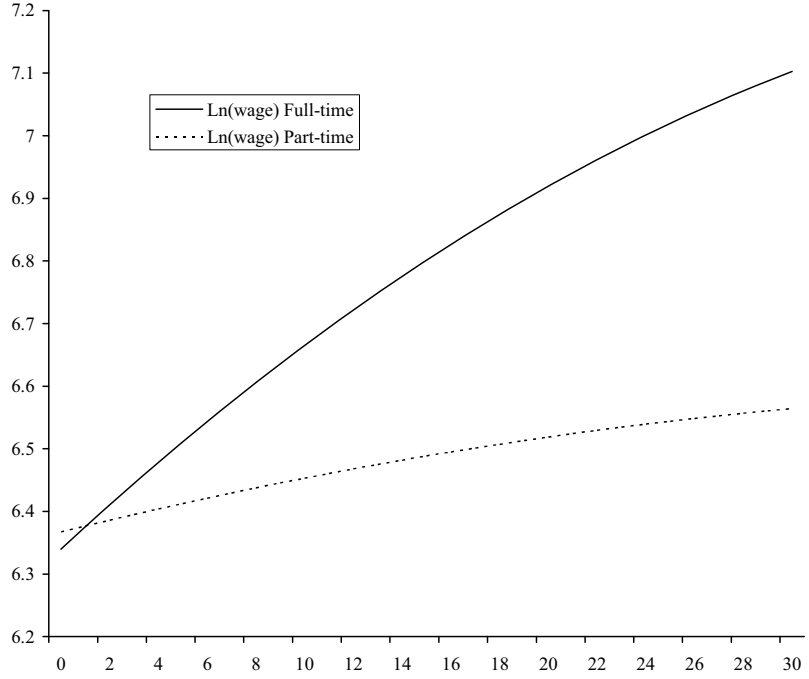
Wages

In the United States, the average wages of part-time, direct-hire temporary, on-call, and temporary agency workers are much lower than those of regular full-time workers. Using a variety of methodologies and data sets, a number of studies have attempted to carefully control for differences in measured and unmeasured human capital between workers in nonstandard and regular jobs. These studies generally have found that workers in nonstandard arrangements still earn significantly less than those in regular jobs.[8] Low wages in nonstandard arrangements would be of little concern if the workers in these jobs were secondary earners from middle-income or wealthy families. However, workers in all nonstandard work arrangements are much more likely to come from families living below or near the poverty line (100 to 125 percent of the poverty line). In 1995, 6 percent of regular full-time workers lived at or near the poverty level compared with 22 percent of temporary agency workers, 16 percent of on-call and day laborers, 12 percent of contract company workers, 15 percent of direct-hire temporaries, and 14 percent of regular part-time workers.[9]

As in the United States, the average hourly wage of Japanese workers in nonstandard arrangements is considerably less than that of workers in regular full-time positions. Using cross-section microdata from the 1989 Survey on the Status of Part-Time Workers conducted by the Japan Institute of Labor, we estimated wage models for full-time and part-time women.[10] One interesting result from these estimates is that variables measuring human capital, such as education and tenure, have a much smaller effect on part-time workers' wages than on those of full-time workers. The very low return on tenure experienced by part-time workers is consistent with the fact that part-time workers are not covered by the *nenko* wage system prevalent in Japan, in which employees' wages are closely tied to their age and tenure.[11]

Figure 6.1 shows the results of a simulation, based on estimates from these wage models, of a wage-tenure profile for a part-time and a full-time worker with the same characteristics. Initially, the wages of the full-time and part-time worker are virtually identical. As the tenure

Figure 6.1 Wage-Tenure Profiles of Part-Time and Full-Time Workers, Japan



SOURCE: Authors' analysis using data from the Survey on the Status of Part-Time Workers, Japan Institute of Labor, 1989.

of the two workers increases, however, the wage gap grows.[12] This simulation illustrates the problem faced by Japanese companies, which are saddled with older workers receiving high wages; the incentive is to hire part-time workers to reduce wage costs, given that the workforce is expected to continue to age.

One might argue that the steeper wage-tenure profile of full-time workers reflects greater growth in productivity, perhaps because full-time workers receive more training. However, this explanation is unlikely to completely account for the wage differential between part-time and full-time workers. Wage-tenure profiles are much steeper in Japan than in the United States. Hashimoto and Raisian (1985) note that if the steeper wage-tenure profile reflected greater growth in firm-specific human capital, then the age of retirement should be later in

Japan than in the United States. In fact, the average age of mandatory retirement is considerably lower in Japan than in the United States. In addition, 68 percent of Japanese firms report having a system called *saikoyoseido*, in which retired workers are rehired at a much lower salary (Ministry of Labor 1999). This practice also indicates wages of older regular workers are often above their revenue marginal product.[13]

Benefits

In both Japan and the United States, laws governing benefits often do not apply to those in nonstandard arrangements. In Japan, employers are not obligated to pay social security, disability, and unemployment insurance taxes for many part-time and temporary workers.[14] In addition, if the worker earns less than 1.3 million yen in a year, he or she may be regarded as a dependent of the household head, and the employer need not pay the social security premium. As a dependent, however, the worker is still entitled to a basic pension. Everyone in Japan is required to be enrolled in some form of health insurance, and paid employees generally are enrolled in company-provided health insurance plans. Payment of the health insurance premium is financed through a payroll tax, the cost of which is shared by the employer and the employee. However, employers are not required to provide health insurance to those working less than three-fourths the hours of regular workers. If the worker earns less than 1.3 million yen per year, then he or she is entitled to coverage as a dependent under the household head's policy.[15] Thus, this tax structure, in which many part-time and temporary workers receive benefits as dependents, lowers the tax costs to these workers and their employers and promotes nonstandard employment.

In the United States, employers must pay social security and unemployment insurance taxes on all workers whose earnings are above some minimal amount, although workers in nonstandard arrangements who then become unemployed often do not meet threshold earnings or hours requirements to qualify for unemployment insurance. State workers' compensation laws often exempt domestic, farm, and other casual labor, but otherwise cover most workers.

U.S. law does not require that companies provide workers with benefits, such as a private pension plan and health insurance, but it

does provide substantial tax incentives for employers to provide these benefits. If employers choose to provide their employees with these benefits (and they and their employees take advantage of the tax benefits), the provision of the benefit is subject to regulation. The regulations seek, among other things, to ensure that benefit plans and associated tax breaks broadly benefit employees in the company, not just highly compensated employees. However, many part-time, on-call, and direct-hire temporary employees are not covered by these regulations. Moreover, because independent contractors, contract company workers, and temporary agency workers are not employees of the establishment for which they perform work, they are not covered by a client company's benefit plans. One concern is that benefit regulations in the United States provide incentives for companies to use nonstandard work arrangements to avoid paying benefits to certain groups of workers.

Tables 6.4 and 6.5 provide information on the percentage of workers in nonstandard and regular full-time arrangements receiving selected benefits in Japan and the United States. In the Japanese data, workers were asked whether or not they were enrolled in a particular program. Regular full-time workers were not asked if they were covered by employment insurance, health insurance, or the employee's pension insurance program because, by law, all regular full-time employees must be enrolled in these programs. With the exception of transferred employees, workers in all nonstandard arrangements are far less likely than regular full-time workers to receive all types of benefits. Receipt of benefits is especially low among part-time and temporary workers in Japan, although if workers in nonstandard arrangements are married and earn less than 1.3 million yen per year, they are entitled to basic pension and health insurance coverage through their spouse.

U.S. workers in all nonstandard arrangements are much less likely than regular full-time employees to have health insurance or a retirement plan through their employer. Moreover, they are much less likely to be eligible to receive these benefits from their employer.[16] Unlike the situation in Japan, there is no universal health insurance program in the United States. The low levels of employer-provided health insurance among workers in nonstandard arrangements would be of little concern if these workers generally had health insurance from another source.

Table 6.4 Benefits Received, by Employment Arrangement, Japan (%)

		Workers in nonstandard arrangements						
	Regular employees	Total	Transferred employees	Temporary agency workers	Part-time workers	Temporary workers	Contract workers	Others
Employment insurance	—	50.1	65.1	69.9	45.7	31.3	80.9	63.0
Health insurance	—	40.3	67.9	65.7	33.3	29.9	80.8	58.9
Employee's pension insurance	—	38.1	67.1	61.4	31.9	12.2	78.1	54.1
Private enterprise annuity	55.5	8.3	63.2	9.6	4.4	1.9	14.2	11.6
Lump sum retirement payment	90.5	16.1	84.2	15.4	10.9	8.4	26.8	25.3
Provision of bonus payment	95.9	49.1	88.6	28.8	45.9	51.1	66.6	45.1
Recreation facility	70.0	35.3	82.9	46.2	30.2	15.8	58.8	40.7

NOTE: The statistics are based on individuals' responses to questions about their benefits. Employee's pension insurance is a compulsory pension plan enrolled by the company.

SOURCE: Ministry of Labor, Survey on the Diversification of Employment, 1999.

Table 6.5 The Incidence of Health Insurance and Retirement Plans, by Employment Arrangement, United States (%)

	Health insurance			Retirement plan		
	Health insurance from any source	Health insurance through employer	Eligible for health insurance from employer	Covered by employer pension plan or has tax deferred retirement account	Participates in employer pension plan	Eligible to participate in employer pension plan
Temporary agency workers	43.0	9.0	27.9	20.1	4.3	9.5
On-call or day laborers	68.5	21.2	30.1	38.0	22.2	25.9
Contract company workers	84.2	59.5	76.4	55.4	39.2	46.3
Direct-hire temporaries	74.9	26.3	34.6	26.7	19.8	23.3
Regular part-time employees	76.3	17.2	31.6	33.0	21.3	25.9
Regular full-time employees	88.2	73.4	84.2	70.4	64.2	69.4

SOURCE: Authors' tabulations from February 1999 CPS Supplement on Contingent and Alternative Work Arrangements.

Although many workers in nonstandard arrangements do have health insurance coverage outside their place of employment, temporary agency workers, on-call workers, direct-hire temporaries, and regular part-time workers are still much less likely than regular full-time workers to have health insurance coverage. Health insurance coverage is especially low among temporary agency workers; only 43 percent have any health insurance. Workers in the United States are allowed to save money in tax-deferred retirement accounts if they do not participate in an employer-sponsored pension plan. However, the fraction of workers who have some private retirement plan is still dramatically less among workers in all nonstandard arrangements compared with workers in regular full-time jobs.

One might suspect that workers in nonstandard arrangements receive fewer benefits than regular full-time workers because they have less human capital or are concentrated in occupations and industries in which the incidence of benefits is lower. Yet, even controlling for demographic and job characteristics, workers in nonstandard arrangements are significantly less likely than regular full-time workers to be eligible to participate in an employer-sponsored health insurance or pension plan or to have health insurance or a retirement plan from any source (Houseman 1997).

Job Security

Part-time and temporary workers in Japan enjoy less job security, legally and in practice, than regular full-time workers. In addition to the fact that regular full-time workers receive implied commitments of lifetime employment at large- and medium-sized companies, the employer must provide advance notice and have some compelling reason for dismissing workers (Matsuda 1992; Schregle 1993). In contrast, companies may easily dismiss temporary workers by not renewing their contract. Court rulings regarding job protection afforded regular part-time workers have been contradictory. However, about half of part-time workers are on temporary contract. The hiring of part-time workers on temporary contract is especially common at large companies, which offer strong job security to their regular full-time employees. By placing part-time workers on temporary contract, companies clarify that part-time workers do not have implicit guaran-

tees of lifetime employment. Studies of fluctuations in part-time and temporary employment support the view that workers in these positions have less job security and help buffer workers in regular full-time jobs (Houseman and Osawa 1994, 1998).

There is little basis for believing *a priori* that U.S. workers in nonstandard employment arrangements have less job security than those in regular full-time jobs. Although many U.S. companies avoid laying off core workers during downturns, an implied commitment of lifetime employment is rare in the United States, and the employment-at-will doctrine, in which employers have the right to hire and fire workers at will, still largely operates. Nevertheless, employment-at-will has been weakened by laws that prohibit employers from discriminating against workers because of their race, sex, religion, ethnicity, age, or disability and by court rulings that afford employees certain protections against dismissal when their employer has given them an implied commitment of employment. In addition, research suggests workers in certain nonstandard arrangements have less job security than those in regular jobs. Based on administrative data from the State of Washington, Segal and Sullivan (1997a) find that the average duration of employment for workers in the temporary help industry is substantially less than that for workers in other industries. In a study of labor market transitions, temporary agency workers, on-call workers, direct-hire temporaries, contract company workers, and regular part-time workers were more likely than comparable regular full-time workers to be with a different employer, be unemployed, or be involuntarily out of the labor force one month and one year later. In addition, the study found that a substantial share of the modest decline in job stability over the last decade can be attributed to the growth in temporary agency employment (Houseman and Polivka 2000).

WHY HAS NONSTANDARD EMPLOYMENT GROWN SO MUCH FASTER IN JAPAN THAN IN THE UNITED STATES?

There are many basic similarities in the phenomenon of nonstandard employment in Japan and the United States. For example, the overall levels of nonstandard employment are similar in the two countries

(though the incidence of temporary employment is much higher in Japan); young and old workers and women are disproportionately represented in nonstandard employment arrangements; and workers in nonstandard arrangements tend to earn lower wages, receive fewer benefits, and have less job security than those in regular full-time positions, even controlling for differences in worker and job characteristics.

However, what differ between the two countries are recent trends in nonstandard employment. The share in nonstandard employment arrangements has increased dramatically in Japan, largely because of the growth in part-time employment. In contrast, the share in part-time employment has declined in the United States over the last decade, and although the share in temporary agency employment has risen rapidly, it still represents a relatively small share of total employment. In analyzing and comparing trends in nonstandard employment in Japan and the United States, we seek to answer two fundamental questions. First, why has part-time employment, including temporary part-time employment, grown so dramatically in Japan while falling in the United States? Second, are the forces underlying the growth in temporary agency employment and other nonstandard arrangements in the United States similar to those underlying the growth in nonstandard arrangements in Japan? In other words, are we observing similar phenomena, albeit on different scales and in different mixes of nonstandard arrangements, in the United States and Japan, or do the trends in nonstandard arrangements signal a divergence in the industrial relations practices in the two countries?

Why Has Part-Time Employment Grown in Japan?

No simple demand- or supply-side story can account for the rapid growth in part-time employment in Japan. Decompositions show that the growth in part-time employment cannot be attributed to a shift in the industrial composition of employment toward industries that intensively use part-time workers. Nor can it be attributed to a shift in the demographic composition of the workforce toward groups that desire more part-time work. Rather, the growth in part-time employment is attributable almost entirely to an increase in the incidence of part-time employment within industries and within demographic groups. In fact, what is quite striking about the growth of part-time employment in

Japan is how widespread the phenomenon is. The incidence of part-time employment has increased dramatically among both men and women and in almost all age groups and industries (Houseman and Osawa 1998). In addition, the growth in part-time employment cannot simply be attributed to the long recession that has plagued the Japanese economy since the 1990s. Although the recession may have accelerated the growth of part-time employment, the share in part-time employment began increasing rapidly well before the recession of the 1990s.

We argue that the rapid increase in part-time employment is driven, in large part, by demand-side forces and reflects strains in the Japanese industrial relations system. Increased demand by firms for part-time workers has been accommodated, to some degree, by an increased supply of women workers, who have sought part-time employment because of the decline in opportunities for self- and family employment. Finally, public policy has encouraged the growth of part-time employment by providing substantial tax incentives for firms to hire part-time workers and for workers to take part-time jobs.

Strains in the Japanese industrial relations system

Two prominent features of Japanese industrial relations are lifetime employment and *nenko* (seniority-based) wages. This industrial relations system, which first emerged prior to World War II, became the norm in large firms after the war. It also strongly influenced working conditions in medium- and small-sized firms. Under the *nenko* wage system, in theory, workers are initially paid wages below their marginal revenue product, but as tenure rises they eventually are paid more than their marginal revenue product. For war-devastated Japan, *nenko* wages depressed initial wage outlays, thereby freeing up funds for capital investment. The system was sustainable because the workforce was young and the economy rapidly growing, thus ensuring that the age structure of a firm's workforce would be pyramid shaped. Workers favored this system because wages rapidly rose just as workers' family-related expenditures increased (Nakatani 1987).

Providing job security facilitated the introduction of new technologies on the factory floor. With the widespread adoption of new technologies after the war, firms were compelled to provide continuous in-house training. Knowing that jobs would not be lost as a result of inno-

vation, workers did not oppose its introduction. Knowing that their own interests were tied to the fate of their firms, workers also became more committed to their companies, an inclination reinforced by paternalistic employment practices. In this way, the lifetime employment and turnover-depressing *nenko* wage system represented a long-term social contract between companies and workers.

The structure of financial markets also supported these post-war industrial relations practices. Given the prevalence of cross-share holding arrangements (related *keiretsu* firms, or friendly firms, would control large blocks of a firm's shares) and access to bank loans at low rates, firms could focus on expanding market share and long-term profits without worrying about pressures to boost quarterly earnings. Thus, financial markets exerted little pressure on companies to trim the labor force during business cycle downturns.

Some of the forces that made the Japanese employment system logical for much of the post–World War II period have changed, creating pressures on businesses to adopt new practices. One is the changing demographic composition of the workforce. The birth rate in Japan has been steadily falling since World War II, and accompanying the decline has been a graying workforce with higher job tenure. The increase in tenure increases companies' wage costs because, under the *nenko* system, wages rise sharply with tenure and this rise is not matched by increases in productivity. Because the number of people in their twenties is declining dramatically, the problem of an aging workforce will not be alleviated in the near future.

At the same time that employers' wage costs have been rising, Japanese businesses have come under tremendous pressure to lower labor costs in the face of decelerating economic growth, massive debt burdens—especially in manufacturing—and increased international competition with the opening of Japanese markets. Trade liberalization has resulted not only in the growth of imports, but also in a surge of foreign direct investment, with leading banks, insurance companies, and auto companies coming under foreign control. Although in the past, the close relationship between Japanese companies and banks allowed them to focus on long-term growth and market share, Japanese businesses now face foreign shareholders and banks who expect short-run profitability (Alexander 2000).

In sum, firms currently have workforces that are top-heavy with older, highly paid, but less productive workers at a time when cutting costs and raising productivity are necessary in the face of heightened global competition. Japanese firms have responded by trimming bonuses, cutting overtime, dispatching workers to subsidiaries, and forcing older workers into early retirement. To make wages more responsive to performance, some companies have begun determining wages on an annual basis (*nenposei*). However, the implicit social contract that has developed over the years makes it difficult for companies to introduce sweeping changes to their industrial relations practices in rapid fashion without causing loss of morale and risking productivity declines among regular workers. As a result, we argue, many companies have continued to protect their core workforce, while expanding the size of their nonstandard workforce, especially part-time workers, who do not receive *nenko* wages and implied commitments of job security.[17]

Increase in employers' demand for part-time workers

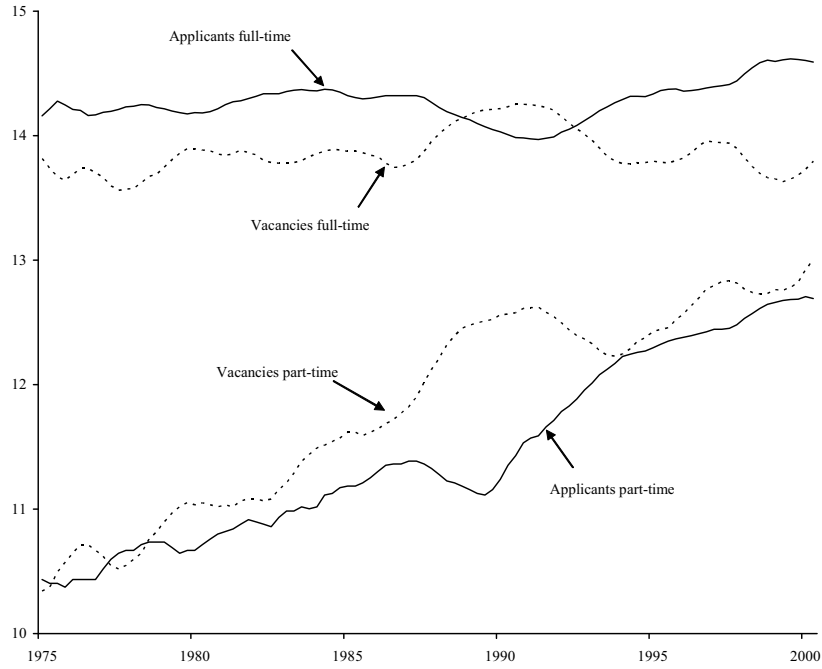
The evidence on the growth of part-time employment in Japan is generally consistent with our demand-side explanation. Figure 6.2 depicts the natural logarithm of the number of job vacancies and applicants for full-time and part-time workers over the 1975–2000 period.[18] If the growth in the stock of part-time workers over the period were driven by a growth in employer demand, we would expect the growth in job vacancies for part-time workers to exceed the growth in part-time job applicants. This is the pattern observed during the 1980s, which was a period of economic expansion in Japan. During the 1980s, job vacancies for part-time workers also grew rapidly relative to the growth of job vacancies for full-time positions.

During the early 1990s, when the economy first went into recession, job vacancies for both full-time and part-time positions fell. Since the early 1990s, job vacancies for part-time positions have soared, more than doubling between 1993 and the second quarter of 2000, while vacancies for full-time positions have continued to decline. Applicants for part-time and full-time positions have risen steadily during the 1990s. By 2000, there was a large gap between job applicants and vacancies for full-time positions, indicating an excess supply of workers for full-time regular jobs at existing wage levels. It is widely

presumed that the rapid growth of part-time workers in the 1990s during Japan's severe recession was demand driven, and the data in Figure 6.2 are consistent with this analysis. However, the vacancy data in Figure 6.2 suggest that the growth in the expansionary years was also led by demand forces.

The patterns of growth in part-time employment by age and gender also are consistent with a theory of demand-driven growth. If businesses have been substituting part-time workers for full-time workers on the margin when they hire, we would expect that increases in the incidence of part-time employment would be most dramatic among demographic groups with a high share of new entrants or reentrants to the workforce. Indeed, this is precisely the pattern observed. The incidence of part-time employment grew dramatically among young men and women. For instance, between 1982 and 1997 the incidence of

Figure 6.2 Logarithm of Job Vacancies and Job Applicants for Full-Time and Part-Time Jobs, Japan



SOURCE: Authors' tabulations using data from the Ministry of Labor.

part-time employment grew from 19 percent to 47 percent among working men ages 15 to 19, and from 15 percent to 59 percent among working women ages 15 to 19. The rise in part-time employment was also dramatic for working women over 40, who are likely to be reentering the workforce after rearing children, and among men age 65 and over, who are likely to be taking on a bridge job to retirement.

Finally, evidence from employer surveys is consistent with an increase in employer demand for part-time workers. Table 6.6 reports results from the 1994 and 1999 Ministry of Labor Survey on the Diversification of Employment on the principal reasons businesses hired additional part-time workers. By far, the most common reason businesses cite for increasing the number of part-time workers is to save personnel costs. In addition, the fraction of businesses citing labor cost savings grew between 1994 and 1999. There is also evidence that businesses are increasingly hiring part-time workers to facilitate employment adjustment. The latter finding is consistent with the fact that the fraction of part-time workers on temporary contract, and hence who are easier to dismiss, has grown dramatically. The notion that businesses are increasingly hiring part-time workers because of supply-side constraints is not supported by these data. Whereas 20 percent of businesses cited difficulty in hiring full-time workers as a reason for hiring part-time workers in 1994, about half that percentage cited this factor in 1999.

Supply-side and public policy factors

Although structural changes in Japan's economy have placed strains on the current industrial relations system and resulted in an increased demand for part-time workers by firms, structural economic changes also may have increased the supply of workers seeking part-time positions. Nitta (1999) and Nagase (1997; this volume) note that the growth in part-time employment has paralleled the decline in family- and self-employment. Nagase argues that part-time jobs, like family- and self-employment, are much more flexible than regular jobs and enable women to accommodate family demands. She posits that the decline in opportunities in family- and self-employment in recent decades led to an increase in the supply of women seeking part-time jobs. Thus, an increase in women seeking these jobs likely helped to accommodate the increase in demand for part-time workers.

Table 6.6 Principal Reasons for Increasing Nonstandard Employment among Japanese Businesses Expecting to Hire More Workers in Nonstandard Arrangements (%)

	Part-time workers			Temporary agency workers		Temporary/day laborers[d]		Contract/on-call[e]	
	1994[a]	1999		1994	1999	1994	1999	1994	1999
Reasons		Short-time worker[b]	Others[c]						
Difficult to hire full-time workers	20.3	9.3	10.9	16.0	8.5	20.6	10.2	14.3	7.5
Specialize core workers in more important task	—	14.6	12.2	—	14.2	—	9.1	—	11.5
Respond to increase in professional task	9.5	11.5	11.6	37.8	23.8	14.7	11.8	57.1	42.4
Want to hire person with experience and skill	6.5	10.6	14.2	22.9	31.0	8.5	13.3	19.8	34.6
Respond to economic fluctuation (facilitate employment adjustment)	20.7	26.9	24.8	18.6	26.2	20.7	34.3	8.8	19.0
Respond to long operation time	19.7	23.9	17.3	3.1	6.0	9.8	11.6	5.8	6.2
Respond to fluctuating workload over a day or week	34.4	36.2	21.9	15.7	8.1	15.1	15.9	7.7	4.0

(continued)

Table 6.6 (continued)

Reasons	Part-time workers			Temporary agency workers		Temporary/day laborers[d]		Contract/on-call[e]	
	1994[a]	1999		1994	1999	1994	1999	1994	1999
		Short-time worker[b]	Others[c]						
Respond to seasonal or temporary business fluctuation	15.8	19.1	18.2	12.1	22.8	36.2	36.3	10.0	6.5
Save personnel costs	52.3	61.5	59.1	35.9	40.3	28.7	45.3	19.6	33.8
Hire retirees	5.2	5.5	7.0	2.0	0.9	11.6	7.6	13.6	18.0
Replacement of workers for taking child care leave, or care for aged parent	—	4.7	4.0	—	7.5	—	4.9	—	4.6
Other	7.4	6.1	6.4	5.7	5.8	9.1	3.2	7.1	7.0

[a] Work fewer hours per day or days per week than regular employees.

[b] Work fewer hours per day or days per week than regular workers, and employed on a contract lasting more than one month or no specific period.

[c] Work much the same hours per day or days per week as regular workers, employed on a contract lasting more than one month or no specific period, and classified as part-time in workplace.

[d] Day laborers are not included in the 1999 data.

[e] On-call workers are not included in the 1999 data.

SOURCE: Ministry of Labor, Survey on the Diversification of Employment, 1994, 1999.

Public policies have also encouraged the growth in part-time employment in Japan by providing significant tax incentives to businesses to hire part-time workers and to workers to accept part-time positions. As noted above, if the part-time worker is married and earns less than 1.3 million yen in a year, he or she can be regarded as a dependent and thus need not pay the social security or health insurance premium, but remains entitled to receive the health insurance or basic pension on retirement.[19]

Similarly, workers earning up to 1,030,000 yen per year do not pay taxes on their income, and, if they are married, their spouse may claim a dependent deduction from his or her income taxes (currently 380,000 yen) and may receive a dependent allowance from his or her employer. If a worker's income exceeds this level, not only must he or she pay taxes on income, but, if married, the spouse will lose his or her dependent tax deduction and may forfeit (in about 40 percent of the cases) the family allowance paid by the employer. This tax and compensation structure creates a significant financial incentive for married women to work part-time and earn less than this income threshold. Many part-time women in Japan, especially the highly educated, reduce their hours of work specifically to avoid exceeding the annual income threshold (Nagase 1998). According to the Ministry of Labor's Survey on Part-Time Workers, the fraction reporting that they adjusted their working hours so that their earnings would fall below the threshold level increased from 26 percent in 1990 to 32 percent in 1995.

The tax thresholds should also have the effect of depressing hourly earnings of part-time workers relative to full-time workers. Interestingly, although we have argued above that the employer demand for part-time workers has increased relative to supply, contrary to what one would expect under this scenario, the wages of part-time workers have actually fallen relative to those of full-time workers. Nagase (this volume) argues that these tax incentives and their depressing effect on part-time wages may help explain this paradox.[20]

Why Has the Share in Part-Time Employment Fallen in the United States?

While the share of the Japanese workforce in part-time employment rose sharply in both the 1980s and 1990s, the share of the U.S.

workforce in part-time employment rose modestly in the 1980s and fell in the 1990s (Table 6.1). These divergent trends reflect differences in both supply- and demand-side forces in the two countries.

Table 6.7 provides a decomposition of changes in the part-time employment share across demographic groups from 1979 to 1989 and from 1989 to 1999 in the United States.[21] The change in the rate of part-time employment may be decomposed as follows:

$$(1) \quad \Delta P = \Sigma \Delta P_i W_i + \Sigma P_i \Delta W_i + \Sigma \Delta P_i \Delta W_i$$

where i indexes the demographic group; P_i is group i's rate of part-time employment, and W_i is group i's share of paid employment. Thus, the

Table 6.7 Decomposition of the Change in Part-Time Employment in the United States

	1979–1989							
	(1) Share in part-time (%)		(2) Employment share (%)		(3)	(4)	(5)	Sum
	1979	1989	1979	1989	ΔPW	$P\Delta W$	$\Delta P\Delta W$	(3) – (5)
Teens	54.0	64.0	8.2	5.8	0.8	–1.3	–0.2	–0.7
Men	6.3	7.8	53.5	51.4	0.8	–0.1	–0.0	0.7
Women	26.5	25.6	38.3	42.8	–0.3	1.2	–0.0	0.8
Column sum					1.3	–0.2	–0.3	0.8
	1989–1999							
	1989	1999	1989	1999	ΔPW	$P\Delta W$	$\Delta P\Delta W$	Sum (3) – (5)
Teens	64.0	66.7	5.8	5.4	0.2	–0.2	–0.0	–0.1
Men	7.8	7.7	51.4	50.8	–0.1	–0.1	0.0	–0.1
Women	25.6	22.5	42.8	43.9	–1.4	0.3	–0.0	–1.1
Column sum					–1.3	–0.0	–0.0	–1.3

NOTE: Data on part-time and employment shares for 1979 and 1989 were adjusted to account for changes to the CPS in 1994. We used the adjustment factors provided in Polivka and Miller (1998). Numbers are in percentages. See text for explanation of decomposition.

SOURCE: Authors' calculations using data from Current Population Survey, U.S. Bureau of Labor Statistics, 1979, 1989, 1999.

change in the aggregate rate of part-time employment may be decomposed into three terms: the part owing to changes in the employment shares across groups, the part owing to changes in the rates of part-time employment within groups, and the interaction of these two effects. The 1979 and 1989 employment shares and rates of part-time employment were adjusted for the redesign of the CPS.[22]

None of the increase in the rate of part-time employment between 1979 and 1989 may be attributed to a shift in the composition of employment toward workers who supply more part-time employment. Both women and teens have a high rate of part-time employment, and the increase in the share of employment accounted for by women was offset by the fall in the employment share of teens. The rise in the share of part-time employment, instead, is accounted for entirely by an increase in the incidence of part-time employment among teens and adult men; the incidence of part-time employment actually fell among adult women.

Decompositions not reported here show that the decline in the rate of part-time employment among adult women in the 1980s is entirely attributable to a decline among married women. Interestingly, the decline in the rate of part-time employment among married women occurred at a time when their labor force participation soared. Using data on the gross flows of women across labor force states, Williams (1995) finds that the reason part-time employment declined among women was because they were more likely to stay in full-time jobs and were less likely to exit from the labor force or into part-time jobs.

Why did full-time employment among married women increase in the 1980s? Several facts are inconsistent with a demand-side explanation (i.e., that firms were increasing their demand for full-time jobs): part-time employment actually increased among adult men and teens; the transitions from unemployment into full-time employment did not grow; and although women's wages were rising relative to men's over the period, this increase began before the 1980s, when the incidence of part-time employment among women was growing. Williams (1995) suggests that the rise in full-time employment among working women may be attributed to an increase in the availability of child care over the period, making the opportunity costs of full-time employment relative to part-time employment lower. This theory is consistent with findings that the rise in full-time employment occurred because married

women (who are more likely to have children at home) with full-time jobs were less likely to drop out of the labor force or switch to part-time jobs. Nevertheless, the availability of child care is not exogenous, and presumably the increased availability was a response to an increase in the demand for these services by women, who faced greater opportunities and social acceptance in the workplace. Changing job opportunities and societal attitudes, in turn, are related to a complex set of factors, including equal employment laws passed in the United States in the 1960s.

In contrast to the situation in the United States, many married Japanese women prefer part-time positions because of the declining availability of family- and self-employment. Because of the costs and restrictions (e.g., drop off and pick up times) of child care, the declining number of multigenerational households (i.e., the availability of in-house day care), and rising elder care responsibilities, many women prefer part-time to full-time employment to accommodate family responsibilities (Osawa 1998; Sato 1998). The reason the supply of child care services in Japan has not expanded to meet working women's needs, as it has in the United States, may be related to the fact that equal employment opportunity laws are much weaker and were introduced much later in Japan than in the United States, and the opportunities for full-time employment for Japanese women have lagged behind those for American women.

The share in part-time employment fell between 1989 and 1999 in the United States. This decline may be attributed entirely to a decline in the incidence of part-time employment among women. The incidence of part-time employment among teens actually rose, while the incidence of part-time employment among adult men remained about the same. Changes in the demographic composition of the workforce by themselves would have led to no change in the share of part-time employment in the economy. Although one might argue that tighter labor markets in 1999 compared with 1989 were responsible for the decline in part-time employment, this demand-side story is inconsistent with the fact that part-time employment rose among teens and remained stable among adult men. The trend in the 1990s is consistent with a supply-side story that women continued to shift to full-time work, possibly owing to greater availability of child care, rising rela-

tive wages, and changing expectations about women's roles in the workforce and in the family.

GROWTH IN OTHER NONSTANDARD EMPLOYMENT ARRANGEMENTS IN THE UNITED STATES AND JAPAN

The divergent trends in part-time employment in the United States and Japan reflect quite different demand, supply, and institutional forces in the two countries. Nevertheless, the share in other types of nonstandard employment has risen in both the United States and Japan. Here, we examine the causes of the growth in other nonstandard employment arrangements in the United States and ask whether there are similarities between these developments and the growth of part-time employment and other nonstandard arrangements in Japan.

The growth in temporary agency employment has received the most attention in the United States. Given that the majority of temporary agency workers say they would prefer a regular job, it is generally argued that the rapid growth in temporary agency employment is largely driven by employer demand. Existing studies suggest several reasons for the rapid growth in temporary employment in the United States.

American companies, like Japanese companies, arguably sought to increase productivity and cut costs in recent years in response to domestic and international competitive pressures. One way American companies have done this is by more closely tailoring staffing levels to actual workload, thereby reducing average staffing levels and using temporary agency workers only when necessary. In this way, companies use temporaries to increase workforce flexibility in response to fluctuations in workload. In a survey of American businesses conducted by the Upjohn Institute, 37 percent of those reporting a recent increase in temporary agency workers stated the need to respond to fluctuations in workload as a reason for the increase (Houseman 1997).

Another 37 percent of surveyed employers cited difficulty in finding qualified workers on their own, and 24 percent cited screening workers as reasons for increasing their use of temporary agency workers. The tight labor markets prevailing in the United States in the 1990s

made it difficult for companies to recruit adequate staff without significantly increasing wages. The growth of temporary agency employment may have reduced pressure on companies to raise wages during the prolonged expansion and facilitated the use of more risky, less-qualified workers. As a practical matter, if employers raise wages for new hires, they must also raise the wages for their existing workforce. However, if existing workers face significant costs in changing jobs, employers may exercise wage discrimination between marginal and inframarginal workers by using new workers through temporary help agencies. The temporary help agency is the official employer of the new hires and pays them the higher wages. There is some case study evidence to suggest that this is occurring in the United States, particularly in higher-paid, skilled occupations in short supply (Houseman, Kalleberg, and Erickcek 2003).

Especially in low-skill jobs, employers may be willing to use less-qualified candidates through temporary help agencies until they are able to recruit qualified candidates on their own. Alternatively, they may be willing to try out less-qualified candidates through a temporary help agency and then hire them as permanent employees if they prove themselves during a trial period. Temporary agency workers often receive lower wages and typically receive fewer benefits than they would as a regular employee. Particularly if a company offers generous benefits to its regular workers, using temporary agencies during a probationary period may be cheaper than hiring workers directly (Houseman 2001), and these lower costs may make it more attractive for companies to try out riskier workers.[23] Many companies also believe they can more effectively screen workers through temporary agencies. Using temporary agencies obviates the need for managers to fire workers on probation. Because these workers are not employees of the company, managers simply choose not to hire them into the company; the temporary agency staff will reassign workers not selected to another client or handle the unpleasant task of terminating them. Arguably, then, by using a temporary agency to screen workers, managers are less likely to keep workers who display poor or mediocre performance during their probationary period.

The growing threat of legal action by dismissed employees is another potential reason that employers are increasingly using temporary agencies to screen workers for permanent positions. Court rulings

granting workers implied contracts to their jobs, coupled with a growth in legal action by dismissed employees, arguably have made companies more cautious about whom they hire. Autor (2003) finds that up to 20 percent of the growth in temporary agency employment in the United States may be attributed to the growth of implied contract law.

The growth in temporary agency employment in Japan is largely related to the deregulation of this sector in recent years. Prior to 1986, temporary staffing agencies were prohibited by the Employment Security Act of 1947, with an exception for those run by trade unions. Union-run agencies were not allowed to charge for their services. In 1986, the government passed legislation to permit temporary staffing agencies to supply workers to perform 11 specified tasks. In 1995, this law was amended to cover 26 job categories. The Labor Dispatching Law of December 1, 1999, greatly expanded the jobs in which temporary agency workers could be employed. The current law no longer specifies the job categories in which temporary agency workers are permitted, but rather provides a short list of occupations in which they are prohibited. Temporary agency employment is expected to grow rapidly in the coming years as a result of this deregulation.

Among Japanese employers who in 1999 expected to increase their use of temporary agencies, the most common reason given was to save on personnel costs, as was the case with part-time workers (Table 6.6). The percentage citing personnel cost savings increased slightly from 1994 to 1999. The percentage citing the need to hire someone with experience and skill also increased. Moreover, a growing number of employers appear to be using temporary agency workers to respond to seasonal or cyclical fluctuations in workload, thereby buffering core workers from such demand fluctuations. Unlike the situation in the United States, the difficulty of finding full-time workers has never been an important reason why Japanese employers use temporary agency workers and has become even less important over time.

Evidence points to some growth in the share of Japanese workers in temporary and contract jobs.[24] As noted, the growth in temporary contracts stems from an increase in the fraction of part-time and other nonstandard workers who are on temporary contract. And as is the case for these other employment arrangements, there has been a large increase in the fraction of employers who cite personnel cost savings and the ability to facilitate employment adjustment or respond to sea-

sonal or temporary business fluctuations as a reason for using more temporary workers. With respect to the latter, Japanese companies, like American companies, have reduced staffing levels in response to competitive pressure to increase productivity and reduce costs. These lower staffing levels, in turn, give rise to a greater demand for nonstandard employment arrangements to accommodate workload fluctuations. The economic slowdown plaguing the Japanese economy in the 1990s contributed to economic uncertainty and fueled demand for a more flexible workforce. In addition, a large fraction of Japanese employers are using contract employees because of their experience and skill.

Available evidence points to a growth in contracting out in the United States as well, for reasons that are similar to those given by Japanese companies. Like Japanese companies, American companies often contract out work to tap the special skills of contract workers, to accommodate demand fluctuations, and to lower labor costs, especially by avoiding fringe benefits costs (Kalleberg, Reynolds, and Marsden 2003). Contracting out to lower labor costs has been an especially contentious issue between American unions and management.

Thus, if we set aside the decline in part-time employment in the United States, there are broad similarities in the development of nonstandard employment in the two countries. Where nonstandard employment arrangements have increased, employer demand has played an important role in their growth. Companies in both countries are under competitive pressures to increase productivity and reduce labor costs, and they have used nonstandard employment arrangements to this end. In some respects, the growth of temporary agency employment and contracting out in the United States is similar to the growth in part-time and other nonstandard employment in Japan.

Nevertheless, the overall growth of nonstandard employment in Japan dwarfs that of the United States, and this fact reflects fundamentally different conditions facing employers in the two countries. The economic slowdown, the aging of the workforce, and an industrial relations system characterized by steep wage profiles and strong job security for regular full-time employees were important drivers of growth in nonstandard employment arrangements in Japan. These pressures were largely absent in the U.S. economy.

CONCLUSION

About a quarter of wage and salary workers are in some type of nonstandard employment in the two countries. Although the share in part-time and temporary agency employment is similar in Japan and the United States, a much higher fraction of Japanese part-time workers are on temporary contract. This probably reflects the fact that regular full-time workers in Japan have greater job security than do regular full-time employees in the United States, and hence firms have a greater need for temporary workers to absorb fluctuations in workload.

Each country has experienced growth in at least certain types of nonstandard employment, although the magnitude of that growth has been much greater in Japan than in the United States. Concern in each country over this growth arises primarily because workers in nonstandard employment arrangements, on average, receive lower wages, fewer benefits, and less job security than regular full-time workers. In both countries, lower benefits and job security are at least partly the consequence of labor laws and regulations designed to protect workers. Because these laws often do not apply to workers in part-time, temporary, or other nonstandard arrangements, government policy creates an incentive for firms to use these arrangements to circumvent the costs of such regulation.

According to economic theory, if labor markets are perfectly competitive, workers will pay for the mandated benefits through lower wages or other compensation.[25] However, if minimum wage laws limit a drop in wages or if labor markets are not perfectly competitive and government regulations increase labor's bargaining power, workers covered by the mandate will earn higher total compensation. Evidence in the United States and Japan supports the latter interpretation. Workers in nonstandard arrangements, who often are not covered by these mandates, receive lower wages and benefits than regular full-time workers, who are typically covered by these mandates. One caveat for Japan is that married workers in nonstandard arrangements who qualify as dependents enjoy significant tax breaks and still are entitled to the basic pension and health insurance benefits. To our knowledge, no research has explicitly compared the after-tax incomes or benefit entitlements (whether through an employer or as a dependent) of regular

full-time and nonstandard workers in Japan. It is likely, however, that comparisons of pretax wages overstate the differential between regular and nonstandard workers in total after-tax compensation.

Where nonstandard employment arrangements are growing, demand-side forces play an important role in both countries. Japanese and U.S. firms, under pressure to lower labor costs by increasing labor productivity and reducing wage and benefits costs, have increased their use of nonstandard employment arrangements. Although companies in both countries face similar competitive pressures, the pressures on Japanese firms are greater. An industrial relations system in which labor costs of regular full-time workers are much less flexible than in the United States, coupled with a rapidly aging workforce and an opening of trade and financial markets to international competition, have created tremendous pressures on Japanese firms to hire nonstandard workers to increase workforce flexibility and lower labor costs.

Moreover, labor supply and government policies have accommodated increased demand to a greater extent in Japan than in the United States. The decline in family- and self-employment, the lack of child care alternatives outside the home, and tax incentives have increased the supply of married women seeking part-time jobs in Japan. In the United States, in contrast, the incidence of part-time employment among married women has declined, probably reflecting a combination of factors, including government policies to end employment discrimination against women, rising relative wages of women, and a greater availability of child care services outside the home. This decline in the rate of part-time employment among married women mitigated the growth in the aggregate rate of part-time employment in the 1980s and led to a decline in the aggregate rate of part-time employment in the 1990s.

There is some evidence that Japanese firms are moving away from the *nenko* wage system and lifetime employment for regular, full-time workers in response to current demographic and economic pressures. Such changes in the Japanese industrial relations system would reduce the differential treatment of regular full-time and nonstandard workers. However, Japanese firms' primary response has been to dramatically increase the number of nonstandard workers who are not covered by these industrial relations practices. Arguably, this has led to an increase—rather than a decline—in labor market segmentation that is

fundamentally different in scope from that occurring in the United States.

Notes

1. Some government surveys recently began distinguishing between part-time and "*arubaito*" jobs, though they are similar. Most part-time workers are housewives and most *arubaito* are students, although in recent years the *arubaito* category increasingly has included nonregular, nonstudent employees. Below, we group part-time and *arubaito* workers together in the statistics we report. It is possible to use data from the Labor Force Survey, which includes information on hours worked, to construct a Japanese part-time statistic more comparable to that for the U.S. However, because so many Japanese part-time workers work almost the same hours as full-time workers, we chose to use Japanese definitions when reporting part-time statistics for Japan.
2. The Japanese word *haken* is often translated as dispatched worker. To make it comparable to the U.S. terminology, we translate *haken* as temporary agency worker.
3. The adjustments we make in Table 6.1 to the U.S. part-time statistics are based on Polivka and Miller (1998).
4. Figures reported in this chapter from the Bureau of Statistics' Employment Status Survey are consistent with those from another commonly cited source, the Ministry of Labor's Labor Force Survey, although the latter shows a smaller decline in the day laborer employment share and greater growth in the temporary employment share. While the Employment Status Survey questions individuals on their usual labor market status, the Labor Force Survey collects data on individuals' actual status in the last week of the survey month.
5. These figures come from the Ministry of Labor, *Status of Part-Time Workers (Paato Taimaa no Jitsujo),* 1996. The fraction of workers in nonstandard arrangements besides part-time who reported being on temporary contract rose from 44.6 percent in 1990 to 66.6 percent in 1996. Because part-time workers account for the overwhelming percentage of workers in nonstandard employment and a negligible percentage classified as regular full-time workers are on temporary contract, part-time employment accounts for most of the growth in temporary contracts (see Table 6.2).
6. Part-time workers and temporary agency workers may also be temporary workers in both countries. In the United States, part-time workers may also be temporary agency workers. In the Japanese data, temporary agency and part-time workers are mutually exclusive categories. The data sources and calculations done for this special tabulation are available from the authors.
7. Data on temporary agency workers in Table 6.2 come from the CPS, not the CES, as reported in Table 6.1. The percentage of workers classified as agency temporaries is smaller in the CPS than in the CES, and it is generally believed that the CPS undercounts the number of workers in temporary help agencies. For a discussion

of the discrepancy between the CPS and CES figures, see Polivka (1996). Only CPS data allow the distinction between temporary agency workers who consider their job temporary and those who do not.

8. Hotchkiss (1991) finds that correcting for sample selection bias slightly increases the estimated wage differentials between part-time and full-time workers. Comparing the wages of part-time and full-time workers within occupations within establishments, Lettau (1997) finds that hourly wages of part-time workers are, on average, 16 percent lower, and total hourly compensation for part-time workers is, on average, 48 percent lower. The main exception in the literature to the finding that part-time workers earn less than full-time workers is Blank (1990), who reports that after controlling for sample selection, part-time women earn more than full-time women, though part-time men still earn significantly less than full-time men. Segal and Sullivan (1997b; 1998) use longitudinal data to control for individual fixed effects in studies of wage differentials between temporary agency workers and other workers. They find that temporary agency workers earn significantly less than other workers, though their estimates of this wage differential range from 3 to 20 percent.
9. These figures are based on the authors' calculations using matched data from the March and February 1995 CPS.
10. These estimates are described in greater detail in Houseman and Osawa (1998).
11. The lower wages of Japanese part-time workers may result, in part, from the fact that many have a strong preference for working close to home. To the extent that employers enjoy some monopsony power with part-time workers, but not with full-time workers who are willing to accept employment with a larger, geographically dispersed group of employers, part-time workers' wages will be depressed relative to full-time workers' wages. From the part-time workers' perspective, the lower wage level is compensated for by the proximity of their job to home.
12. We also estimated models with a Heckman selection correction to take into account the possibility that unmeasured variables are correlated with the decision to work part-time and bias ordinary least squares estimates. These models suggest that, in the absence of sample selection bias, the wage gap between full-time and part-time workers would be even greater.
13. As discussed below, steep wage-tenure profiles may be a profit-maximizing strategy even if the wage increases do not match increases in worker productivity.
14. Specifically, employers are not required to pay social security taxes on the wages of workers who work less than three-fourths of regular workers' hours and disability and unemployment insurance taxes on workers who work fewer than 20 hours per week or who are expected to work less than one year.
15. If employees work less than three-fourths the hours of regular employees but earn more than 1.3 million yen, they are required to take out their own health insurance policy and pay the premium.
16. We report the percentage who are eligible to participate because many American workers choose not to participate in these benefit programs.

17. Although we do not provide a formal model of the increase in demand for part-time workers, this growth is consistent with two theoretical explanations. One is that employers, seeking to maximize profits, adopt efficient industrial relations systems. Here, changing demographics, slower growth, and more volatile economic conditions in the face of liquidity constraints would cause managers to optimally hire relatively more part-time workers in recent years. Alternatively, firms, shielded from international competition and subsidized by the government, have not been maximizing profits or adopting efficient industrial relations practices, at least in recent years. Changing demographics and the opening of markets are forcing firms to become efficient.
18. Distances on a logarithmic scale, multiplied by 100, approximate percentage differences.
19. See Abe (2000) for an analysis of the impact of the social security system on married women's labor supply.
20. The increase in tenure associated with the aging workforce also implies that the wages of regular full-time workers, who receive tenure-based wage increases under the *nenko* system, will rise relative to the wages of part-time workers, who typically do not receive *nenko* wage increases.
21. These years all represent business cycle peaks, and therefore rates of part-time employment should be minimally affected by cyclical factors.
22. We apply the adjustment factors in Polivka and Miller (1998) to our data. They provide adjustment factors for teens, adult men, and adult women, and so we are limited to these three demographic groups in our analysis for the 1989–1999 period.
23. Hiring temporary agency workers on a quasi-permanent basis may also be cheaper, and allegedly many companies use "perma-temps" to avoid paying benefits to certain groups of workers. However, hiring workers on a permanent basis through temporary agencies in order to avoid paying workers benefits is illegal under U.S. law, and this practice has been challenged in the courts in recent years.
24. See Table 6.1 for figures on temporary contracts. The Survey on the Diversification of Employment provides figures on contract workers, who are defined as workers with professional skills on fixed-term contract. (The contracts of these workers are often renewed.) Employment in this category increased from 1.7 percent to 2.3 percent of paid employment between 1994 and 1999, even though the 1994 figure included on-call workers not included in the 1999 survey.
25. An exception occurs when workers do not fully value the benefits. See Gruber (2000) for a theoretical discussion of this issue.

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Nonstandard Work in Developed Economies

Causes and Consequences

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And
Machiko Osawa
Editors

2003

W.E. Upjohn Institute for Employment Research
Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

Nonstandard work in developed economies : causes and consequences / Susan Houseman and Machiko Osawa, editors.
p. cm.
"These papers were originally presented at a conference sponsored by the Japan Foundation and the W.E. Upjohn Institute for Employment Research in August 2000"—Introd.
Includes bibliographical references and index.
ISBN 0-88099-264-6 (alk. paper) — ISBN 0-88099-263-8 (pbk. : alk. paper)
1. Hours of labor, Flexible—Developed countries—Congresses. 2. Part time employment—Developed countries—Cross-cultural studies—Congresses. 3. Temporary employment—Developed countries—Cross-cultural studies—Congresses. 4. Employment (Economic theory)—Congresses. I. Houseman, Susan N., 1956- II. Osawa, Machiko. III. Title
HD5109.N66 2003
331.25'72'091722—dc22

2003019015

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007–4686

Cover design by J.R. Underhill.
Index prepared by Nancy Humphreys.
Printed in the United States of America.
Printed on recycled paper.