

**THE JAPANESE EMPLOYMENT SYSTEM:
IMPACT OF 1990s RECESSION**

*Dissertation submitted to Jawaharlal Nehru University
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MASTER OF PHILOSOPHY

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CERTIFICATE

Certified that the dissertation titled, **The Japanese Employment System: Impact of 1990s Recession**, submitted by **Nandita Yata** in partial fulfillment of the requirements for the award of the degree of Master of philosophy, is the outcome of research done by her and has not been previously submitted for any degree of this or any other university.

It is recommended that this dissertation may be placed before the examiners for evaluation.

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DECLARATION

I hereby declare that the dissertation titled, **The Japanese Employment System: Impact of 1990s Recession**, being submitted to the Centre for East Asian Studies, School of International Studies, **Jawaharlal Nehru University**, in partial fulfillment of the requirements for the award of the degree of **Master of Philosophy**, has not been previously submitted for any degree of this or any other university. Further, analysis and interpretation are my own and I take responsibility for the same.


Nandita Yata

*To my
Baba
in undimmed remembrance
&
Ama
who is everything I ever want to be.*

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Preface and Acknowledgement

This work presents in broad outline an analysis of Japan's labor economy and human resource management. The focus is on the employment practices – highlighting the conventional wisdom and the changes as a result of the 1990s recession. The work has two main purposes. First, to understand how the traditional employment practices evolved as an effort to nurture and enhance skills within the corporations. Second, to take stock of the changes currently underway. Besides, the external factors significantly influencing the direction of those changes also appear at appropriate places. The study concludes with a brief presentation and discussion of the initiatives taken by the Japanese government to alleviate the socio-economic problems unleashed by the 1990s recession.

This study also contains a critical review of literature published both in English and Japanese languages relating to Japanese employment system as the main theme. The purpose is to provide modestly a balanced viewpoint on the main theme. With regard to the methodology used for the study, primarily analytical and descriptive methods have been applied. Also, comparative methods have been followed specially for statistical interpretation.

Although a number of Japanese and non-Japanese researchers/scholars have greatly contributed to the understanding of the issues dealt with in this study, often they offer a very impressive and beneficial picture of the Japanese employment practices. However, one of the facts little known outside academic circles is that the benevolence of the Japanese employment system is not bestowed on even a majority of workers, instead is confined to a small minority. In other words, only a small fraction of the total labor force has been bestowed the liberal benefits of the lifetime and seniority wage systems.

However much the phenomenon of recession and its experience in the recent Japanese economic/industrial history is important, yet, due to reasons of time and space, they have been kept outside the immediate research purview of this work. Even so, this is not to undermine the importance of the phenomenon of continued recession, instead, to highlight the impact of recession in specific terms on the employment practices that Japan has treasured for a long time. Similarly, another important aspect that has not

been covered in this study is the public sector corporations and government workforce. The reason for this is the Japanese employment system is thought to be a combination of practices pursued in large private corporations. The engine of Japanese economic growth has been private initiative and enterprise. The private corporation is the dominant form of organization: in 1998, some 2 million companies employed more than 30 million workers, or nearly half of the total labor force of 60.1 million people. Moreover, the corporate structure (and all the management concepts) holds a significant share in the economy thereby majorly contributing towards the Japanese employment system. Besides, almost all the socio-economic policies of the Japanese government evolve and revolve around enhancing the performance of the private sector framework.

During the course of this research, I have been fortunate enough to have many people help me. First of all, I would like to take up this opportunity to thank my supervisor, Dr. H.S. Prabhakar, without whose invaluable guidance and support, this research would not have been possible. I greatly appreciate all the time and energy spent by him in going through my drafts in detail and suggesting improvements and modifications accordingly. Working under Dr. Prabhakar has certainly been a very knowledgeable and encouraging experience. I would also like to express my appreciation to all my family members, for their blessings and for giving me solidarity from afar. In particular I am thankful to Ama who got me a computer exclusively for writing this dissertation. Their constant support and encouragement have ^{been} very instrumental in the accomplishment of this work. I would also like to thank Mr. S.C. Bahuguna, Senior Dy. Director, ISTD (Indian Society For Training & Development), for being kind enough to let me use his printer and copier. Last, but not the least, I would like to express my sincere gratitude and appreciation to Dawaley who has been an excellent partner in all the phases of this research, believing in me at times when even I couldn't believe in myself.

However, there are bound to be errors for which, I am solely responsible.

Glossary of Japanese Terms

Though the Japanese terms used in the text are all defined when introduced, for ease of reference a summary of the terms with brief explanations are offered below: (Note: the Romanization of Japanese words used is without distinction between short and long vowels.)

Amae: dependence

Arubaito: part-time job

Ba: location; base (frame)

Bucho: department head

Chome: ward

Churitsu Roren: Federation of Independent Labor Unions

Chuto saiyo: mid-career hiring

Deshi: pupil

Densan: Union Federation of Electric Power Workers

Doya-gai: semi-permanent cheap lodging houses

Endaka fukyo: recession caused by strong Yen

Gekkyu: monthly earnings

Giri: moral obligation

Habatsu: clique

Hancho: foreman

Hi-yatoi: day laborers

Honsha: corporate headquarters

Ie: household

Jiko-tsugo: private initiative, stands for voluntary separation

Jusen: non-bank subsidiary

Kacho: section chief

Kaisha-tsugo: company initiative, stands for involuntary separation

Kanban: tag; usually in the context of 'just-in-time' delivery

Karoshi: death from overwork

Kazoku-shugi: familism

Kigyo-betsu kumiai: enterprise labor union (postwar)

Kihon-kyu: basic salary (monthly)

Kimatsu teate: seasonal allowance (in the public sector)

Kobun: child; employee

Kohai: junior or subordinate

Mado giwa zoku: window tribe; employees with nothing to do but look out of the window
Marugakae: completely enveloped

Nenko: merit in years of service
Nenko joretsu: Japanese-style seniority system
Nihon Kogyo Kyokai: Japan Industrial Association
Nikkeijin: South-Americans (Brazilians) of Japanese ancestry
Nikkeiren: The Japan Federation of Employers Association
Ninjo: human feelings
Nippon Rodo Kumiai Sohyogikai (Sohyo): General council of trade Unions of Japan
Nyushashiki: entrance ceremony

On: duty
Oyabun: father; employer

Rengo: National federation of Private Sector Unions
Rinji sha-in: temporary employees
Risutora: restructuring
Ronin: masterless samurai

Seikatsu: livelihood
Seishinteki: spiritual
Sempai: senior or superior
Sensei: teacher
Sha-in: corporate members
Shinsanbetsu: National Federation of Industrial Organization
Shoku-taku: temporary employment
Shoyo: seasonal allowance (in the private sector)
Shugyo kisoku: rules of employment; work rules
Shukko: transfer, dispatch of personnel
Shunto: Spring Wage Offensive staged by labor unions
Shushin koyo: lifetime employment

Taishoku-kin: separation allowance
Teate: allowance (component of salary system)
Teiki saiyo: regular hiring
Teiki shoyu: regular wages
Teinen: (mandatory) age limit
Tekisei: appropriate

Wa: harmony

Yoseba: where day laborers seek for their daily jobs to get hired

Zaibastu: prewar industrial group under a family-owned holding company
Zen Nihon Rodo Sodomei (Domei): Japan Confederation of Labor

INTRODUCTION

Throughout the 1980s, Western observers of Japan were nothing but dazzled by the country's rapid yet unfaltering economic growth. In fact, the rise of Japanese industry was perceived as a threat to both the United States and Western Europe. However, with the bursting of the Japanese bubble in 1989, Western fears for Japanese economic dominance were to be proven unfounded. As the stock market in Japan tumbled, Japanese companies were forced to withdraw capital from abroad. Notwithstanding, until the burst of the bubble, the Japanese economy was second to none in terms of its performance, of which much credit has been attributed to Japan's unique employment system, particularly the human resource management practices and corporate ideology. These practices, believed to be more efficient than its Western counterparts, was studied and copied throughout the 1980s. Interest in Japan quickly evaporated however, as the recession experienced during the 1990s showed that even Japan's human resource management system is not without flaws. More than ten years have passed since the burst of the bubble, yet Japan is still caught in a severe recession. Lack of financial deregulation and incompetent LDP (Liberal Democratic Party) politicians receive much of the blame for the poor economic performance, yet the previously revered Japanese employment system has also become the subject of severe scrutiny.

Chapter 1 begins this study by defining the traditional features of the Japanese employment system while tracing the sources of their origin and evolution, keeping in mind their socio-cultural context. In particular, the three so-called unique features, namely lifetime employment, seniority-based wage structure and enterprise unions have been highlighted. The system of permanent employment, better known as "The Lifetime Employment System", is one of the best-known features of the Japanese employment system. It refers not to a worker's lifetime but to the time from school graduation until mandatory retirement, at age 60 for most men. Thus, the term 'lifetime employment' is quite misleading. Workers are recruited directly out of school and large investments are made in training. Employees are expected to work hard and demonstrate loyalty to the firm, in

exchange for some degree of job security and benefits, such as housing subsidies, good insurance, the use of recreational facilities, and bonuses and pensions.

Another unique aspect of Japanese employment system, as explained in Chapter 1, is the system of promotion and reward, better known as the seniority system. Wages begin low, but seniority is rewarded, with promotions based on a combination of seniority and ability. Seniority is determined by the year an employee's class enters the company. Career progression is highly predictable, regulated and automatic. Compensation for young workers is quite low, but they accept low pay with the understanding that their pay will increase in regular increments and be quite high by retirement. Compensation consists of a wide range of tangible and intangible benefits, including housing assistance, inexpensive vacations, good recreational facilities, and most important, the availability of low-cost loans for such expenses as housing and a new automobile. Regular pay is often augmented by generous semiannual bonuses. Members of the same graduating class usually start with similar salaries, and salary increases and promotions each year are generally uniform. The purpose is to maintain harmony (*wa*) and avoid stress and jealousy within the group. What is distinctive about this system is that the seniority wage curve is applicable to blue-collar workers too, a phenomenon that Kazuo Koike refers to as the white-collarization of blue-collar workers (Chapter 1). Leadership is not based on assertiveness or quick decision-making but on the ability to create consensus, taking into account the needs of subordinates. This system rewards behavior demonstrating identification with the team effort, indicated by singing the company song, not taking all of one's vacation days, and sharing credit for accomplishments with the work group. Pride in one's work is expressed through competition with other parallel sections in the company and between one's company and other companies in similar lines of business. Thus, individuals are motivated to maintain *wa* (harmony) and participate in group activities, not only on the job but also in after-hours socializing. The image of group loyalty, however, may be more a matter of ideology than practice, especially for people who do not make it to the top.

Every worker does not, however, enjoy the benefits of such employment practices and work environment, contrary to the popular image shared by many observers, both in and outside of Japan, of the Japanese workplace being based on a lifetime employment model practiced by large Japanese corporations. It is important to emphasize that the system of lifetime employment is applicable only to the core workers, excluding temporary workers, subcontractors, part-timers, seasonal workers and dispatched employees. Additionally, only larger companies have been able to offer lifetime employment arrangements. Of the workers that are offered lifetime employment, 66.2 percent of university graduate white-collar workers stay with the company until the age of 50, while 33.6 percent stay for another ten years. Lifetime employment, therefore, usually lasts until age 55 or 60, when workers often end up being transferred to a subsidiary.

The third important aspect of the Japanese employment system is the company union, which most regular company employees are obliged to join. The workers do not have separate skill identification outside of the company. Despite federations of unions at the national level, the union does not exist as an entity separate from, or with an adversarial relationship to, the company. The linking of the company with the worker puts severe limits in independent union action, and the worker does not wish to harm the economic well-being of the company. Strikes are rare and usually brief.

Propounded by many scholars, beginning with James C. Abegglen, the culturalist school of thought believes that the Japanese employment system is an extension of feudal principles that dominated pre-industrial Japan. However, on the other extreme, the rationalist school of thought argues that it emerged as the autonomous initiative of employers in response to labor market pressures, be it the prewar or the postwar period. The ideal goal is that both workers and managers should be able to identify with the company, the latter generally being referred to as "our company." To facilitate such an atmosphere, Japanese companies are generally built up in a much more egalitarian fashion than their Western counterparts. Managers and workers eat in the same cafeteria, and the wage disparity is relatively small. Since Japanese companies traditionally have been in a position to

expect their employees to stay with the firm for life, employees receive all relevant training within the company. To encourage workers to adhere to the system of lifetime employment, Japanese companies implemented salary structures that discourage workers from changing jobs. While both lines of reasoning have their own justifications based on which they have made their arguments, cultural factors cannot be completely ignored. The reason being culture plays a vital role in corporate governance, exerting a strong pressure on institutions and policies to evolve in a way that is in harmony with the society's value set.

At the time when the economy was booming, the system was considered to be of great benefit to Japanese companies. The outcomes of the system, as for instance a high labor retention rate, proved valuable in a high growth economy. Currently, the system of lifetime employment is deemed to be one of the forces hindering Japan in pulling itself out of the recession. Estimates show that about two million jobs have to be cut to make Japanese companies profitable. A restructuring of this scope would cause the unemployment rate to rise to 8 percent, from a current modern history record of around 5.2 percent.

Chapter 2 explores workers and wages in a typical Japanese corporation. Contrary to popular belief that most Japanese workers work under conditions of lifetime employment and seniority-based wage system, there exist a variety of worker groups in Japan. Another aspect of lifetime employment has also been examined: dismissal. In Japan's lifetime employment system, dismissal does occur even at large firms with labor unions, if financial losses continue for two years. Japanese employees are compensated with regular monthly earnings yet also receive yearly bonuses. The latter are usually equal to four to six months worth of regular earnings, and are meant to reflect general economic conditions and the company's performance. Workers are, furthermore, given the equivalent of two year's worth of wages when retiring, a system that is supported by the Japanese tax system. The latter does, first of all, favor large lump-sum payments at the time of mandatory retirement. Funds set aside to cover retirement payments are, additionally, exempt from corporate income taxes. Finally, financially troubled companies that offer not

to lay off workers are, more often than not, awarded subsidies by the government. Still, the inflexibility of the system is forcing many companies to try new ways.

Wages vary by industry and type of employment. Those earning the highest wages are permanent workers in firms having more than thirty employees and those workers in finance, real estate, public service, petroleum, publishing and emerging high-technology industries. The lowest paid are those in textiles, apparel, furniture, and leather products industries. The Japanese wage system has traditionally been closely linked to the seniority system. Wages are often still strongly influenced by an employee's length of service. Individual evaluation, however, does occur. Early in workers' careers, by age thirty, distinctions are made in pay and job assignments. During the latter part of workers' careers, another weeding takes place, as only the best workers are selected for accelerated advancement into upper management. Those employees who fail to advance are forced to retire from the company in their mid-to-late fifties. Retirement does not necessarily mean a life of leisure. Poor pension benefits and modest social security means that many people have to continue working after retiring from a career. Many management retirees work for the smaller subsidiaries of the large companies, with another company, or with the large company itself at substantially lower salaries.

The technical term for work compensation is *nenko* or the merit in the number of years an employee has provided his services. However, this word is often misleadingly translated as seniority. In essence, it refers to the development of the human resource in the corporate setting. Permanent employees are hired as generalists, not as specialists for specific positions. Inexperienced though he may be about matters concerning the company, the new employee, fresh out of school, is hired not because of any specific skill or experience; rather, the individual's intelligence, educational background, and personal attitudes and attributes are closely examined. He is put through extensive on-the-job training programs that enhance his skills while acclimatizing him to his work environment. Placement and advancement of Japanese workers is heavily based on educational background. Students who do not gain admission to the most highly rated colleges, rarely have the chance to work for a large company. Instead, they have to seek positions in

small and medium sized firms that cannot offer comparable benefits and prestige. The quality of one's education and, more important, the college attended, play decisive roles in a person's career. Qualification for employment is limited to the men and the few women who graduated from the top thirty colleges and universities in Japan.

Few Japanese attend graduate school, and graduate training in business per se is rare. There are only a few business school programs in Japan. Companies provide their own training and show a strong preference for young men who can be trained in the company way. Interest in a person whose attitudes and work habits are shaped outside the company is low. When young men are preparing to graduate from college, they begin the search for a suitable employer. This process has been very difficult; there are only a few positions in the best government ministries, and quite often entry into a good firm is determined by competitive examination. The situation is becoming less competitive, with a gradual decrease in the number of candidates.

Chapter 3 looks at the changes in the employment system brought about by the 1990s recession in the Japanese economy. Along with changes in Japanese-style employment practices, new wage systems are also appearing. For example, some employees now contract for yearly sums of compensation, which they receive in monthly installments. Unemployment itself is on the increase, though this is not yet reflected in official figures, which in November 2003 were measured at 5.2 percent, much lower than in most other industrialized countries. However this figure hides a growing number of workers, in particular women, who would like to work but because of difficulties in getting a job are not even officially registered unemployed. Workers also suffer in small businesses, which often sub-contract for big companies, and have traditionally acted as a "sponge", absorbing the labor and cost adjustments; they themselves face difficult business conditions and can barely afford either to cut costs or absorb surplus staff transferred from their big clients.

The number of vacancies per job seeker languished at 0.53 as of November 2001. According to a Ministry of Education, Culture, Sports, Science, and Technology

survey, the number of March 2001 graduates of all types of college who had not been able to find a job stood at 290,000. This total of so-called unemployed *ronin* (masterless samurai) was again a record high and illustrates the severity of what has become known in Japan as the “employment ice age.” The employment situation has indeed grown bleaker for both young people having trouble at the starting line and middle-aged and elderly workers, who are especially vulnerable to the impact of restructuring.

In these circumstances, employment practices have been changing. Companies are ceasing the system of recruiting new graduates en masse in spring each year and instead are taking on new employees as and when necessary. There is an increasing tendency for companies to recruit at any time during the year and to take on a wider range of human resources, such as former graduates and people who have returned to Japan after studying at universities abroad. There is also a tendency among employers to hold down personnel expenses by cutting the number of regular employees and instead using temporary dispatch services and temporary contract workers. The number of people registered as temporary dispatch workers increased from 87,000 in 1986 to 1.39 million in 2000.

Another change in the labor force has been an increase in workers aged 55 or over. The proportion of the work force in this age bracket grew from 15.1% in 1975 to 23.4% in 2000 and is expected to keep increasing as Japan’s population structure continues its aging trend. To accommodate this development, the government has been urging companies to raise their mandatory retirement age. The Japanese employment system is characterized by so-called lifetime employment and seniority-based wages. However, these features are becoming less prominent as the need for people with long years of experience at a single company decreases. In addition, a growing number of companies are now basing salaries more on merit than on length of service. Recently some leading companies that had maintained the lifetime employment system have offered employees the option of early retirement as part of their corporate restructuring to cope with the economic slump.

CHAPTER 1

THE JAPANESE EMPLOYMENT SYSTEM: FEATURES AND EVOLUTION

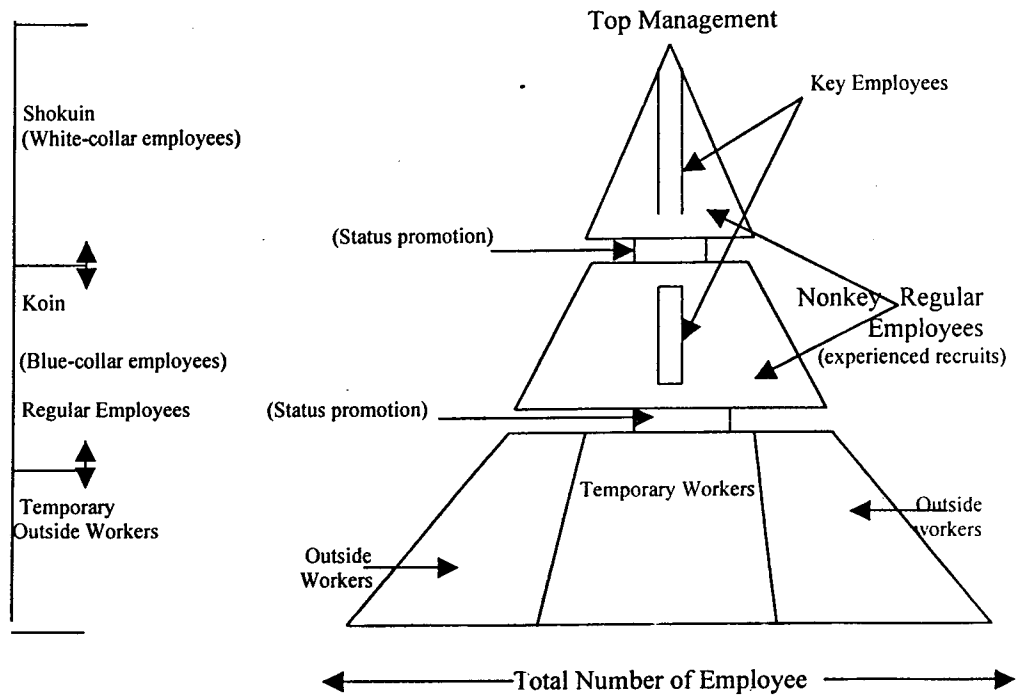
Introduction

The unemployment rate in Japan, a record 5.8 per cent in early 2000s is a startling statistics in a nation that has seldom seen the figure go as high as 3.5 per cent even in previous recessionary trends. To understand why and how the labor market is changing, it is important to consider how Japan's employment practices in the past were focused on efforts to nurture and retain skills within companies to facilitate Japanese competitiveness in international markets. Most large Japanese corporations applied personnel practices quite distinct and different from those of the West: lifetime employment, seniority-based wage and promotion system, and company- rather than trade- or profession- oriented unions. Employees are usually trained within the company, typically on more than one job or function. It must be noted that all these practices are found to some degree in Western countries, including the United States. However, in Japan they have been in widespread use since World War II, and their use is culturally accepted, socially encouraged, and officially sanctioned. Exhibit 1-1 (p.9) shows the composition of the workforce in a typical Japanese firm.

When non-Japanese scholars first pointed out these features, they explained them in terms of "cultural" factors. For example, James Abegglen, in his path breaking "The Japanese Factory" compared "paternalistic" firms and "loyal" workers to feudal lords and their *samurai* subordinates.¹ He is among those who have held that Japanese companies differ from Western counterparts in a lack of individualism that reflects the rest of Japanese society. Abegglen suggests the tendency of companies to maintain their labor force and seniority-based wage structure even in recessionary times stems primarily from a moral obligation of the employer towards the employee.

¹ James C. Abegglen, *The Japanese Factory* (New York: The Free Press, 1958).

Exhibit 1-1. Employee Composition of a Japanese Firm



Source: S. Prakash Sethi, *Japanese Business and Social Conflict* (Cambridge, Mass.: Ballinger, 1975), p. 64.

The afore-mentioned three institutional features were once called the “Three Sacred Treasures of The Imperial House” of Japan by the OECD (Organization for Economic Cooperation and Development), who evaluated them positively as one of the reasons for rapid economic growth and better macro-economic performance. Many Western scholars regard these practices as the pillars of the modern Japanese system and thus, as a powerful contributor to a uniquely productive, flexible and cooperative workforce.

Salient Features of the Japanese Employment System

Conventional wisdom identifies the following as unique features of the Japanese employment system:

1. Lifetime Employment [*Shushin Koyo*]

The literal translation of the term *shushinkoyo* would be lifetime employment since the characters used to write the word in Japanese mean ‘end-body’ and

'employment,' However, with mandatory retirement ages as young as 55 among a population with a life expectancy of over 75, the expression 'long-term employment' is a more appropriate translation. Japanese workers are known to work under lifetime employment commitments. That is, firms agree not to fire or layoff workers (except on grounds of some misconduct) and workers pledge undying loyalty to their firms. Workers neither quit nor refuse any job assignment. Thus, a firm-worker relationship lasts for the occupational lifetime of the worker. This relationship is all implicit and understood, without a written contract. Long-term contractual relationships and commitments are preferred both by workers and firms alike because they believe that such long-term relations are beneficial in the long run. Also, they can minimize transaction costs and provide mutual reputations for trust.

Lifetime employment is known to create a high degree of employee stability and, coupled with other employment practices and personnel policies, generates tremendous employee loyalty toward the company, with all that it entails. A company can invest money in the training of an employee, secure in the belief that once he is trained, he will not be hired away by a competitor. A Japanese enters a company right after graduating from his school and stays on in the company until the official retirement age, typically between the ages of 55 and 60. His job security is virtually guaranteed unless he is accused of misconduct. New company entrants in Japan seldom sign an individual labor contract and, even if they sign an undertaking to abide by the employment regulations, they do not necessarily read them. 'If [they] show some interest in reading them, they may be suspected of being potential troublemakers'.²

This system works on the fulfillment of a dual set of expectations that are deeply rooted in Japanese traditions and cultural norms. For the worker, he can expect to stay with his chosen firm, and that he intends to do so. This intention is conditioned by the fact that he will be within the norms of Japanese occupational life and that he has a good deal to gain financially by staying on. Conversely, the

² H. Inohara, "The Personnel Department in Japanese Companies," *Bulletin of Socio-Economic Institute*, No. 63 (Tokyo: Sophia University Press), p. 15.

employer can expect that the worker will not quit, provided he is offered “standard” wages and conditions of employment. Social conditions and cultural norm impose a sense of obligation on the employer, who is expected to provide work for his employees and take care of them. Moreover, he stands to face a tremendous loss of worker morale, not to mention union resistance, government pressure, and public ill will, if he chooses to deviate significantly from the social norm.³

Apart from a sense of security, the employee also has a multitude of opportunities for training and upward mobility within the company, with the accompanying psychic satisfaction. At the same time, the performance of an employee can be evaluated over a period of years. Non-Japanese scholars have sung praises of this system. Such scholars recommended that non-Japanese companies should adopt the system. For example, in his book *Japan as Number One: Lessons for America*, Vogel states:

The firm is committed to the employee and provides a sense of belonging, personal support, welfare and retirement benefits, an increased salary and rank with age. Barring a serious long-term depression, the employee expects that he will never be laid off, and even if the company were to disband or be absorbed by another company, he expects that a new job elsewhere will be arranged.⁴

One of the distinguishing features of lifetime employment, due to which the practice has got widespread attention, is that layoffs are always the last resort in dealing with difficulties. A company in distress will try every possible way to rectify the situation before dismissing its employees. For instance, it will first make reductions in pay of top executives, followed by cuts in the salaries of managerial staff. Next, dividends to shareholders will be slashed and, at times, some excess personnel will be relocated to subsidiaries. Still, if nothing helps, then dismissal takes place. On the other hand, there are researchers (for example, Koike, 1978; Hamada, 1991; Tachibanaki, 1984), who argue that lifetime employment is nothing

³ Ronald P. Dore, *British Factory-Japanese Factory: The origins of national Diversity in Industrial Relations* (Berkeley: University of California Press, 1973), p. 35.

⁴ Ezra F. Vogel, *Japan As Number One: Lessons for America* (Tokyo: Charles E. Tuttle, 1985), p. 137.

but a myth and that it doesn't really exist in Japan. According to data presented by Koike, most Japanese workers change jobs at least once in their career. The often-misquoted estimate of the working population employed at companies where lifetime employment is actually practiced is only 30 per cent.⁵

2. *Seniority-Based Wage system [Nenko Joretsu]*

Under the seniority-based wage system, the remuneration of a worker is determined primarily on the basis of the number of years he has spent with the company, subject to age and level of education at the time of entry. According to Marsh and Mannari, "In the paternalistic lifetime commitment model of the Japanese firms, pay is based primarily on seniority, not on job classification."⁶ Further Dore adds that a large Japanese firm "considers that it is buying, not a skill, but a lifetime's work."⁷ The seniority-based wage system is the domestic practice in Japan and, although the difference between the incomes of younger and older workers is greater in larger enterprises, the prevalence of wage differentials according to age and length of service is found in all enterprises, regardless of size. The seniority ranking system, linked with the pay system, is based on the principle of *nenko joretsu* ('ranking by years of experience'), but it does not mean that all who enter the company on the same day receive the same wages.⁸ "A man on the day he enters the company can predict with fair accuracy his wage and position in that company at any given year in the future."⁹ There is a close correlation between age and rank, especially for senior management. This fits the norms of Japanese society well, where it is generally believed that young but inexperienced people, no matter however much brilliant, should not be put in authority over older people, because that would disturb the hierarchical order.

⁵ Haruo Shimada, "The Perceptions and Realities of Japanese Industrial Relations." In L.C.Thurow (ed.), *The Management Challenge: Japanese Views* (Cambridge, MA.: The MIT Press, 1986), p. 47.

⁶ Robert M. Marsh and Hiroshi Mannari, *Modernization and the Japanese Factory* (New Jersey: Princeton University Press, 1976), p. 307.

⁷ Dore, *British Factory – Japanese Factory*, p.111.

⁸ Robert E. Cole, *Japanese Blue Collar: The Changing Tradition* (Berkeley: University of California Press, 1971), p. 79.

⁹ W. Brown in W.P. Lebra and T.S. Lebra, *Japanese Culture and Behavior* (University of Hawaii, 1974), p. 175.

An important factor in the mechanism of the seniority-based system is equality and it is regarded highly within members who belong to a group. On this basis, the seniority system can be assessed since it treats all members having equal qualifications, equally. Also, wage distribution among members having equal qualifications, is considerably equal. Under the present seniority-based wage system, pay increases continue to accumulate according to length of service with only minor adjustments to reflect employee performance. For young employees who have been with the company only a few years, the merit adjustment is very small. Until a worker's colleagues acknowledge an employee's achievements and reach an unspoken consensus on his role, morale is best served by treating everyone equally. This attitude continues to pervade company policy at all levels. Fairness towards the group to which an employee belongs is important in maintaining harmony. Therefore, the promotion of an individual employee cannot be considered in isolation, but in relation to fairness to the others in the same group. Quick promotions are usually considered to result from favoritism towards certain individuals and discrimination against others.

The seniority-based system takes away the often destructive individual competition between employees and promotes a more harmonious group relationship in which each employee works for the benefit of the entire group, secure in the belief that he will prosper with the group and that, in due time, he will acquire the benefits that accrue for long and faithful service. This system encourages workers to stay at one company by assuring regular pay raises and promotion. Thus, the employee receives a sense of security and the company maintains a dedicated workforce. The seniority-based system assumes that longer experience makes an employee more valuable. Because of the *ie* (group or community, explained later in the chapter) framework, a supervisor must be more than a technically superior worker. He must be able to maintain order in the group and look after its well-being. Thus, the older manager acts as the symbol of group strength and continuity. He also functions as the opinion leader and consolidates the community. He acts as the elder statesman and assists group members in all aspects of their lives, including non-job related activities such as arranging marriages, settling family disputes and so on. Middle

managers contribute to the achievement of community purpose by educating, training, and controlling the young, and by acquainting them with the rules of the community. In the words of Tsuda, "These abilities correspond to a skill of seniority...seniority-based skill is not a simple manual skill, but an overall mental and physical skill originated in a community."¹⁰

3. In-Company Training by Rotation

The definition of 'training' is obvious worldwide; it normally refers to technical training but in Japan it includes *seishinteki* (spiritual) training. In Japanese schools, universities, and companies, new entrants attend *nyushashiki* (entrance ceremony) wherein the president makes an encouraging address and the spokesman for the entrants reads a speech pledging the intake's best efforts. The purpose of the ceremony is 'consciously designed to reinforce the company spirit', and the 'handing over'¹¹ of the young employee from the family to the company is part of the *rite de passage*. After the entrance ceremony, induction training starts. The premise, which is entirely congruent with the long-term employment seniority system, is that young employees starting work for the first time are 'more easily molded to suit a company's requirements'.¹²

A Japanese employee keeps on receiving training as a regular part of his job until he retires. At the same time, he is trained not only in his job, but also in other jobs at his job level. This is known as 'on-the-job (OJT) training', the objective of which, is to make workers at the lower and shop floor levels multi-skilled. This helps him in preparing to handle new assignments as he grows within the company. The on-the-job training by rotation promotes tremendous flexibility in the workforce, and also helps develop the middle or upper managers into "generalists" with broader perspective on and experience of companies' business and with their wider human contacts and friendships that are vital for generating consensus. On this general, the Japanese model of the *sensei* (teacher) and the

¹⁰ Masumi Tsuda, "Lifetime Employment and Seniority-Based Wage System." Paper presented at the International Symposium on the Japanese Way of Management and International Business, Tokyo, November 27-28, 1973, p.23.

¹¹ Dore, *British Factory – Japanese Factory*, p. 61.

¹² Chie Nakane, *Japanese Society* (Berkeley: University of California Press, 1973), p. 17.

deshi (pupil), the *sempai* (superior) has a diffuse responsibility for the progress and welfare of the *kohai* (subordinate), a relationship that persists into later life and which may help the erstwhile junior's subsequent career. Due to lifetime employment, an employee seldom gets an opportunity to work outside his corporate group. Generally speaking, mobility between firms is almost non-existent, whereas mobility within a firm is almost unlimited.

The merits of this practice of job rotation are several. (1) It enables the firm to reassign production and office workers more freely; (2) Japanese employees, also because of their job security, are more receptive to organizational changes and introduction of new technology or machinery;¹³ (3) lower and shop floor level workers can become multi-skilled; (4) wider experience within the firm tends to nurture the goals of the total firm, rather than those of the specific sub-units; (5) it can produce high quality general managers. The job rotation system allows an employee to build wider interpersonal relationships that may result in free information exchange; (6) finally, widespread use of on-the-job training in large companies tends to diminish an employee's capacity to work effectively if he moves to another corporation and thus, discourages mobility between competing firms.

4. *Management of Human Resources*

The Japanese employment policies and management practices are known to be human resource centric. The Japanese notion of family – involving not only its own employees but also its suppliers and subcontractors – has been instrumental in creating a highly efficient and fully integrated system of manufacturing, with the resultant lowering of costs and improvement of quality. The essential elements of this system are as follows:

- (a) Integration of human factors into the production system is extensively practiced. Product quality in Japanese companies is continuously improved,

¹³ Arthur M. Whitehall and Shinichi Takezawa, "Workplace Harmony: Another Japanese 'Miracle'?" *Columbia Journal of World Business* (Fall 1978), pp. 26-28.

not only by automation and capital investment, but also by taking seriously their employees' suggestions for improvements, especially through employee participation in quality control circles. It should be noted here that Japanese employees tend to be receptive to automation primarily because of their job security. Japanese workers are encouraged, even required, to make suggestions as to how the production process can be improved. Middle and even top managers take them seriously because they readily acknowledge and admit that the workers are closest to a problem. The workers make suggestions primarily because of their sense of "oneness"; they see management problems as their own. The suggestions make the managers aware of shop floor problems and improve the situation.

- (b) There is an emphasis on quality control, often referred to in terms of "do it right the first time." The quality control circles (QC) not only identify a problem, but also collectively solve it. On an average, a QC circle has eight to ten members, with a supervisor as the leader. The circles emphasize not only technical matters, but also a sense of involvement and quality consciousness on the part of the workers.¹⁴
- (c) Another important element is the low level of inventories, made possible through close location of subcontractors and finely coordinated delivery schedules. The system is nicknamed "just-in-time system" or *kanban seido*, and is widely practiced by Japanese companies. For example, by maintaining close ties with suppliers, financially and geographically, Toyota, Toyokogyo, and other auto companies are able to maintain production schedules with less than a day's worth of parts on hand. One of Toyota's suppliers was reported to deliver parts almost every hour by truck based on the needs of Toyota.¹⁵ This schedule is striking when compared with those of U.S. producers, who usually stock several weeks' worth of parts in inventory. The system provides significant cost advantage to the

¹⁴ Sang M. Lee and Gary Schwendiman, *Management by Japanese Systems* (New York: Praeger, 1982), part II.

¹⁵ John Holusha, "'Just-in-Time' System Cuts Japan's Auto Costs," *New York Times*, March 25, 1983, pp. 1,37; see also, for a detailed discussion of Toyota's kanban system, Nihon Noritsu Kyokai, *Toyota no Genba Kanri* [Shopfloor Management System of Toyota] (Tokyo: Nihon Noritsu Kyokai, 1982).

Japanese auto producers. It is estimated that the Japanese hold a cost advantage of over \$2200 per car, which is attributed to such production improvements as sufficient assembly lines, automation, and low inventory levels.¹⁶ The entire process of integrated production flows involving all elements of the system has been heralded as “sixth stage” of the manufacturing revolution and is credited to a significant degree for the Japanese success.¹⁷ The small inventory level in each stage of production makes the weak links clear, because any breakdown in one stage has spillover effects on all the later stages. As a result, weak links get much attention. The system also places considerable pressure on suppliers. Usually, suppliers have a long working relationship with the companies. If the supplier delivers defective parts, the company’s production line is shut down because of small inventory level. This system makes the suppliers constantly conscious about the quality of parts and aware of the consequences of failure.¹⁸ The production efficiency from the integration of the labor force into production process, however, does not come about without social costs and economic risks. For example, low inventory levels place constant pressure on managers and workers. Even a slight mistake in inventory orders or unforeseen interruptions in delivery lead to down time and loss of production.

5. Company-Oriented Unionization (Kigyo-betsu Rodo Kumiai)

Japanese unions are usually organized on a company basis, as opposed to the craft or industry wide unions common in the United States. The company union gives both management and workers an identity of purpose and provides an environment in which there is greater cooperation for the achievement of common goals. It

¹⁶ John Holusha, “Japan’s Car Makers Facing Tests Abroad as Industry’s Leader,” *New York Times*, April 1, 1983, pp. 1,41.

¹⁷ William J. Abernathy, Kim B. Clark, and Alan M. Kantrow, *Industrial Renaissance: Producing a Competitive Future for America* (New York: Basic Books, 1983), p. 4.

¹⁸ Holusha, “‘Just-in-Time’ System Cuts Japan’s Auto Costs.” See also the book by Taiichi Ohno, the retired Toyota executive credited with the development of the ‘Just-in-Time’ System, Taiichi Ono, *Toyota Seisan Hoshiki* [The Toyota Production System] (Tokyo: Diamond, 1978).

represents workers with different kinds of jobs, unlike the Western convention of labor organization based on specific ranges of skills or professions. Having white-collar and blue-collar workers represented by the same union implies that there are very few conflicts within the ranks of workers. The relationship between the typical labor union and the company is unusually close.

The company-oriented unions (commonly referred to as enterprise unions) have the following distinct characteristics: Both blue-collar and white-collar workers with regular employee status can become members. They join the union automatically in most major companies. Temporary and subcontracting workers are excluded, and managers with the rank of section chief and above are considered part of management. Union officials consist solely of the company employees; many of the managerial staff are former union members. In general, Japanese unions are sensitive to the economic health of the company, and company management usually briefs the union membership on the state of corporate affairs. Officers usually maintain their seniority and tenure while working exclusively on union activities and while being paid from the union's accounts and union offices are often located at the factory site. The union is regarded as an autonomous organization whose sovereignty is recognized within the nation wide union power structure.¹⁹ An enterprise union will, negotiate independently with its own employer, except for a short period of collective bargaining with the affiliated federation, the so-called Spring Labor Offensive. During prosperous times, the spring labor offensives are highly ritualized affairs, with banners, sloganeering, and dances aimed more at being a show of force than a crippling job action. Meanwhile, serious discussions take place between the union officers and corporate managers to determine pay and benefit adjustments. If the economy turns sour, or if management tries to reduce the number of permanent employees, however, disruptive strikes often occur.

¹⁹ Earnest Van Helvoort, *The Japanese Working Man: What Choice? What Reward?* (Vancouver: University of British Columbia Press, 1979), pp. 130-131; See also Tadashi Hanami, *Labor Relations in Japan Today* (Tokyo: Kodansha International, 1979); Koji Taira, *Economic Development and the Labor Market in Japan* (New York: Columbia University Press, 1970).

The characteristics of the resolution of labor disputes are quite different from those of the West. First, there is the societal pressure toward consensus. Two, there is the tendency for industrial action to be taken in a demonstrative form, to make the public aware that the workers feel the employer has failed to do what he should to meet their needs. Three, the union, mindful of the extent to which its members' interests are bound up with those of the enterprise, is likely to refrain from any action likely to prejudice its long term future.²⁰

Japan's 74,500 labor unions were represented by four main labor federations in the mid-1980s: the General Council of Trade Unions of Japan (*Nippon Rodo Kumiai Sohyogikai*, commonly known as *Sohyo*), with 4.4 million members – a substantial percentage representing public sector employees; the Japan Confederation of Labor (*Zen Nihon Rodo Sodomei*, commonly known as *Domei*), with 2.2 million members; the Federation of Independent Labor Unions (*Churitsu Roren*), with 1.6 million members; and the National Federation of Industrial Organizations (*Shinsanbetsu*), with only 61,000 members. In 1987 *Domei* and *Churitsu Roren* were dissolved and amalgamated into the newly established National Federation of Private Sector Unions (*Rengo*); and in 1990 *Sohyo* affiliates merged with *Rengo*. Local labor unions and work unit unions, rather than the federations conducted the major bargaining. Unit unions often banded together for wage negotiations, but federations did not control their policies or actions. Federations also engaged in political and public relations activities.

The rate of labor union membership, which was 35.4 per cent in 1970, had declined considerably by the end of the 1980s and has been declining ever since. The continuing long-term reduction in union membership was caused by several factors, including the restructuring of Japanese industry away from heavy industries. Many people entering the workforce in the 1980s joined smaller companies in the tertiary sector, where there was a general disinclination toward joining labor organizations. According to a Ministry of Labor Survey in June 1999, the percentage of workers belonging to a union plunged to a record low of 22.2

²⁰ *The Development of Industrial Relations Systems: Some Implications of Japanese Experience* (Paris: OECD, 1977), pp.25-26.

percent (Table 1-1). The main reasons for this are a drop in the number of people with full-time employment, caused by the current recession, and a rise in the number of part-time workers, who are less likely to join a union.

Table 1-1. Labor Union Memberships by Country

Country	Year	No. of employed (1,000)	Union membership	Share unionized (%)
UK	1997	23,320	7,117	30.2
Germany	1996	30,770	10,870	35.3
Japan	1999	53,210	11,825	22.2
USA	1997	114,533	16,110	14.1

Source: Ministry of Labor, *Rodo tokei yoran* (Labor Statistics Manual), 1999.

Apart from the aforementioned key institutionalized features, there are other less highlighted features too that need to be looked into. Otherwise a study of the Japanese employment system would be incomplete. These are as follows:

6. *White-Collarization of Blue-Collar Workers*²¹

Blue-collar workers are treated more like white-collar workers in Japan. It has been noted that in Japan, blue-collar workers are paid “salaries” rather than hourly wages and that their salaries are equivalent to that of a white-collar American worker. The gap in salaries between blue-collar and white-collar workers is small in Japanese firms, and they belong to the same union and eat in the same cafeteria. The seniority curve is applicable to blue-collar workers also. Moreover, they receive extensive on-the-job training in a variety of skills. In short, in terms of remuneration and employment adjustment, blue-collar workers in large corporations in Japan are accorded treatment similar to that of their American white-collar counterparts.

7. *Longer Work Hours*

The five-day workweek is not yet as widespread as in other industrially developed countries, and holidays in general are infrequent. The average working hours of Japanese employees are longer than those of their American counterparts. In many

²¹ For an excellent treatment of this subject, see Kazuo Koike, *The Economics of Work in Japan* (Tokyo: Tokyo University Press, 1978).

firms, employees work half-day on Saturdays. On weekdays, many Japanese workers work till late in the evening. For many years, Japan grappled with the issue of reducing the length of the workweek, which was longer than that in Europe or the United States. The 1987 revision of the Labor Standards Law reduced the legal workweek from 48 hours in April 1988. The length was further shortened to 44 hours in 1991 and to 40 hours in 1997. A Ministry of Labor survey shows that average annual working hours, including overtime, of workplaces employing 30 or more persons in 1999 was 1,842 hours (Table 1-2).

As of 1998, only 35.2 percent of companies had a five-day workweek, though 73.3 percent of large corporations with 1,000 or more employees had the system. Another issue is that of encouraging workers to take all their paid vacations. However, the average number of days off taken in 1998 was 9.1, 51.8 per cent of all paid vacations offered.

Table 1-2. Working Hours and Days, Japan

	Regular working hours			Total working hours*			Working days per month
	Per day	Per week	Per year	Per day	Per week	Per year	
1960	7.5	41.7	2,170	8.4	46.8	2,432	24.2
1970	7.4	39.2	2,039	8.2	43.1	2,239	22.9
1980	7.4	37.4	1,946	8.0	40.5	2,108	21.9
1990	7.4	35.9	1,866	8.1	39.5	2,052	21.0
1999	7.3	32.9	1,709	7.8	35.4	1,842	19.6

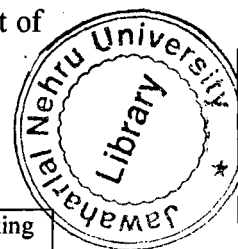
Source: Ministry of Labor.

Note: Figures are shown for workplaces employing 30 or more persons.

* Including overtime

8. Severance Payments

In Japan, nearly every worker receives a severance payment (*taishoku-kin*) amounting to two or three years' pay, upon retirement (Chapter 2). Workers who switch jobs before retirement receive severance payments, which have been capitalized up to that point of time. On the other hand, corporate pensions are still rare in Japan. There is a special deduction in individual income tax for one-time severance payments. In the United States, large severance payments are usually



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limited to top executives. Average workers usually participate in corporate pension plans and receive annuities, rather than one-time payments, after retiring.

Such elements of Japanese employment in the postwar period of rapid economic growth have been, in short, efficient means to establish a highly skilled and motivated labor force.

The Cultural Context of the Japanese Employment System

It cannot be denied that the Japanese employment system is based on the market mechanism, but there exist important historical, cultural and institutional factors that are special to Japan and that produce phenomena such as “organization orientation” and the system of “enterprise welfare”.²² The Japanese employment system is strongly rooted in Japanese culture and tradition. Japan’s social fabric is based on the relationships between institutions and the state, between individuals and institutions, and between individuals and individuals and this is inextricably linked to its past. Moreover, Japan is a homogeneous society that believes in maintaining the purity of the race as a prerequisite for sustaining and propagating itself. This homogeneity exerts strong pressure on institutional structures and employment practices and processes to evolve in a manner that is in harmony with the society’s value set. Under these conditions, a divergence from cultural norms will lead the institution to lose its legitimacy, and its moral and intellectual support. Japanese society also has a very long history, and it is one of the few nations that have never been colonized. It has developed a set of rules by which institutions organize their relations and mediate their differences while maintaining the society’s network of institutional arrangements. So it is understandable that an ancient society like Japan, with a past that extends back into antiquity, a society of more than 127.1 million people crowded into a chain of small islands, would emphasize collective responsibility and group loyalty.

The core values of Japanese culture are: (1) *amae* (dependence), (2) *on* (duty), (3) *giri* (social obligation), and (4) *ninjo* (human feeling). The Japanese concept of

²² Dore, *British Factory-Japanese Factory*.

amae is so unique that it makes Japanese society distinct from both overtly similar Asian societies and seemingly different Western societies.²³ The substance of the Japanese psyche can be summarized in the term *amae* – that is, a feeling of dependence (from *amaeru*, a verb meaning to depend and presume on another’s life; to seek and bask in another’s indulgence). It is not a pejorative term, but a state of mind that describes a desire to be passively loved, a desire to be protected – as in a mother-child relationship – from the world of objective “reality”. Doi, a noted Japanese psychoanalyst, maintains that in the Japanese, these feelings are prolonged into adulthood and shape character to a far greater extent than in the West.²⁴ The *amae*-based relationship between two adults assumes a degree of emotional attachment that may lead the dependee to resort to “irrational” behavior and avoid taking individual responsibility for his own actions, expecting the dependor to “indulge” him by protecting him. Since, in Japan, *amae* is vitally important to the individual’s psyche and emotional stability, the entire social structure is set up to fulfill this need. *On* implies obligations passively incurred. One “receives an *on*”, one “wears an *on*”. *On* are obligations from the point of view of the passive recipient.²⁵ *Giri* refers to a bond of moral obligation and debt that must be repaid “with mathematical equivalence to the favor received, and there are time limits”.²⁶ “*Giri* obligations often are mutual and reciprocal, especially within a collectivity.”²⁷ *Ninjo* refers to “human feelings” and includes all the natural human impulses and inclinations. Doi, however, maintains that for the Japanese, *ninjo* is something more specific. It is

...specifically knowing how to *amaeru* properly and respond to the call of *amaeru* in others. Japanese think themselves especially sensitive to these feelings, and those who do not share that sensitivity are said to be wanting in *ninjo*....*Giri*...refers to a bond of moral obligations....Whereas *ninjo* primarily refers to those feelings which spontaneously occur in the relations between parent and child, husband

²³ For an excellent treatment of this subject, see Takeo Doi, *The Anatomy of Dependence* (Tokyo: Kodansha International, 1973).

²⁴ Quoted in S. Prakash Sethi, *Japanese Business and Social Conflict* (Cambridge, Mass.: Ballinger, 1975), pp. 52-53.

²⁵ Ruth Benedict, *The Chrysanthemum and the Sword* (Boston: Houghton Mifflin, 1946), p.116.

²⁶ Chitoshi Yanaga, *Japanese People and Politics* (New York; Wiley, 1965), p.58.

²⁷ John Whitney Hall and Richard K. Beardsley, *Twelve Doors to Japan* (New York: McGraw-Hill, 1965), p.95.

and wife, or brother and sister, *giri* relations are relations between in-laws, neighbors, with close associates, or superiors in one's place of work.²⁸

Benedict, Beardsley, and others maintain that the "circle of human feelings" and the "circle of duty" are mutually exclusive.²⁹ For example, Beardsley states: "*Ninjo* refers to what one would like to do as a human being and equally to what one finds distasteful or abhorrent and of personal sentiment. *Giri* pertains to what one must do or avoid doing because of status or group membership."³⁰ However, Doi contends that it would be erroneous to consider *giri* and *ninjo* as mutually exclusive: "They are not simply opposed but would seem to exist in a kind of organic relationship to each other.... [Furthermore] *ninjo* and *giri* indicate responses that have a close bearing on *amae*." The nature of *giri* relationships may be interpreted to mean that one is "officially permitted to experience *ninjo*", while in relationships like parent and child, *ninjo* occurs spontaneously.³¹

Amae can also be used to describe the underlying reasons for the vertical one-to-one relationships typical of Japanese society. Although the recognition and pursuit of *amae* in Japanese society accounts for both its virtues and its faults, the suppression or diversion of *amae* in human relations in the West explains the strengths and flaws of Western traditions. Doi also argues that these traits of mutual dependence and reciprocal obligations account for the fact that the attempt by the Occupation authorities to democratize Japanese society did not necessarily promote individualism, but by destroying the traditional channels of *amae*, contributed to Japan's postwar spiritual and social confusion.

Group formation

One of the elements of Japanese society's value set is group formation. The family is the earliest locus of social life for an individual, which provides a model of social organization for later encounters with the wider world. The familiar

²⁸ Takeo Doi, "Giri-Ninjo: An Interpretation," in Ronald P. Dore (ed.), *Aspects of Social Change in Modern Japan* (Princeton, N.J.: Princeton University Press, 1967), p. 330.

²⁹ Benedict, *The Chrysanthemum and the Sword*, pp. 177-194; Hall and Beardsley, *Twelve Doors to Japan*, p.95; Dore, *Aspects of Social Change in Modern Japan*, pp. 113-152.

³⁰ Hall and Beardsley, *Twelve Doors to Japan*, p. 95.

³¹ Doi, *Anatomy of Dependence*, p. 33.

Japanese social characteristics variously called “paternalism”, “groupism”, and “familyism” originated in the strong tradition of *ie*, which literally means “household” or “family”. But the term has a broader meaning in Japan; it relates to any context – for example, the workplace – and is social in orientation.³² Simply put, this is the Japanese socio-psychological tendency that emphasizes (in the sense of protecting, cherishing, finding needs for, or functioning best in) “us” against “me”. In social organization, the Japanese put far more emphasis on situational frame than on personal attributes. When a Japanese faces an outside group, he establishes his point of reference in terms of his group and not in terms of who he is. That is, rather than saying, “I am so and so”, a Japanese will say “I am from so and so company”, when introducing himself to others. According to Chie Nakane, a distinguished cultural anthropologist:

...the *ie* is a corporate residential group and, in the case of agriculture or other similar enterprises, *ie* is a managing body. The *ie* comprises households (in most cases, the family members of the household head, but others in addition to family members may be included), who thus make up the units of distinguishable social groups. In other words, the *ie* is a social group constructed on the basis of an established frame of residence and often of management organization. What is important here is that the human relationships within this household group are thought of as more important than all other human relationships.³³

The “situational frame” in Japanese is *ba*, literally “location”, but connoting a base on which something is placed for a given purpose. For a Japanese, a frame, such as a company, is much more important than personal attributes such as kinship, caste, and descent group. This is the source of the commitment and loyalty to the frame-based group, which may have originated in the communal life of rice-growing villages, which demanded that members cooperate closely, and been fostered by Confucianism; the feudal clan, which demanded a warrior’s total commitment and loyalty; and the wartime state control over business.³⁴

³² For an excellent treatment of this subject, see Nakane, *Japanese Society*.

³³ Nakane, *Japanese Society*, pp. 4-5.

³⁴ Takeshi Ishida, *Japanese Society* (New York: Random House, 1971), pp. 39-48.

In modern Japan, a company is conceived as an *ie*; its employees are the household members, and the employer is its head. However, a company, or any frame-based social group that includes members with commonality of residence or situation but without commonality of attributes must fulfill several requirements to satisfy its members in order to strengthen the frame and make the group element tougher. This is in contrast to the group formed by attributes such as kinship and caste, whose members may possess a strong sense of exclusiveness and cohesiveness mainly because of the commonality of their attributes. Taking this into consideration, a frame-based group must be able to provide its members with a sense of the permanence of its existence, since once joined, change of membership to another group is difficult. Conversely, a group needs to guarantee membership. This is where the implication of lifetime employment system comes into focus. A frame-based group must also be able to provide its members with a feeling of “oneness”; the group as a “family” must engage them totally, and must foster emotional as well as financial well-being. Such “paternalistic” arrangements induce in the employees an emotional attachment to the *ba* and people within the organization. For example, an employer shows paternalistic (or *ninjo*) attitudes to employees, which gives them a sense of *on* toward the employer. Because of such reciprocal relationships, employees have a moral obligation to work diligently and honestly for their employer.

Venerable interpersonal relationships

The basic single-unit interpersonal relationship between two Japanese persons is *oyabun-kobun* (*oya*, father; *ko*, child), in a vertical system. Members in a work-related group, or in any Japanese organization, are tied together by this kind of relationship. According to Nakane:

The extension of this kind of dyadic relationship produces a lineage-like organization. The organizational principle of the *Oyabun-Kobun* group differs from that of the Japanese family institution in that the *Oyabun* normally has several *Kobuns* with more or less equal status, not only one as in the case of the household unit...whereas the Japanese father may discriminate in the treatment of his sons...the essential requirement of the *Oyabun* is that he treat his *Kobuns* with

equal fairness according to their status within the group, otherwise he would lose his *Kobun* because of the unfair treatment....

In this system, while the *Oyabun* may have several *Kobuns*, the *Kobun* can have but one *Oyabun*. This is the feature that determines the structure of the group based on the vertical system....

Within the *Oyabun-Kobun* group, each member is tied into the one-to-one dyadic relation according to the order of and the time of his entry into the group. These dyadic relations themselves form the system of the organization. Therefore, the relative order of individuals is not changeable. Even the *Oyabun* cannot change the order. It is a very static system in which no one can creep in between the vertically related individuals.³⁵

A group in Japan is based on the accumulation of such relationships between individuals. This is also the case with the corporate group. When a class of university graduates enters a corporation, they are assigned to a section of a department for training after a short orientation period. A person will stay in a section for several years and then be transferred to another section within the corporation. Because most of the university graduates have economics or law degrees, they usually do not have any understanding of business operations. Thus, most of the training is provided by managers who are at a level above those of the trainees. Moreover, because of the Japanese respect for seniority, *oyabun-kobun* relationships will be developed within this work-related group.

In Rohlen's words, the concept of the *oyabun-kobun* or superior-subordinate relationship in corporate life has the following characteristics:

1. The senior manager is older than his junior, has worked longer for the company, and is in a position of relative power and security. This position enables the senior to assist the junior.
2. The senior is beneficially disposed toward the junior and befriends him.
3. The junior accepts the friendship and assistance of the senior.

³⁵ Chie Nakane, "An Interpretation of Group Cohesiveness in Japanese Society." Paper presented at the regional seminar, Center for Japanese and Korean Studies, Berkeley, University of California, March 1, 1974, pp 4-5; see also John W. Bennett and Iwao Ishino, *Paternalism in the Japanese Economy: Anthropological Studies of Oyabun-Kobun Patterns* (Westport, Conn.: Greenwood Press, 1963).

4. These acts and related feelings are the basis of the relationship. There is no explicit agreement.
5. Ideally, the junior feels gratitude toward the senior for his beneficence, and this feeling is accompanied by a desire on the part of the senior to become a good older friend for the younger.³⁶

Social norms are not only the guiding factor in the development of such relationships; time-consuming group-centered activities also play an important role. Members of the work-related or office group participate in many activities together in order to promote an open and harmonious atmosphere. Development of trust among members is the most important objective. These activities are usually financed by the company and include annual trips, frequent drinking parties after working hours, and monthly Saturday afternoon recreations. The activities also serve as a bridge between generations, and help reduce the sense of rank differential by intensifying the individual friendships. Such activities, coupled with the training by rotation, help enhance trust and harmony between management and labor.

In a Japanese corporation, authority is absolute and greatly respected.³⁷ Authority-based power is derived not so much from legal or contractual considerations, but is based primarily on customs, traditions, leadership style, and the nature of the interpersonal relationships between senior and junior employees. The leader must act as a leader and demonstrate leadership qualities such as magnanimity, compassion, vision, and wisdom. This ethical code of conduct is a legacy of the Confucian system that was the basis of the feudal system. Absolute loyalty and devotion to one's master (the leadership) is considered a virtue. Superiors, in turn, are expected to exemplify the virtues of sagacity, benevolence, and purity.

³⁶ Thomas P. Rohlen, "The Company Work Group," in Ezra F. Vogel (ed.), *Modern Japanese Organization and Decision-Making* (Berkeley: University of California Press, 1975), p. 197.

³⁷ Thomas P. Rohlen, *For Harmony and Strength: Japanese White-Collar Organization in Anthropological Perspective* (Berkeley: University of California Press, 1974), chap. 5.

Masters (leaders) who failed to demonstrate such qualities were belittled as “small men” in the eyes of observer-critics cultivated in the Confucian tradition. This moralistic standard by which the leaders were evaluated still lingers with Japanese institutions. Under this master-follower relationship, subordinates were not only expected, but obliged to help their master attain exemplary conduct; even such extreme forms of self-sacrifice as disemboweling themselves and thereby performing the “protest of death” were not unheard of. The merchant class emulated such ideologies of the ruling class of *Samurai*.³⁸

In the context of senior-subordinate relationships in a corporation, the leadership must be perceived as “sympathetic, protective, and unselfish.”³⁹ In other words, the leader is to be a guardian who looks after the best interests of his subordinates. He is a “warm leader” in contrast to a “rational leader” in the Western context. There is also the notion of apprenticeship in the senior-subordinate relationship.⁴⁰ Juniors or subordinates are expected to follow the leader’s explicit as well as implicit orders in the best interests of the group. Nonetheless, the leader is also expected to be flexible (or “mature”) and willing to accommodate a subordinate’s opinions, thereby giving subordinates a sense of participation. By and large, a senior’s authority can be limited by this set of reciprocal and mutually binding expectations.

Japanese also place great value on “purity of intent”, even when such intent is misguided and results in financial or other injuries to the group or corporation. One manifestation of such “purity of intent” is found in the notion of “loyal insubordination”. A Japanese employee feels impelled to disregard his superior’s instructions if he believes, albeit incorrectly, that he can perform a task better. Thus, a foreman may change the production schedule or construction plans if he thinks these actions are in the best interests of the company. However, if such changes turn out to be ill advised, he is unlikely to be punished because his intentions were pure. This system encourages initiatives on the part of employees by protecting them from the consequences of their mistakes. However, it also risks

³⁸ Yoshi Tsurumi, *The Japanese are Coming: A Multinational Interaction of Firms and Politics* (Cambridge, Mass.: Ballinger, 1976), pp. 220-221.

³⁹ Rohlen, “The Company Work Group,” p. 198.

⁴⁰ George A. De Vos, “Apprenticeship and Paternalism,” in Vogel (ed.), *Modern Japanese Organization and Decision-Making*, pp. 210-227.

greater exposure to risk from disrupted plans and unforeseen dangers when overzealous employees take unwarranted actions. Japanese companies and other institutions also use the “wayward but well-intentioned” employee as an excuse to shelter the group from outside criticism and avoid group responsibility.⁴¹

Factionalism

The vertical system of personal relationships, coupled with the Japanese need to belong is the main base for the formation of cliques (*habatsu*) within a large group. This is true of political parties, government bureaucracies, large corporations, and emerging radical and dissent movements. Factions and cliques protect the interests of their members and also provide a system of checks and balances within an organization. At the same time, surface group harmony is maintained and rigidly enforced until another group challenges the group in power. Membership in a faction depends on a combination of such factors as coming from the same university, ties of marriage, or assignment to the same section or department of the company.⁴²

A faction promotes and sustains informal and personal relationships between juniors and seniors and facilitates a two-way flow of communication. Factions provide for one-to-one relationships between a junior employee and his superior, a relationship far more important than larger, more formal, group relationships. This is one of the reasons why bottom-up communications are inordinately slow in a Japanese bureaucracy; they must go through the entire chain, one link at a time. Factions also facilitate lateral communication and coordination.⁴³ The need for coordination, ease of two-way communication, and one-to-one relationships are some of the reasons why it is extremely difficult for Japanese companies to hire outside experts at a higher level of management. These people cannot become part of the internal networks.

⁴¹ Tsurumi, *The Japanese are Coming*, p. 219.

⁴² Albert M. Craig, “Functional and Dysfunctional Aspects of Government Bureaucracy,” in Vogel (ed.), *Modern Japanese Organization and Decision-Making*, pp. 11-15.

⁴³ *Ibid.*, p. 14

Factions and cliques provide one of the main underpinnings for faster promotions and increased individual rewards in corporate and government bureaucracies. Faster promotion is one of the major rewards for a Japanese employee under the lifetime employment, seniority-based wage and promotion system, which makes rewarding individual excellence difficult. The problem is complicated by the widespread use of official retirement at age 55 for an employee who has not been promoted to a top or senior management position.

Origin and Evolution of the Japanese Employment System

The following part deals with the current orthodoxy that points primarily economic factors as the reason behind the development of the Japanese employment system. Focusing on the three key institutionalized features that distinguish the employment practices of the large Japanese corporation, an attempt has been made to explain their sources and development. How and when were the core practices in question institutionalized? What were the master forces and processes that contributed to the emergence of the Japanese employment system are some of the questions that have been dealt with.

An existing view on the origin of the Japanese employment system, favored in the 1950s and 1960s says that it was an independent product of Japanese cultural heritage. The cultural tradition of families and villages (*ie* system) has made it possible for company employees to behave just like family members of a firm. They are paid wages not according to their short-run efficiency, but according to their hierarchical order in the corporation. Enterprise unions are naturally cooperative to the management. Thus, wage increases are moderate and losses of working time, arising from strikes, are small. On the other extreme, there is a rationalistic view, according to which the Japanese employment system emerged as the autonomous initiative of employers in response to labor market pressures. Going by this view, Dore's hypothesis of a "late development effect" in the 'Origins of the Japanese Employment System',⁴⁴ says that the employment system was the by-product of an economy characterized, in its first stages of development,

⁴⁴ Dore, *British Factory-Japanese Factory*, pp. 375-403.

by scarcity of land and of natural resources, an abundant and unskilled labor force located on farms and shortage of skilled labor. It also shows that the restriction of the mobility of labor by employers was a conscious managerial strategy, in reply to the shortage of skilled labor following the decision to industrialize in 1868. Given these conditions, the continual need to introduce new technologies led to education and training within the firm with a stable labor force. Long-term employment was thus necessary to increase the returns from an investment in human capital. Employers saw that the demands of new industries for skilled labor would lead to increased labor costs unless mobility of labor could be reduced by tying employees to the firms. The ideology of loyalty to one lord, or to one employer, was already to hand as a well-developed normative underpinning for this policy.⁴⁵

Japan's high rate of postwar economic growth averaging 10 per cent from 1950 to the early 1970s, stimulated a demand for skilled workers who could help expand productivity. One of the key contributing factors in that growth was imported technology, which narrowed the wide gap between domestic standards and those applied in industries abroad. To absorb those technologies, many Japanese companies developed training programs to train their employees in the skills they needed. This, they did through on-the-job training programs. Japanese companies treated their skilled workers like valuable equipment, which is an asset that is simply not scrapped in a recession. Thus, job security is not mere corporate paternalism. It has been a rational choice growing out of intensive on-the-job training to build employee skills.

How and When did the Practice of Lifetime Employment Develop in Japan?

Some scholars believe that the present form of the lifetime employment system, which includes both blue-collar and white-collar workers, emerged after World War II when workers and unions tried to improve employment security because of the crisis atmosphere of the postwar period.⁴⁶ In the 1950s, this kind of job security

⁴⁵ Malcolm Trevor, *Japan's Reluctant Multinationals: Japanese Management Home and Abroad* (New York: St. Martin's Press, 1983), p. 46.

⁴⁶ Bradley M. Richardson and Taizo Ueda (eds.), *Business and Society in Japan: Fundamentals for Businessmen* (New York: Praeger, 1981), pp. 31-32.

became an established practice primarily in large firms, mainly because the system was found to be the most effective means to make employees identify their own interests with those of the corporation. Tsurumi holds that the job security offered by lifetime employment is “not a product of Japanese paternalism, but a necessary economy to all persons in the firm”.⁴⁷

Nevertheless, there are many arguments concerning how and when did the practice of lifetime employment develop in Japan. As indicated earlier, Western understanding of the Japanese employment system has been framed by what can be called the “culturalist” paradigm. Beginning with James Abegglen’s ‘The Japanese Factory’ (1958), and other studies that followed, helped to popularize the view that Japanese style institutions and worker loyalty grew out of unchanging Japanese traditions emphasizing communal values and vertical networks. From the culturalist perspective, it appeared as if Japanese institutions were the naturalistic creation of a Japanese character. Thus, in a manner typical of this approach, Solomon B. Levine writes:

...probably the outstanding management practices in Japan’s developing industrialism was the incorporation of traditional family behavior patterns within enterprises technologically similar to their Western counterparts. Japanese traditions of personal loyalty, subservience of subordinate to superior, and close interdependence of individuals within tightly knit social units, were transposed readily from the long established family system of the earlier feudalistic agrarian society. The Japanese avoided most of the social and cultural upheavals which usually accompanied industrialization in other countries.⁴⁸

Out of this historical literature has emerged the current orthodoxy with its rationalistic arguments. This approximates a version of the “late development” thesis that stresses the importance of labor market pressures, and to some limited extent, labor relations as the key to the transformation of Japanese management policy. According to this line of reasoning, the Japanese system was the result of autonomous initiatives of employers responding rationally to economic problems

⁴⁷ Tsurumi, *The Japanese are Coming*, p. 221.

⁴⁸ Solomon B. Levine, *Industrial Relations in Postwar Japan* (Urbana: University of Illinois Press, 1958), p. 32.

that confronted Japan as a late developer. In particular, it is claimed that Japanese managers faced severe shortages of the skilled labor required in the late developing situation to sustain relatively large-scale factories with relatively high levels of capitalization. As these pressures mounted, somewhere between 1880 and the 1920s Japanese managers began to learn the rules of the labor market. According to Shirai,⁴⁹ the practice spread to male white-collar workers in big enterprises during the period from the early part of the 1890s to the end of World War I and then later to male blue-collar workers in the process of rationalization after the Showa depression and in the transition to a wartime economy. As they grappled with the problems of high turnover and an unsteady supply of skilled labor, they began to understand that workers could not be retained without adequate provisions; hence, the beginnings of employer “paternalism”. Nakane, who does not underplay culture or values, gives substantially the same account as Dore, pointing to the development of the tendency from the turn of the century and its acceleration after 1918.⁵⁰

Whatever the arguments may be, in sum, the fact that the practice of so-called lifetime employment has become embedded in large Japanese corporations is due to the following reasons:

1. Training of skilled workers within internal labor markets was an efficient way of importing and establishing modern technology so that a policy of stabilizing employment in the firm was adopted;
2. The large-scale personnel dismissals in the years after World War II led the Labor Courts to establish “principles regulating the right to dismiss” that required employees to specify “legitimate reasons for fair dismissal”. As a consequence, even in the case of redundancy, the employer was not allowed to enforce dismissals before undertaking to (a) prove the necessity of dismissing surplus workers, (b) make adequate efforts to transfer workers instead of

⁴⁹ Toshiro Shirai, *Gendai Nihon no Romu-Kanri* [Contemporary Japanese Labor Management] (Tokyo: Toyo Keizai Shimposha, 1992).

⁵⁰ Nakane, *Japanese Society*, p. 16.

- dismissing them, (c) be fair in the selection of whom to discharge, (d) negotiate dismissals with the trade union, when this exists;
3. Given the costly labor strikes experienced in the postwar period up to the early 1960s because of personnel cuts, firms were obliged to try to avoid dismissals in order to escape substantial loss either economic or in social standing;
 4. From 1960 onwards, the law concerning employment security was tightened. Article 21 of the Law of Employment Stabilization, enacted in 1966, forced employers to report in advance to the Offices for Employment Stabilization, cases of mass dismissal (i.e., affecting more than 30 regular workers in a month; Regulations Relative to the Enforcement of the Law, Art.8, par.2). In 1975, the Employment Insurance Law helped to discourage the discharge of surplus employees by establishing a subsidy on employment maintenance to be paid to depressed firms. The law required as a condition for the payment of employment subsidies, that the employer obtain the agreement either of the union representing more than half the employees or of a worker representative in the absence of a union on measures such as temporary holidays, transfers, retraining periods, number of workers affected, and income compensation for these measures.
 5. In 1977, the Special Law on Surplus Employment in Depressed Industries, (later modified to become the current Special Law on Depressed Firms and Depressed Areas in 1983), established that employers in these industries must have approved, by the head of the local Office for Employment Stabilization, any measures that they take for employment stability, and the reemployment of workers affected by industrial restructuring. The head of the Employment Stabilization Office is entitled to reject the plans presented whenever s/he finds these measures inadequate (Art.6).

Thus, the practice of lifetime employment observed in large Japanese firms is not only a result of social custom but depends also on restrictions by law and legal practice.

How and When did the Practice of Seniority Wage Develop in Japan?

Going by the current orthodoxy (the rationalistic view), it is evident that workers, who had been trained in specific skills, were retained as valuable assets. This sowed the seeds for the so-called lifetime employment system. However, job security alone was not enough to retain skilled workers within a company. Employees confident of their skills were likely to seek better jobs elsewhere, while those less confident workers stayed because of job security. Therefore, to minimize risk of employees jumping to better pay packages and working conditions at other companies, employers tried to offer opportunities for advancement within the company. This required a wage structure that paid more based on years of service with the company and acted as a disincentive for employees to leave to work somewhere else. According to this line of reasoning, employers faced with an unprecedented demand for industrial labor after World War I introduced the seniority system of wages under which payments were related to length of service to the firm.

However, there are many counter arguments concerning the development of seniority system too. According to Hasegawa, the combination of merit evaluation and seniority contrasts sharply with the situation in pre-war Japan. At that time power was in the hands of a small group of zaibatsu. When the zaibatsu was dissolved following the American Occupation, top management was purged for their participation in the war effort and middle management took over. People began to be promoted from within the company. Employees were gradually promoted according to seniority until they finally assumed positions as management executives. Then it became clear that length of service was not enough for providing material for a first-rate managerial staff. At this critical juncture, the notion of combining the seniority system with the merit system was conceived.⁵¹

On the other hand, the development of long-term employment after World War I required 'an additional device ... to hold workers to the company, for example, the

⁵¹ Keitaro Hasegawa, *Japanese Style Management* (Tokyo: Kodansha, 1986), p. 23.

seniority payment system based on duration of service, age and educational qualifications, with the added lure of a handsome payment on retirement.⁵² Nakane argues that in traditional Japanese society a method of judgment suitable for the implementation of the merit system never existed as a system of employment and the Japanese do not pay attention to differences in ability unlike other societies. Nakane wrote that traditionally the Japanese give attention to differences in effort between individuals, for instance 'hard worker' and 'idler,' but hold an extremely deep-rooted belief in an equality of ability in the sense that anyone can succeed if he tries.⁵³ In addition, Okada believes that the seniority-based system did not finally become established in large Japanese corporations until after World War II. He states that most of these corporations had previously paid wages on personalized schedules that emphasized age, academic record, and years of service and that the efforts to adopt the Western practice of paying wages according to position and ability were opposed by the enterprise unions organized at most large firms after the war.⁵⁴

Regarding the origin of the seniority wage legend, there are two contradictory theories:

- Seniority Wage Theory I – according to this theory, wages are not paid by the job. This version comes from the “late development” thesis of the Japanese economy. Paying wages by the job made it difficult for them to make a living interfering with their ability to do the job. Vast surplus population in farming villages caused extremely low wages. Wages were, thus, paid according to age to offset the cost of living, making seniority wages a kind of cost of living guarantee.
- Seniority Wage Theory II – this theory disagrees with the first one and stresses that wages are paid by the job. This line of theory says that wages correspond with age and length of service only because the skills needed to perform certain jobs increase with age and service. The only common point between the two theories is that the second theory too, comes from the “late development” thesis

⁵² Nakane, *Japanese Society*, p. 16.

⁵³ Nakane, *Human Relations in Japan* (Tokyo: Ministry of Foreign Affairs, 1972), p. 34.

⁵⁴ K. Okada, *Japanese Management – A Forward Looking Analysis* (Tokyo: Asian Productivity Organization, 1984), p. 18.

of the Japanese economy. Having imported advanced machinery from the West, Japan had to train operators to use those. Workers, thus, were trained while gaining in-house corporate experience. Skills roughly correspond to length of service and age.⁵⁵

Linda Weiss, in her article titled, 'War, the State and the Origins of the Japanese Employment System,'⁵⁶ chooses to slightly deviate from the above-mentioned current orthodoxy. Weiss argues that employers were not the principle forces pushing in the direction of the Japanese employment system. Nor were economic exigencies, the only, or by any means, the most important processes. Weiss' argument is based on the hypothesis that the said practices developed in primarily political and geopolitical terms. From the Meiji period onwards – but particularly in the decade prior to Japan's defeat and Occupation – the actions of national bureaucrats had a decisive effect on management practices, especially as the state confronted international pressure that were of a military nature. Thus, it was not just the labor market conditions that contributed to the creation of corporate welfarism, but also the Japanese state, in particular, the bureaucracies charged with labor affairs. Further the principle sources of state activism, though sometimes indirectly economic, were primarily military. Weiss' discussion, therefore, focuses on the ways in which national bureaucracies, and to some extent, state-owned enterprises, in response to military pressures, indirectly encouraged and, at critical moments, directly coerced employers to take on social responsibilities for their workforce.

Later, some economists (e.g. Dore, 1973; Koike, 1977) made further counter arguments to the culturalist view. They argued that neither of these customs developed until the interwar period. Moreover, even among large firms, they became prevalent only during the postwar period. Okada (1984) and Shimada (1980) carefully trace the path through which the shortage of skilled workers in the interwar period made it necessary for firms to adopt the lifetime employment

⁵⁵ Koike, *The Economics of Work in Japan*, p. 14.

⁵⁶ Linda Weiss, "War, the State and the Origins of the Japanese Employment System," *Politics and Society*, September 1993, vol. 21(3), pp. 325-54.

system and a wage scale according to seniority. During the interwar period, when skilled workers became scarce, there was an incentive for firms to develop firm-specific skills among their employees in order to retain them. Employees can be encouraged to stay with the same firm by pay scales that rise with the duration of employment. The adoption of seniority wage system was reinforced during World War II when wage controls, built on seniority wage scales, were enforced nationwide.

The arguments seem quite reasonable. However, one cannot completely ignore cultural and social factors. Economic rationality alone does not explain the rather paternalistic employment patterns of Japanese firms. Singing a company song every morning, driving exclusively the car of one's own firm, drinking beer of the brand produced by a member of the firm group and having the company president or executives play a ceremonial role as go-between in weddings, for example, do not arise simply as the rational choice of employer and employees. According to Confucius, one must be faithful first to one's own family, then to one's local community, and then to one's nation. This sort of group ethic, emphasizing the family as an important unit, facilitated the maintenance of permanent employment and a seniority wage system in Japan. In fact, many executives find the Abegglen thesis very congenial, and they encourage new employees to behave like family members in the company. At the very least, the family principle has been utilized as an ideology to strengthen employees' morale.

How and when did enterprise unionism develop in Japan?

Enterprise unions are a uniquely Japanese phenomenon, though Koike notes that local unions in the United States of America have similarity. It was only after World War II, following the establishment of three basic labor laws during the Occupation period that union activities were legalized and became active. Although at first, there were several attempts to create craft unions, most active Japanese unions eventually became enterprise unions. In the meantime, after several unsuccessful militant strikes during the 1950s, enterprise unions began to

adopt more moderate strategies. Yet they did not generally become ‘company unions’, but kept a certain degree of independence and negotiated reasonably hard.

The reason why Japanese unions are organized on an enterprise basis is not obvious. The influence of wartime control may count. After 1945, as part of the democratization policy by the Occupation authorities, unions were legalized. The quickest way to re-establish the unions was to assemble the existing factory-based labor fronts and to put them down on a more democratic footing. This is the historical origin of enterprise-based unionism from the time of the Occupation onwards, in contrast to the ahistorical assertion of ideology stressing the unitary nature of enterprises. In any case, enterprise unions were the most natural forms of organization that workers could assemble during the short period that encouraged the labor movement at the onset of the Occupation. As Shirai describes (1983), enterprise unions were the result of spontaneous reactions that workers took under the existing historical constraints. At the same time, unions have their own rationale, and their formation is strongly conditioned by the existence of lifetime employment and of the human capital formation of firm-specific skills.

Clearly, both ‘lifetime employment’ and ‘seniority-based wage system’ had antique precursors, especially in the practice of the Japanese merchant ‘houses’, but both appeared in modern industry only in the 20th century. Statistical evidence suggests that lifetime employment was not firmly established between the two World Wars,⁵⁷ and one might have supposed that the practice would have faded away after World War II. In fact, however, after the war, both lifetime employment and seniority wage system became sufficiently common to be popularly thought of as normal and traditional in firms. The reason for this was paradoxical. The labor union movement, weak enough before World War II, had almost ceased to exist by 1945, when the Occupation authorities decided to encourage the formation of workers’ associations as part of the effort to build a democratic nation. With the country devastated and communications bad, it was difficult to gather together workers in the same industry from different regions. Instead, workers organized

⁵⁷ Koji Taira, *Economic Development and the Labor Market in Japan* (New York: Columbia University Press, 1970).

their new unions around the enterprise or plant in which they were working. Within a few years, enterprise unions had proliferated and union membership grew with considerable rapidity. There was, at that time, an enormous supply of labor. The damage sustained by Japanese industry during the war had reduced the number of jobs available just when demobilization and the repatriation of people from the expropriated colonies had increased the number of people looking for work. Under these conditions, the new enterprise unions were naturally most concerned to preserve the jobs of their members and to prevent dismissals; for, a worker who lost his job might not find another. Lifetime employment, which before the war had been the expedient of management, was now the conscious objective of labor unions.

Union activities also contributed to the postwar prevalence of the seniority wage system. The enterprise unions iterated the slogan of 'equal pay for equal work', but they were constitutionally ill suited to pursue the goal; for within a single enterprise union, there would be a number of workers doing different jobs. A more natural aim for an enterprise union was to keep the average wage levels of its members comparable with those paid to the members of similar enterprise unions in other companies. Pay would therefore be related to company membership rather than individual function. Moreover, in the early postwar years, wages were extremely low, and it was imperative to arrange that those workers who had the greatest family responsibilities should have the most money. In 1946, an important precedent was established by an agreement won by the electric power workers. Wages were to be paid according to age and number of dependents as well as skill and experience. As in the case of lifetime employment, prewar management thinking and postwar necessity combined to common effect.

The Japanese employment system during the pre World War II period

With the end of World War I, the tight labor market dissolved as unemployment soared. A series of economic disasters in Japan and abroad, one natural and others man-made buffeted labor in the 1920s. The prosperity brought by World War I continued briefly after the Armistice, but in April 1920, the boom ended abruptly.

The stock market plunged, and along with it the market in silk, Japan's major export commodity. Many banks failed. The Great Depression proved an unambiguous disaster for Japanese industry. Employment fell to 1,90,000 in 1929 and to 1,68,000 in 1930. Most companies fired large numbers of workers and hiring at all levels was at a standstill. Gordon's detailed analysis of the prewar years shows that as the labor market slackened, so too did management enthusiasm decline for all the schemes that emerged during and immediately after World War I (like retirement funds, bonuses, training programs, etc.) in an effort to lower turnover. Thus job insecurity and short-term commitment on the part of both management and labor continued to dominate as firms readily shed expensive skilled labor and cut back on company benefits throughout the 1920s. As Gordon concludes:

The policies that encouraged tenure were not applied consistently or systematically. Managers occasionally discontinued welfare programs. They suspended annual or semi-annual pay raises in bad years and always used them selectively. Of most importance, employers were ready to fire when business was slow, and seniority was no guarantee of exemption. On the contrary, they more often fired the older workers with seniority.⁵⁸

Work forces contracted at most firms in the 1920s and then expanded in the early 1930s. As Japan started along the path of military expansion in China with the 1931 Manchurian incident, military spending rose and heavy industrial enterprises were among the chief beneficiaries. Despite recovery, the labor market only gradually shifted from one of tremendous oversupply to one of labor shortage. The large pool of unemployed skilled workers as the recovery began allowed a buyer's market to continue for several years. Also, individual companies behaved cautiously. They were anxious to avoid the chaos of a high turnover and pirating of skilled workers that accompanied the World War I boom, as well as the subsequent bloated payrolls of the 1920s bust. They tended, therefore, to designate many of their new employees "temporary". The temporary worker received a yearly contract renewable at company discretion and fewer benefits than his "regular" co-worker did. This hiring policy created a buffer group of dispensable men in case the recovery itself proved temporary. It also encouraged the regular worker to stay

⁵⁸ Gordon, *The Evolution of Labor Relations in Japan*, p. 139.

with his company, as he realized a new job elsewhere would probably be offered on temporary terms.

The fear of a short-lived recovery dissipated as the expansionary economy of the mid-1930s became the overheated economy of the late 1930s. Profits exceeded the World War I heights by 1937 or 1938, output measured in Yen rose sharply, and an acute labor shortage developed by the late 1930s. The simple scarcity of jobs in the 1920s and their abundance in the late 1930s naturally influenced the attitudes and behavior of skilled workers. With companies nationwide laying people off in the 1920s and early 1930s, a secure job seemed far more favorable than the risk of quitting and seeking new jobs elsewhere. Also, the emergence of a dual structure of higher wages at the larger companies and lower at smaller ones kept workers from moving as freely as they had in earlier decades. Conversely, the labor shortage of the mid to late 1930s brought an increase in job switching. By 1934, almost all skilled men thrown out of work during the Depression had been rehired, and scattered labor shortages were reported. By 1937, an acute scarcity of skilled labor afflicted the economy. For managers in the 1930s, the problem was no longer how to cut back without a dispute, but how to keep senior skilled men and find young new workers.

With regard to wages during the prewar period, by the end of World War I Japanese managers offered an impressive array of enticements to seniority. Promotions, wage hikes, bonuses, and welfare programs such as retirement pay, all favored senior workers and theoretically encouraged long-term employment. These benefits had emerged largely as a piecemeal response to the persistence of high turnover, although in a few cases, organized workers had demanded and gained them. When the job market contracted and turnover fell sharply in the 1920s, these practices, insofar as they persisted, gradually began to reshape the wage and benefit structure. As more workers stayed put, or tried to, seniority and status within a firm rose in significance.

Workers in the 1920s assumed they deserved the regular raises first implemented years earlier but managers all along insisted that skill and performance be

considered in settling the level of an increase. In the 1920s especially, they did not in fact give these so-called “regular wages” (*teiki shokyu*) regularly, they did not give them to all workers, and favoritism often influenced decisions. All these features were prominent at major large companies, where rules specified that “skill, performance, attendance, and character” determine the amount of an individual’s pay raise. Workers with poor records received lower raises or were passed over entirely.⁵⁹

In wages, the key practices associated today with the Japanese company were slowly evolving out of the wrangling of workers and managers. Throughout the prewar period, there were disputes over wage levels and retirement or severance pay, wherein workers demanded explicit linkage to seniority with wages, secure output pay, and expanded benefits for all workers including voluntary leavers. Workers failed in most struggles for lack of power in a hostile environment. To the extent that they succeeded, wage or welfare practices considered part of the Japanese employment system slowly took root, to reach full growth, together with job security, in a later era when the political and economic balance had changed.

The Japanese employment system during the wartime period

The years from the mid 1930s until Japan’s defeat in 1945 mark a critical phase in the evolution of the Japanese employment system. Throughout the 1930s a host of workplace issues, including job security, wages linked to seniority and company allowances became increasingly subject to bureaucratic management. A crop of labor laws and other regulations helped to shape, systematize and spread the core features of Japan’s modern employment system. In a piecemeal series of regulations, the Japanese bureaucracy created a structure to recruit and train workers systematically, and retain them involuntarily as “permanent” employees in the thousands of strategic factories producing for the war.

The custom of recruiting through schools rather than relying entirely on personal connections encouraged the hiring of workers directly from middle or high schools. Regulations that forced companies to start or expand their training

⁵⁹ Gordon, *The Evolution of Labor Relations in Japan*, p. 169.

programs increased the well-established private sector responsibility for worker training, and companies since the war have continued to assume this burden. In practice, however, the need to expand work forces rapidly, and to produce quickly and in quantity, served to negate the immediate impact of these regulations. Firms often quietly shortened or dispensed with training programs, especially for draftee workers. With orders in abundance, companies did not want to “waste” valuable manpower in the classroom.⁶⁰ Unprecedented demand for workers also hindered measures to ensure systematic recruitment. Companies took their workers when, where, and however they could. Insufficient labor supply hindered operations. The company, therefore, employed more women, students, and mid-career transferees. Recruiting of new school graduates, regulated by government quota and carried out in distant prefectures, was a fierce struggle between competing employers. By 1942, maneuvering behind the scenes, bribes, and gifts were all common, but none of these companies could meet labor needs through hiring of school graduates alone. Even so, school graduate hiring and in-company training had been established in theory, and to some extent, in practice, as proper procedure.

Labor turnover rose sharply after 1937, even in the large enterprises able to offer inducements to stay. The expansion of old factories and construction of new ones led to a great influx of new workers, a sharp rise in the proportion in any given plant of men recently hired, and intense competition for skilled, experienced men. Beginning in 1939, therefore, the state promulgated a succession of even broader, stricter turnover controls, as each new regulation in time proved ineffective. The Cabinet made its basic decision to take steps to limit turnover under the National Mobilization Law in June 1938 and enacted the first regulation in 1939.⁶¹ Between 1939 and 1941, bureaucrats issued a scattered series of ordinances. Some enabled the government to register all workers, and others prevented unauthorized job shifting. Employers were to obtain permission from the local Employment Agency Office before hiring anyone, and in case of experienced people, permission would be granted only if the previous employer agreed.⁶² In an era of labor shortage,

⁶⁰ Gordon, *The Evolution of Labor Relations in Japan*, p. 265.

⁶¹ Ibid. p. 266.

⁶² Ibid. p. 267.

industrialists welcomed any effort aimed at slowing mobility and ensuring an adequate labor supply.

As far as wages were concerned, bureaucrats sought to shape a so-called livelihood wage, which in theory would meet the basic material needs of a worker and his family by rising automatically with age, seniority, and greater family responsibility. The pet slogans of reform-minded officials and intellectuals were “*tekisei*” (appropriate) and “*seikatsu*” (livelihood) wages. Livelihood wages came to be seen as a truly Japanese family-oriented wage system as against the Western selfish, individualistic, skill-based output wages. Livelihood wages were not only better for workers; they would also raise productivity by providing a decent, stable living. Skill-based wages only encouraged highly skilled, highly paid workers to work fewer days.

The more specific concept of the livelihood wage became a topic of intense debate among government bureaucrats, intellectuals, and labor managers as the actual wage controls evolved after 1938. In the most extreme cases, the Japanese family system centered on the Imperial Household was invoked to condemn skill-based wages, unrelated to family size and worker age.⁶³ Out of this debate on the proper nature of wages in Japan, a consensus gradually emerged between 1939 and 1943. The mainstream representatives of the bureaucracy, big business, and the intellectual world came to agree in their official pronouncements on the need to combine livelihood and output wages, and they stressed the danger of over-reliance on either form of payment. The bottomline was wages must protect worker livelihood, of course, but must also encourage efficient work. To this end, a base wage reflecting age, tenure, sex, and occupation would account for 70 per cent of income. The rest would account for additions as reward for achievement or be given as allowances. In other words, roughly 70 per cent of income should derive from a base wage offering enough money to keep workers at a subsistence level. This wage should reflect age, seniority, sex, family size, occupation, and location, with a range of wage levels given to workers in any given category to reward individual diligence, skill, and character.

⁶³ Gordon, *The Evolution of Labor Relations in Japan*, p. 277.

The great change brought about by wage controls was the spread to enterprises throughout heavy industry and much of the rest of the economy of the guaranteed semi-annual or annual increase in the day wage, of clearly defined proportions and for all workers. The spread of guaranteed regular raises firmly established a systematic version of the so-called, “*nenko*” or seniority wage. The link between age and wages took on real significance during the war and immediately after. As the state forced mid-career people out of peacetime jobs and into heavy industrial factories, the new wage scales put the pay of these transferees well ahead of equally inexperienced but younger workers. Postwar unions took a cue from this regulatory effort and supported the use of age as an objective, predictable “livelihood” factor in calculating wages.

The Japanese employment system during the post World War II period

Contradictions riddled much of the effort to establish a uniquely Japanese system of employment in the prewar and wartime periods. After the war, industrial managers eventually fashioned a workplace order of considerable durability and adaptability. This settlement, whose outlines appeared in rather clear form by the early 1950s, was a significant reconstruction of practices established in prewar factories, those developed during the war, and those imposed by an aggressive, often radical labor movement after the war. Although most practices had prewar or wartime roots, the Occupation reforms and the demands of organized labor helped bring about most of the changes resulted.

School-graduate hiring had been a small part of the picture in the 1920s and 1930s, and the government sought to reinforce it with regulations during the war, to little effect. Only with recovery did this practice take on major statistical significance. A phrase was coined to describe it: “*teiki saiyo*” (regular hiring), a parallel construction to the term “*teiki shokyu*” (regular raise). Expanding, modernizing companies hired inexperienced young workers, willing to learn; transfers alone could not usually man an entire new plant and the supply of experienced adults contracted as economic growth gained momentum. Managers hoping to recoup their investment in training these workers had good reason to stress the mutual

commitment of firms and employees on every possible occasion. They had motive, even to invent the notion of a loyal “permanent commitment” among workers as part of the elusive good old days, part of a spirit now in jeopardy.

The job settlement, which emerged in the 1950s and 1960s, was an implicit settlement; no contracts spelled out job guarantees. The new employment pattern gave workers the right to quit, and the majority of those hired exercised it at least once in a career. And they affirmed the right to remain if they chose. Economic conditions and union pressure finally combined to defend jobs effectively in this system in the 1960s. Some workers, however, were still not full members; temporary employees and subcontractors did not enjoy the secure jobs and steadily rising pay of the regular men in the large companies. The use of so-called temporary workers reached a peak around 1960. In the great surges of growth after 1955, almost all large companies hired many of their new workers with low paying, temporary contracts of from three months to one year, renewable at company discretion.

The story of women temporaries was quite different. The Labor Ministry report in 1962 noted that in contrast to heavy industry’s exhaustion of the supply of temporaries, light industry, including light electronics, still found a large supply of women willing to sign temporary contracts.⁶⁴ The reason was, as major firms lost temporary male workers as their cushion in the 1960s, women workers (especially those married with children of at least school age) emerged to replace them. From the early 1960s through the 1980s, female employment rose far more rapidly than male employment; by the late 1970s, women accounted for over half of the new employment nationwide each year. In addition, a significant portion of these women served as “part-time” (*paato taimu*) employees, a formal category which only became common in the late 1960s, after the last discussion of “temporary workers” as a major problem. As workers called “temporary” began a numerical decline in the 1960s, women labeled “part-timer” increased even more rapidly. The number of firms hiring these women also rose dramatically.

⁶⁴ Gordon, *The Evolution of Labor Relations in Japan*, p. 407

There can be no doubt then, that marginality was inherent in the postwar employment system, and that, by a combination of conscious managerial policy and long-term demographic and social change, the center of gravity of the marginal class shifted from “temporary” men and women to a growing group of “part-timers”, almost all women.

Coming to the wage system during this period, the story of early postwar wages is in large measure, the struggle for a need-based, and living wage. For roughly the first year after the war, wage disputes focused on extraordinary allowances rather than the two components of base wage and output pay, which had accounted for most of the prewar wage package. As during the war, wage controls limited the base wage, and the huge pay raises needed to even begin to cope with inflation were granted in the form of all sorts of allowances: “food allowances”, “price allowances”, “extra allowances”, and so on. Companies also adjusted the wage structure each time they granted a raise, creating new “attendance”, “dependent”, “ration”, “temporary”, and “price” allowances.

Neither managers nor workers were happy with this bewildering new pay structure. Although workers preferred allowances (in theory responding to specific needs) to fluctuating output pay, they feared it would prove easier to discontinue an allowance than to lower the base wage rate. They sought to incorporate the allowances into a higher base wage. Managers too, favored a larger base wage portion, far easier to calculate and control than a half dozen or more allowances. Once controls on the base wage were lifted, workers and managers both sought to restore the base wage to the center of the wage structure. The conflict came over the criteria to be used in its calculation. The major confrontation took place during the *Densan* dispute, the centerpiece of the *Sānbetsu* Congress’ “October Offensive” of 1946. *Densan* was the union federation of electric power workers and their wage demand is remembered as the heart of the *Densan* program. It called for a fixed minimum wage based on the cost of living, adjusted to reflect regional variation, additional pay to reward ability, seniority and attendance, the elimination of imbalances based on rank or educational background, and a commitment to adjust wages in the future to reflect price changes. The detailed

structure called for by the union reestablished the base wage as the major source of income. Most important, the base wage was calculated explicitly in accordance with need. Two-thirds comprised “livelihood guarantee” based wholly on an individual’s age and family size. The remainder derived from an “ability portion” and a “seniority portion”. After a lot of pressure, the government and power industry, on November 30, 1946, agreed to implement the *Densan* wage structure as demanded by the union. It very quickly became a model for the demands of unions all over Japan, regardless of affiliation or ideology.

Seniority as part of the wage calculus remained. As they had since the 1920s, wages remained a function not of the skills a man brought to a job, but of a complex variety of factors depending, in some measure, on rank and tenure in the enterprise. The great postwar change was the entering of a man’s economic needs as a member of society, into the wage equation for the first time as a result of labor demands.

In sum, if not a system of permanent employment and rigid seniority wages even within the large firms alone, the postwar employment system demands a label nonetheless. It is, in Dore’s phrase, “...an organization-oriented employment pattern. It is built upon the premise of secure jobs and livelihood wages, *for full members only*. The wage is determined by attributes, which inhere to membership in the firm, such as seniority, rank, and merit evaluations, with some attention to independent and objective attributes of the individual, such as age and family size. Skill as an independent attribute of the worker is largely irrelevant, as are proxies such as job category. Mediated by seniority, the connection between skill and pay is assumed to obtain efficiency to satisfy workers and managers alike. Job security, likewise, is a function of membership and the ability of a union to defend those it defines as full members, a category that has broadened some since the 1950s.”⁶⁵

⁶⁵ Dore, *British Factory, Japanese Factory*, p. 384.

Limitations of the Japanese Employment System

The benefits of the Japanese employment system have been well publicized. Little attention, however, has been paid to the costs the system afflicts on society in general and workers in particular. And these costs may be substantial in terms of loss of individual freedom that may border on involuntary servitude, a rigid social structure, and sacrifice of other values that individuals and groups may cherish but may be unable to exercise. The reason being the intolerance of a system that is structurally imposed and from which escape may be all but impossible. Another fact that is little known outside academic circles is that the benevolence of the Japanese employment system is not bestowed on even a majority of workers, but instead is limited to a small minority. The large majority of workers toil for substantial wages, work under unsafe conditions, and account for a greater part of the Japanese success.

Another inherent drawback of the system is that it imposes inefficiencies on the decision-making process and creates rigidity in a firm's operating costs. The system is slow to respond to changes in the external environment, lacks incentives to reward creativity and innovativeness, and has adverse second-order effects on those who are forced to bear the brunt of its costs. Among the much-acclaimed merits of the lifetime employment system, employee loyalty and commitment to the company is considered to be a major point. However, according to Takagi, many executives in large Japanese companies believe that lifetime employment does not always generate the high involvement among employees as predicted in Ouchi's *Theory Z*.⁶⁶ In his preliminary study, he states thus:

In their firms, there are actually a substantial number of employees who use their loyalty to the company to ensure job security while giving only a minimal commitment to their jobs. In fact, this passivity that is often observed under conditions of lifetime employment is commonly referred to in Japan as the 'Large Company Disease.'⁶⁷

⁶⁶ William G. Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge* (Reading, Mass.: Addison-Wesley, 1981).

⁶⁷ H. Takagi, *The Flaw in Japanese Management* (Ann Arbor: UMI Research Press, 1984), p. 2.

Estimates vary as to how many Japanese workers actually enjoy the privileges of lifetime employment because of the ambiguous nature of the employment relationship. Various scholars put the number at approximately 35 to 40 per cent of the total workforce, with large manufacturing companies and trading houses covering between 40 to 60 per cent of their employees. Women are almost never granted this benefit and therefore invariably occupy the lowest-paid jobs in the industry. The secondary and tertiary sectors of the economy provide lifetime employment and seniority-based wages to a very small fraction of their workers.

Thus, while one may marvel at the dignity conferred on the worker by guaranteeing him a job and a wage quite independent of his precisely measured performance, the reality of the system is quite different. The segregation of employees into lifetime employees and temporary workers mean differential treatment for doing essentially similar work. It creates considerable financial hardship for temporary workers because they lack job security and other job-related fringe benefits, and gives rise to other social problems. Since unions in Japan do not protect their workers in the sense that American and European unions do, corporations can shift the burden of extra costs to subcontractors and temporary workers, who end up bearing the major brunt of downturns in economy.

Another loophole in the practice of lifetime employment is the retirement age, which, for most employees is 55. It should be noted that the retirement age varies according to the prosperity of the industry or company. For a prospering or healthy company and government, the retirement age is now around 58. For a declining industry it is typically below 55. The retirement benefits offered by Japanese companies are quite meager. Therefore, a retired person faces considerable financial hardship.⁶⁸ Because of the widespread development of the nuclear family, social norms have changed. The eldest sons (or other children and their wives) are not as willing to take care of the retiree as they had been in the past. The practice of retirement at 55 was culturally accepted based on the old custom that the eldest son would look after the well being of the father, or retiree. In Japan, average life

⁶⁸ Tajima Mitsuo, "Japan's Cold Indifference toward Old People," *Wall Street Journal*, November 8, 1982, p. 23

expectancy now goes well beyond 70, and 55 is only late middle age. Eligibility for welfare pensions does not begin until 60. However, work does not end even at age 60. Pension payments are not large enough to afford the retiree a work-free living income. Thus, for almost a third of his productive and most experienced life, a Japanese worker is forced to work as a “temporary” worker at wages that are only a fraction of those he is worth, and that are paid to other employees with less experience and maturity.

Another by-product of compulsory early retirement and low level of retirement benefits is that the relatively small number of executives who escape retirement at 58 and reach the exalted state of senior executives are not too prone to retire at 60 or 65. Firms are thus, often burdened with highly paid senior executives who are long past their productive years. They also become barriers for younger executives waiting to move up the corporate ladder. According to a recent Ministry of Labor survey, 81.6 per cent of Japanese men between the ages of 60 and 64, and 45.4 per cent of those aged 65 and over, are still in the labor force. These figures are by far the highest in the industrialized world. Taking this into account, employment practices in the West may come closer to the ideal of “lifetime” employment than those of Japanese companies.

There are other drawbacks to the lifetime employment system from the viewpoint of the firm. Lifetime employment turns labor costs into fixed overhead costs. Large-scale firms are not immune to recession, and are also subject to cyclical changes in the economy. Even under recessionary conditions, they are forced to operate their plants at maximum capacity and push for exports at low prices in order to keep their workers employed. So, Japanese companies have developed other ways to gain flexibility in using their workers.⁶⁹ Employees who are in a depressed division may be transferred to an expanding division within the company or loaned out to other companies in a related group. Some companies put idle employees into training programs. Production employees become janitors or repairmen or gardeners and even salesmen. Another tactic is the practice of

⁶⁹ Masayoshi Kanabayashi, “Japan’s Recession-Hit Companies Make Complex Arrangements to Avoid Layoffs,” *Wall Street Journal*, February 17, 1983, p. 32.

retirement at age 58. A permanent employee retires at 58 and may become a temporary worker at the company or at another related company with much lower salary, fewer fringe benefits, and practically no job security.

Another demerit of lifetime employment is the resulting decrease in labor mobility in Japan that impedes an individual firm's ability to adapt to changes in the market place and the economy as a whole. Corporations have difficulty in assimilating and developing new ideas and technology by hiring experts from outside. Because of the closed nature and rigidity of the system, it is rare that a company can hire outside experts on demand. Shortages of managerial and/or technical talent often occur in growing areas of the economy while firms in declining industries often suffer the burden of underemployed personnel. Large corporations frequently have too many managers doing too much busywork or employees with little or no productive tasks to perform. Such managers are so common in Japan that they have even been nicknamed *mado-giwa zoku* (window tribe) since such managers have little more to do than look out of the window.

Regarding the seniority-based wage system, increasingly there are shifts in the attitudes of employers and employees towards it as changes in the economic environment in Japan have illuminated some inherent demerits of the system. One apparent drawback is the difficulty in rewarding individual creativity and excellence, thereby possibly reducing motivation among able employees. And since compensation is based primarily on seniority and not on performance, companies may be paying higher wages to those who are not competent and not worthy. The system has also been criticized for holding back the growth rate and competitiveness of Japanese companies. Another problem with the seniority-based system is the eventual promotion of less competent but older managers over more competent younger ones. Though the promotion of a manager may be delayed as a form of punishment or as a sign that the manager in question has not performed adequately to advance along with others in the same age group, eventually the manager will move up the ladder so as not to fall farther behind. In this way, an employee who is not as capable will gain promotion ahead of younger and more talented employees.

While sidelining employees may help in promoting younger, more qualified employees, it is also fraught with danger. And it is a technique not particularly suited even to the Japanese system. It creates friction between employees of the same age, thereby weakening the bonds among members of primary groups, and strains working relationships between primary and secondary groups. It also promotes favoritism, because in an ill-defined organization, where job responsibility is not specific and performance is group-oriented, measurement of individual performance is never totally objective and contains a large element of personal judgment and feeling. Large companies are developing alternative career paths that increasingly incorporate some aspect of compensation directly related to an individual's performance. This change signals a distinct departure from traditional Japanese practices.

Another problem is that the system has created a large number of middle managers in Japanese companies.⁷⁰ The high rate of economic growth in the 1960s caused many companies to hire more college graduates. The years 1965 to 1971 were the ones during which large numbers of the baby-boom generation (born right after World War II) graduated from universities. They became middle managers as they aged. Usually, a healthy hierarchical organization consists of a relatively larger number of lower level managers and a smaller number of middle-to-high-level managers. However, an inevitable result of the seniority-based wage system, coupled with the lifetime employment system, is the accumulation of employees at the middle-management levels. Since upward mobility is not likely to be available to most of them, it has the potential for creating a large number of frustrated and even despondent managers, a situation that does not augur well for Japan in the long run.

⁷⁰ Sethi, Namiki and Swanson, *The False Promise of the Japanese Miracle*, p. 51.

CHAPTER 2

EMPLOYMENT: WORKERS, RECRUITMENT AND WAGES

Introduction

The long-term employment relationship is often referred to as lifetime employment (as mentioned in Chapter 1). Thus, when the Japanese identifies himself in industrial terms by his workplace and not by his occupation, he understands the basic facts of the industrial lifecycle, i.e. birth, aging, and death, in somewhat the following manner:

Birth: Hired by a given company at industrial age zero, i.e. at the time he graduates from school;

Aging: The merit in years of service (*nenko*) in that same company;

Death: Termination of the employment relationship at the mandatory age limit (*teinen*).

A perspective such as this changes the individual's fundamental attitude towards industrial work, and consequently the nature of the workplace itself. One salient characteristic of the large majority of Japanese workers is that they do not regard their jobs simply as a means of earning an income. Instead, they attach a great deal of importance to the intrinsic satisfaction derived from work itself – for example, from opportunities to use aptitudes and abilities. Belonging to a company can be interpreted more clearly as a sense of belonging to the whole company as a place of enjoyment rather than to any specific job. While the expectation of some intrinsic satisfaction derived from work remains strong, 'work' does not connote a specific job but encompasses a rather wide range of diverse occupations. This characteristic reflects clearly a situation where (1) labor unions are organized into enterprise-based units in which all employees of individual companies are members, regardless of their occupations or job classifications; (2) especially in the case of white-collar work, corporate organizations typically promote generalized personnel training programs in an effort to avoid specialization of personnel in

specific jobs; and (3) there is, as a result, ample flexibility in assignment of personnel to suit the company's particular needs.¹

Employment is not determined by a contractual type of relationship (the labor contract), but by a human relationship. As can be expected, the company concerns itself with matters well beyond the workplace, including the personal and family matters of the employee. As in the context of family and community, the relationship depends on social values more than mere economic considerations. Promotion, like ranking in the family, progresses along a vertical axis, where one's greater or lesser experience of life, i.e. years of service, is the determining factor. In postwar Japan, there is not much of a gap – social, ideological or otherwise – between blue-collar and white-collar employees, and between management and labor.

The Japanese company is grateful to the longevity of its *sha-in* (corporate members or employees), i.e. for remaining loyal to the firm. The technical term, commonly used in relation to work compensation, is *nenko* or the merit in the number of years an employee has provided his services. This word is often, and misleadingly, translated as seniority. In essence, it refers to the development of the human resource in the corporate setting, namely the *sha-in*. Inexperienced though he may be about matters concerning the company, the new employee, fresh out of school, is hired for his potential. He is put through on- and off-the-job training that progressively broadens and deepens his work experience (in terms of various skills) while acclimatizing him to his work environment (in terms of his peers and subordinates). Better performance can be expected from longer experience (complimented by training) that is furthermore compensated by better pay.

The merit in accumulating years of employment is, however, not only appreciated in terms of maturing on the job. It also means maturing according to societal norms. In due course, the new employee will get married and have children. These kinds of social needs are an inseparable aspect of aging and are covered by the

¹ Takeshi Inagami, *Japanese Workplace Industrial Relations* (Tokyo: Japan Institute of Labor, 1988), p. 25.

compensation system. *Nenko* is not the numerical device that seniority is often made out to be; it is the fundamental principle, or more explicitly, the reality of human resource development in both the industrial and the social objective.

However, life means expiration, which in the employment relationship means the mandatory age limit (*teinen*). A common practice in large and medium-size firms, the limit was set at age 55. This did not create a problem as long as life expectancy remained the same. Employees often continued to work beyond the age limit but on a temporary basis at reduced pay (10 to 30 per cent reductions), without further supervisory responsibility. In the 1960s and 1970s, as life expectancy rose to over 70 years and labor union pressure grew, the age limit was extended. Subsequently most firms set the limit at 60.² Such an extension required negotiating with the labor union, which often wanted countermeasures taken specifically regarding the separation allowance. Whenever possible, elderly employees are transferred to related companies and paid their separation allowance.

Employment security is not only an individual concern for it determines secure work environment. The company and its members must be constantly concerned about corporate growth, i.e. expanding its market share. This automation and diversification are not only readily supported but also actively encouraged by the workforce.³ But this requires continuous training and upgrading of skills. In addition, employment security for the regular employee is equated with the growth of his company. Under these conditions, it is not surprising that corporate mergers and acquisitions are, to say the least, especially difficult in Japan. As Kono suggests:

It is considered shameful behavior to sell one's own company. Japanese people are group-oriented, and members of the company have a deep sense of identification with their company and find it difficult to integrate as members of other companies. Wages and promotions are determined by length of service to a great extent, so wages of the same profession in different companies are not necessarily the same. The labor unions are organized on a company-

² Japan Institute of Labor (JIL), *Japanese Working Life Profile. Statistical Aspects* (Tokyo, 1989), p. 80.

³ Robert J. Ballon, *Foreign Competition in Japan. Human Resource Strategies* (London: Routledge, 1992), p. 36.

wide basis, so unions tend to be against acquisitions. Since companies guarantee lifetime employment, it is not easy to decrease the number of employees after acquisition. These are important reasons for the lower use of acquisitions in Japan.⁴

Worker Groups

The self-employed and employees

Japanese statistics on employment cover three categories: self-employed, family members, and employees (Table 2-1). The self-employed in any country consist of business owners and the unpaid family members who work for them. The definition of a business owner is obvious worldwide: however, unpaid family workers are defined differently from country to country. Some countries include all family workers except those who work only a few hours (less than 15 hours, for example) a week: others don't count them at all. This is a problem for researchers attempting international comparisons. For that reason, this discussion is limited to business owners.

Table 2-1. Employed Persons By Employment Status (2001-2003) (in 10 thousands)

Employment	2001			2002			2003		
	All	Male	Female	All	Male	Female	All	Male	Female
All industries	6412	3783	2629	6330	3736	2594	6323	3723	2600
Self-employed	693	506	187	670	495	175	659	488	171
Family workers	324	60	265	305	58	247	281	54	226
Employees	5369	3201	2168	5331	3170	2161	5361	3168	2193
Regular	4677	2971	1706	4604	2925	1679	4590	2898	1692
Temporary	570	177	393	607	191	417	639	211	428
Daily	122	54	68	120	54	66	131	59	72

Source: Statistical Survey Department, Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications.

Note: Data are based on the Labor Force Survey

An important distinction must be made between the self-employed and employees. Working conditions are quite different, even for workers doing the same job, depending on whether workers are self-employed or salaried employees. In

⁴ Toyohiro Kono, *Strategy and Structure of Japanese Enterprises* (London: Macmillan Press Ltd., 1984), p.291.

statistical parlance, this distinction is called employment status. The self-employed include those engaged in farm and forestry and those in non-agricultural activities. A large percentage of self-employed are owner-operators of either small family enterprises or unincorporated businesses. For most of them, their major asset is a small plot of land or business space that may perhaps be seen as compensating for their lack of true entrepreneurship as well as other shortcomings they may have.

The majority of those categorized as “family members”, most of whom are women, are employed in either agriculture or wholesale/retail trade. In incorporated as well as unincorporated enterprises, their wages, if paid at all, are tax deductible under certain conditions.

In the third category of employment, “employees” are Japan’s largest bloc of gainfully employed workers, consisting of salaried people and other wage earners subdivided into several different categories. In short, this category is split into two basic types of wage earners: regular or permanent employees (*seishain*) and non-regular that may be temporary employees (*rinji-shain*) or day laborers (*hi-yatoi*). Regular employees are hired with the understanding that, in principle, employment starts immediately after graduation and continues until the mandatory age limit (*teinen*), which is mostly between 55 and 60, and that compensation and promotion are based on a combination of performance and length of service. Such is the norm, however not necessarily the practice, say, in the smaller business establishments.

The line between temporary and part-time employees is not distinguished clearly, but part-time generally refers to those who worked for less than 35 hours during the survey week. Three-quarters of the temporary and part-time employees work in small firms.⁵ In larger firms they are hired basically at the discretion of the company under a labor contract (which is renewable) for a period less than one year. A common practice is to hire such employees more or less on a regular basis, which shows a certain degree of stability in employment (since under normal

⁵ Norma J. Chalmers, *Industrial Relations in Japan: The Peripheral Workforce* (London: Routledge, 1989), pp. 76-108.

conditions the contract will be renewed), but working conditions in these cases are inferior to those of regular employees.

Until the mid-1970s, temporary employment was, at least for male employees, a stepping-stone to regular employment. Companies selected core employees from amongst the temporary employees. These two types of employment, regular and temporary, are now distinctly set apart, as is obvious in the case of working women. Their pattern of employment is substantially different from that of men. Upon graduation, women may be hired as regular employees, but in general they are expected to quit at the time of marriage or childbirth, usually about the age of 25; later, sometime around late 30s, when they return to the labor market, they are hired as non-regular employees. Currently one-third of the female labor force is employed part-time; of the part-timers, one woman out of three in fact works full-time, continuously renewing her contract over a period of several years without the benefits given to regular employees. An Equal Opportunity Law was enacted in 1985; its effective administration is yet to be seen.

Women workers

In 1990 approximately 50 per cent of all women over 15 years of age participated in the paid labor force. At that time, two major changes in the female workforce were under way. The first was a move away from household-based employment. Peasant women and those from merchant and artisan families had always worked. With self-employment becoming less common, though, the more usual pattern was separation of home and workplace, creating new problems of childcare, care of the elderly, and housekeeping responsibilities. The second major change was the increased participation of married women in the labor force. In the 1950s, most women employees were young and single; 62 per cent of the female labor force in 1960 had never been married. In 1987 about 66 per cent of the female labor force was married, and only 23 per cent was made of women who had never married. Some women continued working after marriage, most often in professional and government jobs, but their numbers were small. Others started their own businesses or took over family businesses. More commonly, women left paid labor

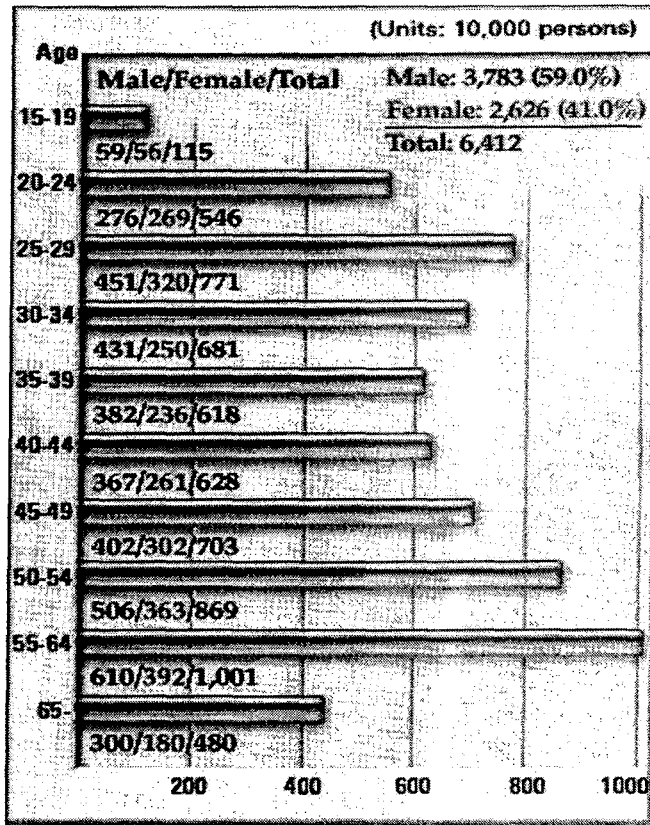
after marriage, and then returned after their youngest children were in school. These middle age recruits generally took unrelated low-paying, part-time service or factory jobs. They continued to have nearly total responsibility for home and children and often justified their employment as an extension of their responsibilities for the care of their families. Despite legal support for equality and some improvement in their status, married women understood that their husbands' jobs demanded long hours and extreme commitment. Because women earned an average of only 60 per cent as much as men, most did not find it advantageous to take full-time, responsible jobs after marriage.

Yet women's status in the labor force was changing in the late 1980s, most likely as a result of changes brought about by the aging of the population. Longer life expectancies, smaller families and falling birthrates, and lowered expectations of being cared for in old age by their children have all led women to participate more fully in the labor force. At the same time, service job opportunities in the postindustrial economy expanded, and there were fewer new male graduates to fill them. According to Ministry of Labor statistics, the number of employed women increased by 7.6 million, or 56.3 per cent, between 1980 and 1999, compared with 6.0 million, or 22.9 per cent, for men. In 1999, women accounted for 39.7 per cent of all workers. And in 2001, women accounted for 41 percent of the workforce (Exhibit 2-1, p.63). Behind this growth were factors such as women's heightened desire to work, the 1986 Equal Employment Opportunity Law, and the 1995 Family-Care Leave Law.

The revised Equal Employment Opportunity Law came into effect on 1 April 1999. The amended law prohibits gender discrimination in hiring, placement and promotion. It also requires employers to step up efforts to prevent sexual harassment in the workplace. At the same time, the Revised Labor Standards Law took effect, lifting restrictions on women working overtime, on holidays and late at night. To mitigate the drastic change in their working conditions, in the case of female workers who are responsible for family care, overtime work is restricted to 150 hours maximum per year for a certain period of time. Despite the implementation of the Family-Care Leave Law, only 60.8 per cent of companies

had actually made provisions for child-care leave by 1996. In the same year, 44.5 per cent of female workers who gave birth took a leave of absence, compared with 0.16 per cent of male workers to whom children were born.

Exhibit 2-1. Employment by Age and Gender (2001)

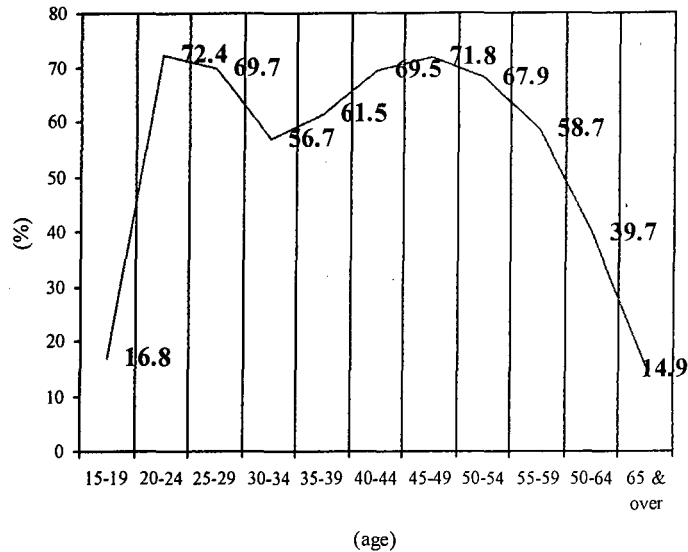


Source: Management and Coordination Agency.

Exhibit 2-2 (p.64) shows another feature that is often said to be unique to Japan: the twin-peaked shape of the M curve. This can explain the pattern of female workforce participation rate. The line starts out high when women are young, goes down for women in their late 20s and early 30s childbearing years, and then goes up again. A result of Japan's twin-peaked shape is that the percentage of women over 40 in the workforce is comparatively higher. However, the percentage of female workers in managerial positions is very low in Japan. And the percentage of women who interrupt their careers in Japan is higher than in Europe or America. This could be the reason why not many women are in the managerial positions.

Length of service is a very important factor in promotion to managerial position in Japan.

Exhibit 2-2. Female Workforce Participation Ratio, 1999.



Source: Management and Coordination Agency

It is generally believed that the average wage gap between men and women is extreme in Japan. This can be explained by the Theory of Statistical Discrimination, which is a brilliant theory on sex-based wage differentials. It argues that even if no bias against women's working abilities existed, sexual discrimination would still occur amid companies' intensive pursuit of efficiency. According to this theory: (a) average women have statistically obvious shorter working careers than men; (b) some women work for lengthy periods but it is difficult to know in advance who they will be, so the cost of finding out can be high; (c) skill requirements are high, and forming the necessary skills requires medium to long-term on-the-job training within the company.

The underlying idea of the third condition – medium to long-term OJT – is that if a worker quits, the company incurs a loss for the OJT up to that point. To avoid this, employers must choose long-term workers. According to the second condition, however, the cost of determining such individuals can be high. It is less costly to

choose from groups within easily recognizable characteristics – race, sex and education. The first condition, meanwhile, implies that men are more likely to work long-term than women; thus, they are preferentially assigned to medium or long-term OJT. Inevitably, a skills gap opens up between the sexes, followed by a wage gap.

Part-time workers

Part-time workers account for a significant portion of Japan's workforce. They constitute more than one-fourth of female employees. According to the Basic Survey of Employment Structure, part-timers are those who work less than 35 hours a week and less than 200 days a year. In Japan, there are indications that the aggregate percentage of those who want homework and of those who want part-time jobs remains unchanged.⁶ It can thus be said that a consistent percentage of women want to work, but not as regular, long-term employees. Companies naturally are looking for workers, whose portions can be easily eliminated, depending on the business cycle. In the past, temporary workers fit the bill. The number of de facto regular even among part-timers has increased greatly. Statistics show that the number of long service part-timers has risen at a remarkable rate. Observations of workshops reveal that the jobs they do are not very different from those done by full-time employees. In some cases, part-timers even have managerial positions.⁷ Part-timers with five or ten years of experience handle more important jobs than relatively inexperienced full-time workers. They are necessary and, indeed, strategically important to companies, which diligently cultivate them. Companies provide them with regular pay increments, bonuses, and other benefits on a par with full-time employees. How, then, does one compare part-timers with full-timers? Soon, and maybe it has already happened in places, shorter working hours only will distinguish part-timers from full-timers: the job and the ability to do it will be the same.

⁶ Eiko Shinozuka, *Nihon no Joshi Rodo* [Japanese Women Workers] (Tokyo: Toyo Keizai Shimposha, 1982), pp. 94-95.

⁷ Koike, *The Economics of Work in Japan*, p. 150.

Day laborers

Day laborers are another important component of the temporary (non-regular) employees. Tom Gill⁸ estimates that there are now some 80,000 day laborers making use of *yoseba* (day labor markets) in obtaining work. The three largest *yoseba* – Kamagasaki in Osaka, Sanya in Tokyo, and Kotobuki in Yokohama – are also associated with *doya-gai* (cheap semi-permanent lodging houses) districts of cheap lodgings catering (primarily) to day laborers.⁹ The roots of marginalized workers can be traced as far back as the institutionalized slavery and servitude found in the *Heian*, *Kamakura*, and *Muromachi* periods. From this time, Gill suggests the history of day laborers “can be characterized as a long and continuous struggle between free workers attempting to express their autonomy, and employers and civil authorities that have sought to control them and at times incarcerate them.”¹⁰

This tension between autonomy and control may be seen in Toyotomi Hideyoshi’s attempts to outlaw the employment of day laborers; subsequent Tokugawa era regulation mobility, licensing; and the 1790 establishment in Edo (present day Tokyo) of a *ninsoku yoseba* where vagrants and petty criminals served three-year terms doing labor. More recent mechanisms of control that rose to prominence with the growth of industrial capitalism have been instituted by employers, including for example, the use of, at times, exploitative on-site dormitories or work camps. There is local and national state institutionalized intervention into the regulation of the *yoseba* as both the labor market and laborers’ gathering place. Together or in negotiation with other volunteer groups and workers’ unions, these government institutions also regulate the dispensation of unemployment, accident and health insurance, and social services in the forms of social welfare and extralegal assistance.

⁸ Tom Gill, *Men of Uncertainty: The Social Organization of Day Laborers in Contemporary Japan* (Albany, New York: State University of New York Press, 2001).

⁹ There are a number of themes associated with *yoseba* and day laborers and marginality is the fundamental condition of *yoseba* life. One of the main subthemes of this marginality is that of the historical tension between autonomy and control.

¹⁰ Gill, *Men of Uncertainty*, p.13.

Since 1990s the number of day laborers in Japan has been increasing. According to the survey conducted in large cities in the country from 1998 to 2000, the number reached to approximately 20,000. In recent years, day laborers can be seen in provincial cities or even in smaller cities; thus, the actual number should be much more than 20,000. One of the distinct characteristics of the Japanese day laborers is that single middle-aged men are the majority; and they possess at least a junior high school education. The mean age is 52.3 years old. According to the surveys done by Tokyo Metropolitan Government and Osaka City Government, most of the day laborers used to stay at *yoseba* and the majority were employed in the construction industry. They primarily work in unskilled (87.3 percent) and skilled construction (25.4 percent). Other jobs include demolition (13.6 percent) and moving/delivery (11.0 percent).

During the 1960s to 1970s - a time of intensive economic growth in Japan - numerous day laborers gathered from all over the country. When economic stagnation arrived in the late 1980s and 1990s, those day laborers became "homeless" - unable to pay for staying at houses. Today, aged and/or diseased laborers who are unable to work have no choice but to live on streets or in parks.

Older workers

Older workers form yet another component of temporary employment. Generally speaking, an older worker is defined as a male aged 65 or above. In Japan, there is a high participation rate of older workers in the workforce despite early mandatory retirement age. Mandatory retirement age implies that a worker stops working at a specified age. In Japan, the opposite is true. The rate of older workers in the same age population, i.e. the percentage of people employed at paying jobs – is far higher than in the West. This indicates that many work beyond official retirement. This is because of what is known as the rehiring system. To continue working beyond mandatory retirement, a worker can be rehired by the same company, although not as a regular employee, or can find work at another company. Of course, rehiring entails loss of management position and lower salary, but often little change in job profile. Although the standard retirement age in Japan

throughout most of the postwar period was 55, people aged 65 and over in Japan were more likely to work than in any other developed country in the 1980s. In 1987 about 36 per cent of men and 15 per cent of women in this age group were in the labor force. That the number of older workers is rising steeply is incontrovertible. According to an estimate by Japan's Ministry of Health and Welfare's Institute of Population Problems, the proportion of people aged 60 to 64 to the total population will rise from 5.4 per cent in 1990 to 7.3 percent in 2010. Those 65 and older will soar from 11.9 per cent in 1990 to 23.6 percent in 2020.

The aging of the population was brought about by a combination of low fertility and high life expectancies. The fertility rate at present is 1.38 per 1,000 population and the average number of children born to a woman over her lifetime has been fewer than two since the late 1970s. A number of factors contributed to the trend toward small families: late marriage, increased participation of women in the labor force, small living spaces, and the high education costs of children. Life expectancies at birth, 77.2 years for males and 84.0 years for women in 1998, were the highest in the world (Table 2-2). (The expected life span at the end of World War II, for both males and females, was 55 years.)

Table 2-2. Life Expectancy by Country

	Year	Male	Female
Japan	1998	77.2	84.0
Sweden	1996	76.5	81.5
Switzerland	1995-96	75.7	81.9
Greece	1995	75.0	80.2
Australia	1994-96	75.2	81.1
Canada	1995	75.2	81.2
Netherlands	1995-96	74.5	80.2
France	1995	73.9	81.9
USA	1995	72.5	78.9

Source: National Institute of Population and Social Research, Ministry of Health and Welfare, *Jinko tokei shiryoshu* (Latest Demographic Statistics), 1999.

The most widespread belief about older workers in Japan is that a sharp increase in their numbers will make the seniority wage and permanent employment systems excessively costly, necessitating changes. Another belief insists that because mandatory retirement comes earlier in Japan than in the West and because Japan's proportion of elderly is rising rapidly, the retirement age must be extended to avoid

bankrupting pension plans. The dubiousness of common perceptions of permanent employment and seniority wages has been exposed.

Statistics indicate that between 2001 and 2015, the working population between the ages of 15 and 64 will decline by about 9 million. While the population in its 20s will decline by about 5 million during that same period, about 25 million people will reach retirement age. A major problem facing Japanese society from now will be how to fill this gap in the workforce. Moreover, from fiscal 2013, the age at which men can begin to receive their pensions will be raised to 65. Senior citizens will also have to seek out work in order to make ends meet until they begin receiving their pensions.

Foreign workers

There are many foreign workers in Japan although it is difficult to calculate their exact number because a considerable number of them are illegal workers. Nevertheless, their number is estimated to be about 1.7 million people. There are highly skilled legal employees hired at the top end of the economic scale but the illegal workers make up the larger part of the foreign workers. The rapid economic development of Japan from 1970s to 1980s provided a stimulus for people in developing countries to go in search of jobs since Japan was thought to be a land of rising opportunities. Following the rise of Japan to a super economic power, most Japanese moved into white-collar jobs, creating a new demand for labor in the blue-collar industries. Subsequently, the construction, manufacturing, and service industries have been employing foreigners in great numbers ever since. Today, one can find them scattered throughout Japan, but they congregate in the major cities. In Tokyo, it is a common sight to see them gather daily at Ueno Park to talk and to be approached by potential employers.

Japan revised the Immigration Control Law in 1990 in order to restrict the entry of illegal foreign migrant workers into Japan. It imposed stiff penalties on employers of and brokers for illegal foreign workers. According to this law, only the children of people with Japanese nationality and the third generation Japanese descendants in other countries can legally work in Japan. Foreigners wishing to work in Japan

must belong to the skilled category and must have an appropriate status of residency, for example, for commercial activities, teaching or providing a special skill. The reality, however, is different. Most of the foreign workers fall under the unskilled category, who works illegally by overstaying their tourist or student visas.

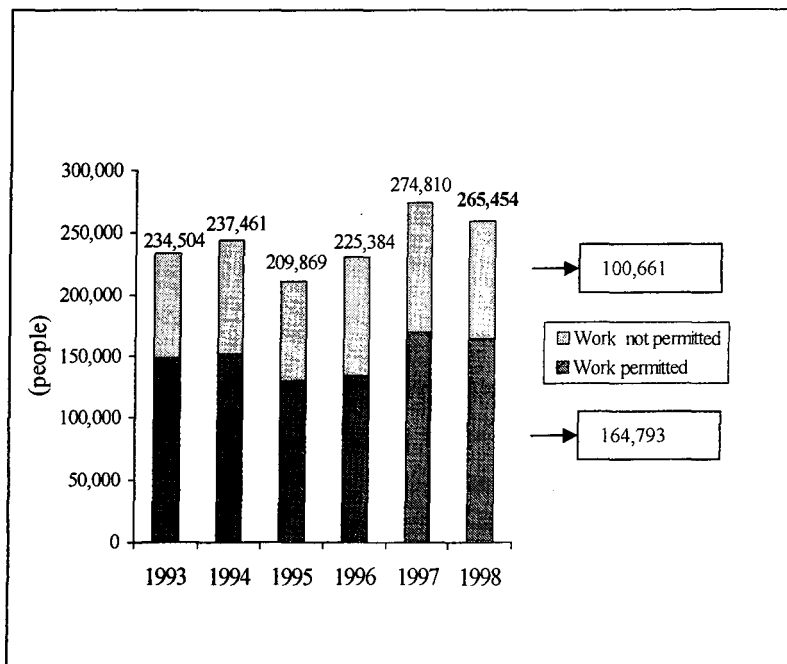
Before discussing the reality of foreigners in Japan, one must understand the definition of a 'foreigner' in the Japanese context. There are two groups of foreigners in Japan: the first group consists of Koreans, Chinese, Taiwanese, Japanese-Koreans, Japanese-Chinese, Japanese-Taiwanese who have been living in Japan since World War II or are Japanese-born; the second group comprises of people who migrated to Japan since the 1970s.

With regard to the first group, many of them were forced to come to Japan by the Japanese government during World War II. After the war ended, some of these people could not go back to their respective countries for various reasons. In the case of the Chinese or Taiwanese, they came to Japan before the war as traders or merchants. Now, a fourth generation of these original "old comers" lives in Japan. However, they are not considered Japanese though they were born in Japan. In other words, they do not enjoy the rights and privileges of Japanese citizens. For example, these so-called "foreigners" cannot work for some government institutions because of the "nationality" policy adopted by the government. Today, about 7,50,000 "old comers" live in Japan.

As for the second group, about one million of them are residing in Japan today. Among this group, 2,84,744 are staying illegally. Among these illegal residents, people from Thailand rank number one with 43,014 people; followed by 41,122 people from the Philippines; 25,036 from China; 14,693 from Peru and 14,638 from Iran. Most of these people are engaged in what is known as the 3K jobs – *kitsui*, *kitanai* and *kiken* (difficult, dirty and dangerous). Rural or female Japanese workers originally did these jobs. But the shortage of rural labor (both men and women) by the mid 1960s created a space for 3K jobs, when young affluent Japanese, having been offered more socially respectable jobs began to abhor such

jobs. Migrants, willing to take up any kind of job for survival reasons, if not to prolong their stay in Japan, became the readymade successor to 3K jobs.

Exhibit 2-3. **Foreigners Receiving New Status of Residence, 1998**



Source: Ministry of Justice.
 Note: Excludes temporary visitors.

Apart from these, there are a sizeable number of women who are brought to Japan and often, forced to work in the entertainment business. Alternatively, since the wage level for Japanese workers is very high, a lot of women from Thailand and Philippines are brought into Japan but most of these too, are illegal. Of the 265,454 million foreigners who received a new status of residence in 1998, 164,793 were granted a residency status allowing work. The rest were temporary visitors (tourists and those on short trips for business, etc.) and others with statuses not permitting work in Japan (Exhibit 2-3).

Aging Workforce

The Japanese system of employment, the mainstay of which is its regular employment, forces companies to be invariably concerned with the average age of

their employees. Traditionally, listed corporations include this average age in their financial statements as a key to assessing general conditions of the company. Recent developments have made a rapidly aging workforce a basic issue in corporate policy:

1. Under the high economic growth of the 1960s, graduates were hired in greater numbers; this trend was drastically reversed with the slower growth rate in the 1970s;
2. Largely under pressure from the labor unions, more and more companies extended the mandatory age limit from 55 to 60 years;
3. A rapid increase in the general age of the population raised life expectancy to one of the highest in the world.

Japan's population is aging. During the 1960s, the percentage of the population in the 65 and over group remained steady at around 5 per cent. Throughout subsequent decades, however, that age group expanded, and by 1990 it had grown to 11.6 per cent of the population. It was expected to reach 16.9 per cent by 2000 and almost 25.5 per cent by 2020 (Exhibit 2-4, p.73). Perhaps the most outstanding feature of this trend was the speed with which it was occurring in comparison to trends in other industrialized nations. In the United States, expansion of the 65 and over age group from 7 per cent to 14 per cent took seventy-five years; in Britain and the Federal Republic of Germany (West Germany), this expansion took forty-five years. The same expansion in Japan was expected to take only twenty-six years.

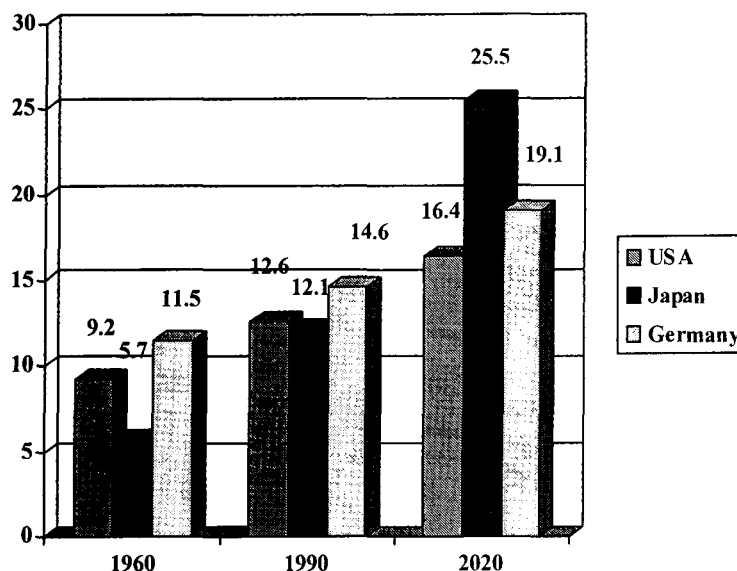
Average life expectancy is estimated to increase steadily: in the year 2010 the figures are expected to rise to 78.76 for men and 85.95 years for women.¹¹ Since 1965, the average age of the labor force increased from 31.7 to 38.2 and years of service from 6.6 to 10.8.¹² Older age means longer length of service and thus, a higher salary, particularly at large firms. It may also mean the loss of what has long

¹¹ JIL, *Japanese Working Life Profile. Statistical Aspects* (Tokyo: 1989), p.2.

¹² MOL (Ministry of Labor), *Rodo Hakusho* [White Paper on Labor] 1990, p.2.

been considered a major motivating factor, namely the prospect for managerial promotion.¹³

Exhibit 2-4. Share of Population Aged 65 Years and Over By Country (%)



Source: National Institute of Population and Social Security Research, Ministry of Health and Welfare, *Jinko tokei shiryoshu* (Latest Demographic Statistics), 1999.

As Japan's population aged, so did its workforce. In 1990 about 20 per cent of the workforce was made up of workers aged 65 and over. The Ministry of Labor predicted that by 2000 about 24 per cent of the working population (almost one in four workers) would be in this age group. This demographic shift was expected to bring about both macroeconomic and microeconomic problems.

At the national level, Japan may have trouble financing the pension system. At the corporate level, problems will include growing personnel costs and the shortage of senior positions. If such problems become severe, the government will be forced to develop countermeasures.

In most Japanese companies, salaries rise with worker age. Because younger workers are paid less, they are more attractive to employers, and the difficulty in

¹³ Tadashi Amaya, *Human Resource Development in Industries* (Tokyo: JIL, 1983), p.25.

finding employment increases with age. The pattern is evidenced by the unemployment rates for different age groups and by the number of applicants per job vacancy for each age group in openings handled by public employment offices. As the Japanese population ages, such trends may grow.

As Japan's population ages, the financial health of the public pension plan deteriorates. To avoid massive increases in premiums, the government reformed the system in 1986 by cutting benefit levels and increasing the plan's specified age at which benefits began from 60 to 65. Under the revised system, contributions paid in equal share by employer and employee were expected to be equivalent to about 30 per cent of wages, as opposed to 40 per cent of wages under the old system. However, problems now arose in securing employment opportunities for the 60-to-65-year old group.

The growing number of older people in the population is certain to be a significant factor in Japan's future economic development. One direct implication of more old people is the limitation imposed upon the labor supply. Growth of the labor supply slowed through the 1990s, and the supply is projected to decline from 2005. The decline in people entering the labor force is something new in Japan's postwar economic experience, and even with lower economic growth, the shrinking labor pool is bound to contribute to a persistent tightening of the labor market.

Another consequence of Japan's aging population is the increased proportion of older people in the labor force itself. While the number of workers under 35 years of age was expected to decline beginning in 2000, the number of those aged 55 and above is expected to increase upto 2020. With more people in the upper age range, the cost rises in terms of age-related human resource management, including the whole seniority-based wage and compensation structure. With fewer younger workers, their age scale can be expected to rise with competition, but a surplus of older workers will impose a counter pressure from the other end of the spectrum to drive their wages lower. The average wage profile as measured by the relationship between wages of younger and older workers is projected to continue to narrow toward 2020. This, and an anticipated tighter labor market are likely to raise the

rate of employee turnover. In terms of the labor market, control of the average age of the workforce has been, in the past as well as the present, a reason why Japanese competitors concentrate on hiring new graduates.

Recruitment Practices in Japanese Companies

Hiring New School and University Graduates

The ideal for the Japanese company in recruiting its regular workforce is the hiring of new school or university graduates who would stay with the company until they reach the company-specified retirement age limit. The expectation that employees in established firms will stay until retirement means that 'in initially hiring employees, the company aims to be as merciless as entrance examinations in selecting people of quality.'¹⁴ The ideological concept is that firms hire the total man, not merely his productive capacity, and that he is 'completely enveloped' (*marugakae*) in the organization.¹⁵ About 4 million employees are newly hired each year (Table 2-3, p.76). An important distinction is made between inexperienced and experienced candidates. Half of the inexperienced market is composed of new graduates and the other half of those who, for some reason or another, delayed their entrance into the labor market or re-entered the labor market after some interruption (e.g. women who left their jobs to take care of their children). The experienced market on the other hand, is comprised of employees hired in mid-career (*chuto saiyo*).

New recruits are employed as new members of the working family. They are recruited not because they have some specific skill but because they are found to be conducive to the company's vision. Unlike in most Western companies, detailed job descriptions rarely exist. The company seeks to determine if the prospective employee has the type of personality that fits in well with the atmosphere at the company. New recruits are not usually selected for a certain position within the company; rather they are considered to be more like blank sheets of paper ready to be trained for various functions within the organization.

¹⁴ Vogel, *Japan as Number One: Lessons for America*, p. 149.

¹⁵ Nakane, *Japanese Society*, p. 15.

These recruitment practices are an integral part of the development of an internal labor market in Japanese firms.

Table 2-3. Newly Hired Employees, 1999-2001 (in thousands)

Newly hired employees	1999	2000	2001
Total	5,275	5,523	5,765
19 & under	649	705	725
20-24	1,448	1,468	1,549
25-29	767	853	888
30-34	516	562	592
35-44	793	805	836
45-54	618	687	667
55-59	222	213	228
60-64	215	176	209
65 & over	46	53	72
Size of industry*			
1000 or more	990	978	1,034
100-999	1,607	1,765	1,861
10-99	2,471	2,561	2,645

Source: Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labor and Welfare.

Note: Data are based on the Survey of Employment Trends.

* Excluding government and public managed enterprises.

One of the characteristics of regular employment is that hiring takes place at the time the candidate graduates from school – i.e., when he is ready to enter the labor market. In Japan, the academic year begins in April and ends in March. The hiring of these graduates thus takes place on 1 April. Recruitment of high school graduates is mostly done through two main routes. One is through the Public Employment Security Office (PESO), to which companies submit a recruitment card for each job opening with a description of the position, company, terms and conditions, which must then be approved by PESO. Schools, for their own referral assistance, also use these cards. The other route is through the school's Placement Office, which companies can contact directly. Schools also provide additional assistance to prospective graduates such as giving a sample company entrance examination and interview. Applications are accepted in September. By mid-November, most students have received confirmation of their employment to commence in April. In order to sustain the interest of selected candidates, companies plan various activities (meetings, seminars, publication of newsletters, etc.) during the six months or so that precede formal hiring. On 1 April, the company president and several directors at a formal gathering welcome them.

Thus, starts an intensive period of several weeks to several months (but only a few days for female recruits) of indoctrination and socialization. The new recruits are assembled for several days at some company resort where they undergo what has been nicknamed 'skinship' (since they eat together, sleep together, exercise together, etc.) and where various managers and others from outside the company give lectures. A strong bond prevails for years afterwards among those who join the company in the same year.

In Matsushita, the orientation and training of new employees from universities (about 800 persons) are centralized in the head office and the training is conducted as follows: lectures in the head office, three weeks; training in retail stores, three months; training in the works, one month; lectures on cost accounting, one month; lectures on marketing, two months. After this eight-month training, new graduates are distributed to various departments and subsidiaries.¹⁶

Back at the office or factory, senior employees expect to rely on the system, which they had already been through in their school days, the *senpai-kohai* (senior-junior) relationship. But the overall intensity of such corporate socialization is questioned these days by a growing number of the younger entrants into the company, until they themselves gain the status of having seniority.

PESO is never used as a method of recruiting from colleges, either for two-year junior colleges or four-year universities; corporate headquarters recruits these graduates. Prospective graduates apply through their school's Placement Office, through some personal connection (often a professor, particularly for science graduates), or directly to the company (this has recently become more common, but not at prestigious institutions and companies) by contacting certain alumni or acquaintances in the company. Companies pay less attention to the academic discipline in which the candidate graduated, except in the area of physical sciences, and place more emphases on university reputation, which they use as an indicator of the long-term potential of the newly hired employee. The reason for this is because of the management rationale that these university graduates can be expected to have intellectual capacity and to be highly motivated to succeed in

¹⁶ Toyohiro Kono, *Strategy and Structure of Japanese Enterprises*, p. 320.

entering a 'good' university.¹⁷ Remarkably in line with the graduates of regular employment, university graduates are not granted special treatment; they start training at the bottom. This means that in automobile manufacturing they spend several months in the production line; in a bank they are sent out to collect deposits; and in a private railway company they punch passenger tickets.

Mid-Career Hiring [Chuto Saiyo]

Large corporations rarely hire mid-career employees who have left other firms. They depend on their own in-house bred employees to fill the management positions open due to employee promotion or expansion of activities (the development of an internal labor market). Mid-career hiring occurs more frequently among smaller firms where mobility is greater. It is practiced mostly by small enterprises, looking for some specific skills as well as unskilled workers, to meet immediate needs.¹⁸ Managers are rarely recruited from outside. The exception is when older managers sent from affiliated firms fill high-level managerial positions. In such cases, the firm sending the managers has a great deal of leverage over the company receiving the managers. The sending firm may be a main customer or a main bank with either a vertical industrial or horizontal *keiretsu* relationship with the receiving company. A manager may be sent to an outside firm to offer expertise or because the sending firm simply wants to get rid of him. Technology and competition are however, forcing larger companies to bring in outside expertise, which is done on a limited basis. Human resources required for corporate diversification are primarily sought internally from among regular employees or at least from within the enterprise group, as an integral part of career development and/or as a means of making employment adjustments.

Japanese companies are reluctant to hire people with previous work experience because of a still widely held presumption that such recruits are temperamentally unstable since they were unable to adjust properly to their previous employer's

¹⁷ Dore, *British Factory – Japanese Factory*, p. 48.

¹⁸ H. Inohara, *Human Resource Development in Japanese Companies* (Tokyo: Asian Productivity Organization, 1990), p. 10.

corporate network of human relations.¹⁹ Because Japanese corporate culture thrives on constant interaction with fellow-employees, the problem of mid-career hiring centers on the integration of the latecomer. The general rule of thumb seems to indicate that at least two years will be needed for complete integration.²⁰ The acceptance process is extremely delicate in the case of the new recruit placed in a supervisory position. In addition, mid-career hiring is generally not accompanied by an increase in salary, which is typical of the long-term approach to employment and remuneration.

A practice similar to mid-career hiring is the transferring of personnel (*shukko*) from a large company to a smaller one to which it is usually related and to subsidiaries. Reasons for transfer include: employees who reach the age limit, redundant managerial staff, and training. Transfers can be temporary (two or three years) or permanent. The practice has increased rapidly in recent years in order to carry out personnel reduction and/or implement business diversification; on an average, 6 per cent of the regular staff in larger companies is active elsewhere with over half of them exercising managerial functions.

Career Track

With regard to the selection of high-grade employees, Japan uses the “slow promotion approach” in which only a limited number of executive candidates are designated through a tough examination at the point of new hire, in contrast with the American “rapid promotion approach”. These Japanese businesses wait for a later date to conduct a final decision, or the selection of the future executive candidates. Although we lack sufficient data, it seems that the selection of future candidates occurs probably about 15 years after employees are hired, when they attain the position of a section chief in the corporate headquarters (*honsha*). The Japanese approach for promotions of employees can also be called the “late screening” system, i.e., the screening that determines assignments to management positions occur late, around 15 years after a worker enters the company. Careers,

¹⁹ Ballon, *Foreign Competition in Japan*, p. 27.

²⁰ Ibid.

thus, have two stages. The first stage covers the years before screening, during which most white-collar college graduates are promoted. The assertion that promotion in Japanese companies is based on seniority or length of service corresponds fairly close to the situation during the first stage. In the second stage, the pace of selection speeds up and a gap opens up even among employees with the same length of service. Here it can be argued that the assumption that Japanese companies do not differentiate between workers on the basis of ability is not fully true. By this stage, employees are divided into three distinct career tracks: central management, departmental management, and non-managerial. Career breadth differs for each group. Central managers must acquire wide-ranging experience, but employees in the other two groups will probably forge more specialized careers. They may branch out slightly but their main area will be clear.

The basis of slow promotion is long-run competition. Here, it becomes imperative to know what is this long-run competition. Economics defines long run as the period during which capital, or in concrete terms, the number of machines, is increased and in particular, the quality of the machinery is improved. It obviously takes time to install new machinery or improve its quality. At the same time, short-run refers to the period during which the amount of capital is fixed; the number or the quality of the machinery does not change.

When this concept of long-run competition is applied to human resources, its importance becomes distinctly clear.²¹ To start with, the increase or improvement of capital is nothing more than the enhancement of skills and technical ability. Skills and technical ability do not improve instantaneously; they take time. The workers whose skills and technical ability improve by taking a certain amount of time move up to positions to be accorded commensurately more desirable treatment. This is long-run competition.

Long-run competition is based on the natural assumption that skills improve through experience. It is a postulate that skills are enhanced through work

²¹ This point is discussed in Kazuo Koike, "The Long-run Competition and Intellectual Proficiencies – An Explanation of the Japanese Business," in Ryutaro Komiya and Ken-ichi Imai (eds.), *Nihon No Kigyo* [Business in Japan] (Tokyo: Tokyo University Press, 1989).

experience and related skills are formed, enabling the worker to perform tasks of increased difficulty. In other words, long-run competition refers to the mechanism by which competition is carried out, with the achievement in the long run during which skills can be enhanced. The workers with good achievement are promoted to higher positions whereas those with less desirable achievement experience slow promotion or are demoted to the lower positions or, in extreme cases, are fired.

Long-run competition takes place in a realm, in which the possibility exists of enhancing skills in the long run and, moreover, in which such enhancement is necessary. If long-run competition is widespread in areas in which there is a possibility that skills improve in the long run and skill enhancement is necessary, there is a strong incentive to improve skills and technical abilities. At least, there would be an increase in the number of workers who would be prompted to enhance their skill levels.

Employment and Labor Mobility

“If official statistics on employment and unemployment are any guide to the degree of labor market efficiency, the performance of the Japanese labor market is almost miraculous.”²² The average unemployment rate for the advanced economies was 8.9 per cent between 1983 and 1989, but only 2.7 percent in Japan. In 1989, the rate was 2.3 per cent, which represented about 1.5 million unemployed, the lowest annual average since 1981, when it stood at 2.2 per cent.²³ Of course, ever since the recession hit the Japanese economy, the unemployment rate has been steadily increasing, but how and why were the unemployment rates so low prior to that? The answer could be found in the following: to start with, there are statistical problems concerning international comparisons of the unemployment rate, the definition of which differs across countries. The National Census of Japan classifies the percentage of people who are 15 years or above by whether they are “in the labor force” or “not in the labor force”, in somewhat the following manner:

²² Koji Taira, “Japan’s Low Unemployment: Economic Miracle or Statistical Artifact?”, *Monthly Labor Review*, July 1983, pp. 3-10, p.3.

²³ Japan Institute of Labor (JIL), *Japan Labor Bulletin*, vol.29, no. 4, April 1990.

Population of 15 years old or more	10982
Labor force	6654
Employed	6323
Self-employed	659
Farm & Forestry	232
Nonagricultural	6091
Employees	5361
Unemployed	330
Not in the labor force	4318
Labor force participation ratio	60.6
Ratio of unemployed in labor force	5.0

Those in the labor force are the “employed” and the “unemployed” who are seeking jobs. Those not in the labor forces are students, housewives, the elderly, and others who are neither employed nor are seeking employment. Employment means work, and in Japan, work is defined as a “paying job” which “includes part-time work, side jobs, and helping out in a store or in a farm.”²⁴ The result is that in Japan, there is overestimation of the working population.

Among many differences in definition and survey methods, the following points deserve special attention:

1. The armed forces are included in the labor force in Japan, while in the United States, they were excluded from the labor force until the end of 1982.
2. Unpaid family workers who work less than 15 hours a week are included in the labor force in Japan, while they are excluded from the labor force in the United States.
3. Those who are willing to start jobs within 30 days are counted as unemployed in the United States, while they are counted as ‘not in the labor force’ in Japan.
4. Those who are laid off and are waiting to be recalled are counted as unemployed in the United States, while those who suspend their work temporarily are counted as employed in Japan.
5. In the United States, people who actively searched for jobs during the previous four weeks are classified as unemployed, while in Japan, only those who

²⁴ Koike, *The Economics of Work in Japan*, p. 2.

searched for jobs during the survey week (the last week of the month) are counted as unemployed.

The last component may have a substantial impact on the magnitude of unemployment. In addition to the shock-absorbing function of the agriculture and self-employed sectors, and the low rate of teenage unemployment, the following are also the factors responsible for Japan's low unemployment rates during the 1970s, 1980s, and early 1990s.

1. One factor arises on the demand side. Because of the permanent employment system, modern and large firms seldom fire or lay off regular employees under 55 years of age, unless the firm is in serious trouble. The employment of workers in declining industries was partially supported by government subsidies, mainly during 1975-79. Workers are flexibly transferred to other jobs within the firm, or to other firms, such as the main firm's subsidiaries. Thus, the sluggishness of employment adjustment explains part of the low unemployment rate during the years prior to the 1990s recession.
2. On the supply side, the labor force participation ratio changes in such a way that the labor force moves in the same direction as employment. There is a peripheral group of workers who are encouraged by recessions to exit from the labor force. Female workers in particular, used to retire from the labor force in periods of recession. Between 1973 and 1974, the number of female workers in Japan declined by about half a million, while those unemployed increased by only 20,000. Using the flow data on employment status from the Labor Force Survey, Higuchi and Seike (1985) successfully traced changes in the attitude of female workers. In 1975, 75 per cent of males and 96 per cent of female workers who left jobs left the labor force. In 1982, the corresponding figures were 68 per cent and 90 per cent. Thus, the discouraged worker effect seems to be declining. The negative correlation of the labor supply of married women to the income of the main wage earner of the household is clearly observed. This is the mechanism underlying the shift of labor participation ratios and the recent upward trend of the unemployment rate.

3. The unemployment insurance system was amended in 1975 in such a way that not only the duration of previous employment but also the age of a recipient now affects the length of the period for which he can receive benefits. Shimada and others (1981) show that the duration of unemployment is influenced by the provision of the unemployment insurance system and the changes in requirements for recipients in 1975. Therefore, the relatively stricter conditions for eligibility for insurance payments might be one of the factors behind Japan's low unemployment rate.
4. The pressure of foreign workers was almost negligible, unlike the United States and Europe where international immigrant workers became one of the main sources for unemployment, especially in Europe.
5. The growth rate of employment in the tertiary sector was very high, and it absorbed a large number of the workforce, in contrast to a minor decrease in employment in manufacturing industries. During the past period of rapid economic growth, the manufacturing sector had absorbed an incredibly large number of workers from the rural areas, where people were predominantly engaged in agriculture.
6. The proportion of temporary employees such as part-time workers, employment with fixed duration and others, and of self-employed workers including family workers has been high. The high share of temporary employees suggests that employment may fluctuate rather easily, while the high share of self-employed workers implies these people are rarely unemployed unless they change their labor force status.
7. Several forms of labor adjustment to minimize the number of discharges (or layoffs) are adopted by Japanese firms and encouraged by the government.

A statistic, often disputed in Japan, as it is elsewhere, unemployment rate, reflects different categories of people in different ways. Female unemployment, for instance, is twice that of their male counterparts and is higher among the young and aged workers than the middle-aged. In the words of Aoki:

One reason that restraining employment at large firms does not cause massive unemployment is that there are alternative ways to absorb

employment. First, leaving aside the effect of labor-saving technology and organizational innovation...the large firms have been able to reduce employment by simplifying the hierarchical layers, hiving off subsidiaries...and relying on subcontracting (outsourcing)....

Second, the low level of unemployment may be partly attributable to the absorption of the potentially unemployed into other categories of disadvantaged workers. In the great surges of growth after 1955, large firms hired many of their new workers on temporary contracts of three months to one year, which could be renewed at management's discretion....[later] many temporary workers at large firms were either promoted to the status of regular workers or quit voluntarily to seek relatively better-paid jobs at the other firms (not rarely at small firms). By the early 1970s, the use of temporary workers as a ploy to maintain a buffer group of long-term but lower-paid workers had largely disappeared.

Recently, however, a new category of workers who are employed for relatively shorter periods has arisen: these are part-time workers, predominantly middle-aged females particularly in relatively smaller firms in the service, wholesale, and retail industries....²⁵

Unemployment, especially in Japan, is also affected by labor mobility. Labor mobility means job separation. As compared with the United States, Japan has a low job separation rate. The assumption is that Japanese workers rarely leave their jobs even if they find it unsuitable. In Japan and the United States as well, looking for the right job occurs while the worker is young. Job separation rates, therefore, must be studied by age. The following conclusions can be drawn from the 1970 Survey of Employment Mobility:

1. Among full-time male workers at large companies, the annual job separation rate exceeds 20 per cent, until workers reach their mid 20s. At 20 per cent, all of a company's pre mid 20s employees would be replaced in five years' time.
2. After workers reach their mid 20s, separation rates drop to 6 and 7 per cent.
3. In large companies, the annual separation rate for workers in their mid 50s and above reaches 45 per cent under the mandatory retirement system. Older

²⁵ Masahiko Aoki, *Information, Incentives and Bargaining in the Japanese Economy* (Cambridge: Cambridge University Press, 1988), pp.171-2.

workers move to other companies when they reach retirement age and as they approach it.

4. Separation rates at small and medium-sized companies are higher than at large firms. The rates are 30 to 35 per cent for workers below 25 years of age. Employees in their mid 20s and older at small and medium-sized companies have more job attachment than young employees at large firms.

Dismissal and Unemployment

The following part deals with unemployment and the system of dismissal in Japan. Because companies are in a constant state of flux, either expanding or contracting, how do companies adjust, not only to changing economic developments, but also to market competition? The dismissal of workers with enterprise-specific skills is a serious issue worldwide, but especially in Japan which is said to have permanent employment.

It is assumed that unless their viability is endangered, large Japanese companies do not dismiss workers as a policy. If true, they apply internal methods almost exclusively to deal with fluctuations in production. But the question is to what extent these internal methods are actually implemented? In the West, companies cut back on operations during hard times, and workers make up the difference in pay through subsidies from employment insurance. Unlike this system, subsidy in Japan is for partial shutdowns rather than for reduced working hours.²⁶

The employment system is put under constant pressure by business fluctuations, as the accepted norm of regular employment tends to make labor costs fixed rather than variable. In contrast to part-time employees, regular employees cannot be dismissed except under extreme circumstances and when they are, a substantial premium is added to their separation allowance, which is a major consideration to their salary system. Adjusting employment to business fluctuations is done in various ways including, as a last recourse, dismissal. The Employment Adjustment Subsidy was started in 1975, and later integrated with subsidies for training

²⁶ Koike, *The Economics of Work in Japan*, p. 96.

programs and inter-company personal loans. It is an employment adjustment arrangement that promotes shutdowns by paying a sum equivalent to two-thirds of the shutdown allowance for upto 200 days as a way of preventing employee layoffs when production declines. Moreover, there are internal transfers wherein employees are transferred within companies or corporate groups during hard times. However, despite efforts to deal with fluctuations in production internally, in Japan dismissals still occur.²⁷

Dismissal practices are revealed through unemployment. Japan's unemployment is severe, contrary to popular belief that unemployment in Japan is rare. The indicators for measuring serious unemployment are length of unemployment and age. Most workers are compelled to find jobs, so unemployment is rarely permanent. Unemployment though, becomes extremely severe when it is difficult to find work. For older, unemployed workers, the cost of living is high; and if they have many years of previous service, their skills are significant. When these skills remain unused during unemployment, the loss is especially great. If we compare Japan with the United States, the proportion of males over 45 who have lost their jobs is far higher in Japan. And if one compares the duration of unemployment in Japan and the United States, unemployment lasts far longer in Japan. In the United States, unemployment lasts less than 5 weeks. Japan has a higher percentage of unemployment for 3 to 6 months and especially for 6 months or more. Once a Japanese loses his job, it is difficult to find work. In both countries, unemployed middle-aged and older workers have more difficulty with reemployment than younger workers. Because these workers are in greater number in Japan, unemployment tends to last longer there.²⁸

A study on unemployment is incomplete without knowing the methods of measuring it. Industrialized nations adopt two ways to measure unemployment. These are the Labor Force Survey Method of the United States and Japan, and the Public Employment Agency Registry Method of the United Kingdom and

²⁷ Koike, *The Economics of Work in Japan*, p. 97.

²⁸ For a detailed discussion on the duration of employment in Japan and US, see Koike, *The Economics of Work in Japan*, p. 106-7.

Germany. The latter classifies as unemployed only persons looking for jobs at public employment agencies; who meet such conditions as having no job or of working a minimal amount. Those who do not register at public employment agencies are, thus, not counted as unemployed. In Japan, the *potential workers* in the labor market are considered to be those persons in the population aged 15-64. Statistics are collected every month by means of surveys. An *unemployed person* is one who does not have a job, but does want one. The following equations summarize the relationships among the basic concepts:

$$\begin{aligned}
 \text{Population} &= \text{Labor force} + \text{Nonparticipation (not in the labor force),} \\
 \text{Labor force} &= \text{Employed} + \text{Unemployed,} \\
 \text{Employed} &= \text{Self-employed} + \text{Family-employed} + \text{Employees,} \\
 \text{Self-employed} &= \text{Farm and Forestry} + \text{Nonagricultural,} \\
 \text{Unemployment rate in Japan or USA} &= \frac{\text{Unemployed}}{\text{Labor force}} \\
 \text{Unemployment rate in UK or Germany} &= \frac{\text{Unemployed}}{\text{Employees} + \text{Unemployed}}
 \end{aligned}$$

It is important to keep in mind that if a person without a job says that he is “not looking for one” when answering a survey, he is classified as “not in the labor force”. The person is “unemployed” only if he says that he did not work during the survey week and was actively “looking for a job”. In other words, Japan does not consider a person unemployed, who works for a single hour during the survey week, providing a very narrow definition. In short, in Japan and the United States, people are ‘unemployed’ if, despite the desire and ability to work, they claim not to have worked during the survey week. And both countries regard graduates of their compulsory education system as having the ability to work; desire is confirmed by answering “yes” to the question “Are you looking for work?”

Despite having the same definition of unemployment and using the same method to measure unemployment in Japan and the United States, Japan’s unemployment

rate is lower than that of the United States. The answer could be found in the difference in the way its questionnaire is laid out. At the beginning of the Japanese questionnaire, respondents to the question of whether they attended school or did housework during the survey week are instructed by an arrow to skip to a later question and omit the question about looking for work during the week. As a result, many who looked for jobs while doing housework or attending school are not counted. In the US questionnaire, the questions are ordered so that people who answer that they did housework or attended school must also respond to whether they looked for work. If this formatting problem is rectified, Japanese unemployment figures might rise slightly.

Salary Components

Four components define the salary system in Japan: two make up monthly earnings – the basic salary and monthly allowances – and two deferred payments – seasonal allowance and the separation allowance.

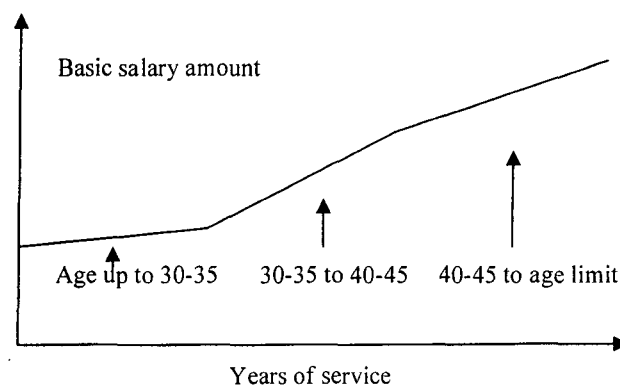
Monthly basic salary

The basic salary (*kihon kyu*) is called so because it serves as a base for calculating other major components of the salary system, i.e. for several (not all) of the monthly allowances, the largest part of the seasonal allowances, and the entire separation allowance. The basic salary is usually the major portion, about 80 per cent or more, of monthly earnings (*gekkyu*). In some companies however, it is only half. This is because certain considerations determining the basic salary (e.g. work performance) in some companies are handled under monthly allowances in others. Several differentials are taken into consideration in setting the basic salary, particularly the level of formal education (also an age differential) and sex. Explicit attention is given to individual performance, not on a short-term but on a long-term basis. It increases almost automatically at more or less regular intervals, usually every 12 months, generally at a rate of about 2 per cent at the minimum. This reflects the 'merit in years of service' (*nenko*), but in practice it is associated with age since it does relate to the social needs of the employee's livelihood, which

change with time. Only in an extreme case would the company defer this increase, perhaps postponing it for a year or a few months.

In graphic form, the basic salary follows a positive curve whose slope varies (Exhibit 2-5). In very broad terms, three periods could be distinguished, each corresponding to a specific span in the life of the regular employee: Until age 30-5, the incremental rate is slow. Employees are not yet, or only recently, married and their livelihood needs are relatively light; between ages 30-5 and 40-5, the rate reaches its peak, when family obligations are heavy and; declines after age 40-5, as needs tend to level off, when children usually become financially independent.

Exhibit 2-5. Theoretical Curve of the basic salary



The way the basic salary is assigned may vary greatly from company to company. In some companies, amounts are decided within set ranges; in others, a graded system is used. Amounts are usually calculated from one or more salary tables. The regular employee thus, knows more or less what to expect for his/her salary years from now. The majority of private companies use a single salary table for the entire regular workforce. Each company, however, has its own tables, making a comparison of companies practically impossible. The most typical, and elaborate, examples are the tables applied to civil servants, where different basic salary tables cover various employment categories such as universities, hospitals, laboratories, maritime services, etc. and each table covers a large number of employees.²⁹

²⁹ See B.C. Koh, *Japan's Administrative Elite* (Berkeley: University of California Press, 1989), pp. 219-27.

Monthly allowances

Monthly allowances (*teate*) contribute greatly to the complexity and, more importantly, to the flexibility of the salary system. Monthly allowances can be described as given for considerations that either cannot be incorporated into the basic salary because of a risk in jeopardizing overall uniformity, or causing a disproportionate increase in the separation allowance. However, what is in some companies handled under a monthly allowance may in others be a determinant of basic salary, while there are others who may take both views. On an average, monthly allowances constitute about 20 per cent or less of monthly earnings (the remainder being the basic salary) excluding overtime pay. Allowances are expressed in specific amounts or ranges of amounts, without direct reference to basic salary. Further, they are of several different types as provided by the Rules of Employment. In addition, statutory contributions to social security (health, welfare pension, unemployment, and workmen's accident compensation) are included.

Managerial promotion is not fully recognized under the basic salary, since this would affect the separation allowance in later years; instead this is explicitly covered under the so-called supervisory allowance. Other allowances are given for attendance or skill; blue-collar employees are eligible for special duty or shift allowance. In addition, allowances related to 'living costs', such as family, housing, or special hardship allowance (e.g. heating costs are higher in Hokkaido) are provided in most cases. Commonly, the cost of commuting from home to work is refunded.³⁰

Overtime, paid by the month, is mainly used to help the company adjust to the business cycle. The minimum legal premium is 25 per cent of the hourly wage. Overtime pay often adds up to 10 per cent of monthly earnings. Managers, however, are rarely paid overtime, which is one of the reasons why the supervisory allowance is given.

³⁰ Ballon, *Foreign Competition in Japan*, p. 57.

Seasonal allowance

Although commonly called a *bonus*, the seasonal allowance (*kimatsu teate* in the public sector, *shoyo* in the private sector) is a deferred wage payment and not exactly a premium. (The director's bonus is a separate matter, since it is treated differently in terms of taxes.) These allowances reflect current corporate performance only to some extent, as they are considered with more flexibility in terms of upward corporate growth. In the 1960s, a period of high economic growth, an econometric model determined that 20 per cent of the annual total of seasonal allowances in large companies could be justified by the firm's current net profits and the remaining 80 per cent by the previous year's rate of seasonal allowance.³¹ When a company experiences financial difficulties, a reduction or elimination of overtime pay is first carried out; then the seasonal allowance is reduced or postponed if necessary, starting with managers (including the bonus given to executives). This is often a more critical situation in small firms.

The seasonal allowance is, interestingly, almost never referred to in specific Yen amounts (except for statistical purposes) but as 'x number of months', for example 2.5 *months*. One such *month* does include the basic salary but only some monthly allowances. Each company has its own method for calculating this figure. Yen amounts can hardly be compared from company to company. Any increase in basic salary will be reflected in the amount of seasonal allowance, but not, of course, in the number of *months*. When a labor union is involved, the average number of *months* is usually negotiated, most times without referring to specific amounts. Annually, depending on the company and the type of industry, it is equal to one-third to one-half of the annual income, and its amount is partly determined, often some 5-10 per cent of it, by work performance (often times, commission to sales people are paid in the form of a seasonal allowance). It is customarily paid on 10 June (the 'summer bonus') and 10 December (the 'winter bonus'); the latter being 10-20 per cent more than the former. (In the public sector a third payment is made at the end of the fiscal year in March.)

³¹ Ministry of Labor (MOL), *Rodo Hakusho* [White Paper on Labor] (Tokyo, 1973), p. 21.

Separation allowance

Whenever the employment relationship comes to an end, the regular employee can expect to receive another deferred wage payment not by law but by custom (as stated in the Rules of Employment). This is the separation allowance (*taishoku-kin*) often also translated as retirement allowance. One is disqualified from receiving this allowance if the employee is dismissed for committing some major misdemeanor, or quits during the first or second year of employment. As might be expected, separation allowances are substantially higher in larger than in smaller firms. Separation is distinguished as either resulting from personal reasons (*jiko-tsugo*) or company reasons (*kaisha-tsugo*); this distinction is made clear for tax purposes and other reasons. The former is voluntary; separation is taken as the employee's initiative (better opportunity elsewhere, family reasons, etc.). The amount given in this case is less than that given for corporate reasons, the gap between them narrowing after about 20 years of service. Involuntary separation results from the employee's death, some occupational disability, or upon company initiative, i.e. reaching the mandatory age limit (*teinen*) as determined by the norm of lifetime employment, as well as being promoted to the board of directors, corporate bankruptcy, etc.

The separation allowance is computed by taking the basic salary of the month in which the separation is to take place and multiplying it by a progressive rate, depending on the years of service. This is usually done according to a table providing the coefficients that correspond to the number of years of service. Such a method is standard practice in 90 per cent of the companies and applies to all regular employees regardless of sex or occupational classification.³² Merit assessment is not directly furnished, but the last month's basic salary does represent the cumulative achievement of an employee's career. The allowance is usually paid in the form of a lump sum. But a growing number of companies have established a 'qualified' pension plan, which includes tax, benefits in covering the

³² Japanese Institute of Labor (JIL), *Japanese Working Life Profile. Statistical Aspects* (Tokyo, 1989), p. 79.

separation cost.³³ The beneficiary is given the option of choosing, under certain conditions, between payment in a lump sum or in annuities; the lump sum is almost always preferred because of its tax advantages.³⁴

Flexibility in the system

The salary system for regular employees based on the above-mentioned four components – (monthly) basic salary, monthly allowance, seasonal allowance and separation allowance – is indeed complex. But it is, in fact, from this complexity that the system draws its main advantages. It allows the flexibility necessary to accommodate the individual and the collective dimension of the Japanese workplace as well as the business cycle. Adjustment to short-term business fluctuations is made possible because of overtime and, in some ways, by the seasonal allowances. Long-term adjustment is administered in two ways, the *base-up* and making changes in the retirement system.

Base-up

The popular expression used in annual salary increase negotiations is *base-up*. It reflects the general increase in cost of living and improvement of standards of living, and is implemented at the beginning of the fiscal year, i.e. 1 April, at the time of the Spring Wage Offensive (*shunto*). Salaries are then raised by a few percentage points. These averages do not reveal the complexities at work behind the conditions relating solely to the firm and the industry. In companies, the *base-up* process could be outlined in the following two steps. First, the enterprise union negotiates the *base-up* for its members to settle on an average percentage. It may specify as benchmarks a certain amount for a given age/sex, e.g. male aged 33. Second, the company applies the *base-up* to all regular employees, including managers, by an equitable distribution over monthly earnings. A part of the *base-up* is allocated to the basic salary – including the annual automatic increase as well as the updated starting salary system (in other words, the basic salary table is

³³ Kiyoshi Murakami, *Retirement Benefits and Pension Plans in Japan* (Tokyo: Sophia University Institute of Comparative Culture; Business Series, no. 118, 1988).

³⁴ Ballon, *Foreign Competition in Japan*, p. 59.

revised). The remainder is allocated to monthly allowances; for example, increase of the family and/or cost-of-living allowance, etc.

Of course, when the basic salary changes, it affects the seasonal allowances and, most importantly, the separation allowance. Thus, rarely will the entire *base-up* be incorporated in the basic salary, because of the very impact it would have on the separation allowance.

Retirement

The other major adjustment in the salary system concerns the separation allowance, set according to the mandatory age limit under the pressure of a rapidly aging workforce. The age limit is 60 (rarely more) in almost all large companies and in many smaller firms. Extension of the age limit would increase the separation allowance, unless countermeasures are negotiated with the labor union.³⁵ Generally speaking: (a), the years of service after age 55 (the common age limit until the 1970s) are not counted in the calculation of the separation allowance; (b), from a certain age, say 55, the salary no longer increases; it may even start to decrease; (c), earlier retirement, for example after the age of 45 and with at least 15 years of service, is encouraged by adding a premium to the separation allowance – for instance, in an amount equivalent to what would be received had they retired at the age of 55. In some companies, this may be a case affecting managers in particular.

Most Japanese companies require that employees retire upon reaching a specified age. During most of the postwar period, that age was 55. Because government social security payments normally begin at age 60, workers were forced to find reemployment to fill the five-year gap. However, in 1986 the Diet passed the Law Concerning the Stabilization of Employment for Elderly People to provide various incentives for firms to increase their retirement age to 60 (Table 2-4, p.96). Many Japanese companies increased the retirement age they had set, partly in response to this legislation. And despite mandatory retirement policies, many Japanese companies allow their employees to continue working beyond the age of 60,

³⁵ Ballon, *Foreign Competition in Japan*, p. 61.

although generally at reduced wages. The reasons for people over 60 continuing to work varied: to supplement inadequate pension incomes, to give meaning to their lives, or to keep in touch with society. In the West, the word “retirement” carries a sense of happiness and reward. In Japan, the word “retirement” means a cut in pay, almost no job and financial security, and substantial loss of rank. In the current state of the economy, it is hard for the retirees to find jobs; workers at 55 years of age and over have found ten applicants waiting in line for every job.³⁶

Table 2-4. Mandatory Retirement Age

	(% of enterprises surveyed)					
	Under 56	56-59	60	61-64	65	66 & over
1986	26.8	16.6	52.5	2.3	1.8	
1988	24.2	17.1	55.0	1.4	2.1	0.3
1990	19.8	16.1	60.1	1.1	2.7	0.0
1992	11.7	11.7	71.4	1.7	3.4	0.1
1994	8.1	7.7	77.1	2.0	5.0	0.0
1996	5.9	5.8	5.8	1.7	6.1	0.1
1997	4.6	5.1	5.1	1.5	6.6	0.1
1998	3.3	3.4	3.4	1.4	5.1	0.0

Source: Ministry of Labor, *Rodo tokei yoran* (Labor Statistics Manual), 1999.

In 1990 some 90 per cent of companies paid retirement benefits to their employees in the form of lump sum payments and pensions. Some companies based the payment amount on the employee’s base pay, while others used formulas independent of base pay. Because the system was designed to reward long service, payment rose progressively with the number of years worked.

Income from Employment

The distinction between monthly earnings and deferred payments can be emphasized by taking into account the way earned income is put to use. With the exception of overtime pay, monthly earnings remain largely independent of fluctuations in the business cycle. In addition, these earnings take into consideration the immediate social needs related to age and status. Monthly earnings cover most daily-life expenses. Deferred wage payments, though, are perceived differently. Expenses for durable goods and luxury items as well as

³⁶ Mitsuo Tajima, “Japan’s Cold Indifference toward Old People,” quoted in Sethi, Namiki and Swanson, *The False Promise of the Japanese Miracle*, p. 50.

savings are generally financed by the seasonal allowances. It is also common for large companies and associations of small enterprises to arrange some kind of housing loan with financial institutions to be available to regular employees, where the future separation allowance becomes the collateral and loan repayments are deducted from seasonal allowances. Thus the salary system itself plays a central role in influencing how the average Japanese envisions his and his family's quality of life. The propensity of the Japanese people to save, as the high savings rate in postwar times have shown, can be largely attributed to the above-mentioned characteristics of the salary system.

Various employee benefits are also provided. Some are statutory: health, pension, employment and workmen's accident compensation insurances. Public benefits can be supplemented provided that certain conditions comply with the rules set by the labor union or employee association.³⁷ These conditions concern the separation allowance and in many cases, a private pension plan (combined with or in addition to the public pension system) as well as group life insurance. Such benefits are common in large firms; some small/medium firms provide them by pooling resources with other firms of similar size. Many firms also subsidize lunch, but the cost of commuting to work (via public transportation) is usually reimbursed. Benefits given voluntarily are considered to be a managerial prerogative but are often decided in conjunction with some employee organization. Thus, dormitories for unmarried employees and company housing for families are made available at nominal rental rates. Furthermore, companies are known to provide or subsidize recreational activities for their employees and sponsor mutual-aid cooperatives. Another benefit offered that is fairly common is the system whereby employees can deposit their savings with the company to use as collateral for a housing loan or participate in a public program on Workers' Property Accumulation.³⁸

Ninety per cent of all listed companies sponsor an Employee Stock Ownership Plan (ESOP) in which on average, 40 per cent of the workforce participates.³⁹ It is

³⁷ Ballon, *Foreign Competition in Japan*, p. 63.

³⁸ Ibid.

³⁹ Ibid.

run by a permanent voluntary association of employees. The members decide on the amount they want to invest towards stocks, which is usually deducted from their monthly pay, to which the company adds a premium. This amount is then used to purchase company shares at regular intervals.⁴⁰ This ESOP is also quite common in small/medium enterprises, being 'more prevalent in the manufacturing industry (60.2 per cent) than in the service industry (36.4 per cent), in the unionized (58.5 per cent) than non-unionized sector (38.8 per cent).'⁴¹

The Rehiring System

The so-called lifetime employment is made possible through the rehiring system, wherein a worker, upon retirement, can be rehired by the same company, although not as a regular employee, or can find work at another company. The company rehires retired workers when the requests of the individual worker match the needs of the workplace. In the last three years, about 100 people have been rehired annually under the system. Workers are given one-year renewable contracts that allow them to work until they reach 63.

To be rehired first involves severing the formal regular employment relationship and leaving the company. Retirement pay is issued upon formal mandatory retirement. Although deferred mandatory retirement also occurs, the primary method is to retire and then be rehired. Rehiring often entails loss of management positions and lower salary, but often times little change in job profile. It is important to note here that reductions in salaries are diminishing at large companies and approaching the levels found in small companies.

The reason for this is that when someone continues working for a large company, efficiency is a crucial matter. Most older, experienced workers have skills acquired through years of service. If unused, efficiency drops. Thus, in most cases job descriptions remain unchanged even in rehiring. If, however, pay is reduced for the same work and approximate level of efficiency, workers' morale and desire to

⁴⁰ Tokyo Stock Exchange (TSE), *Fact Book 1990* (Tokyo, 1990), p. 63.

⁴¹ Machiko Osawa, "The Service Economy and Industrial Relations in Small and Medium-Size Firms in Japan," *Japan Labor Bulletin*, vol. 28, no. 7 (July 1989), p. 7.

work diminishes. What has been said about skills also applies to losing a management position, but an alternative policy, i.e., of deferred retirement, in which older workers maintain their management positions also disadvantages middle-aged workers, who then have to wait a long time for promotion. Policy selection depends on which policy is less disadvantageous.

On the whole, rehiring accounts for a small part of the high percentage of older workers in the workforce. It was popular for only two or three years and has greatly declined at large companies. The rehiring system has been replaced by deferred retirement. This means that unlike rehiring, deferred retirement entails no change in salary or position.

Continuous Employment

Continuous employment is possible through rehiring or deferred retirement. They are similar in their use of workers' skills, but different in that rehiring entails relieving older workers of their management positions and cutting their pay. Rehiring thus threatens morale. Why should workers employing the same skills and doing the same jobs have management positions taken away and salaries cut? Ultimately, workers will feel like outcasts, and this will affect their ability to use their skills effectively. Deferred retirement, too, damages morale – of younger workers – in that it entails no change and allows older workers to continue receiving regular pay increments.

The fact of the matter, nonetheless, is that large Japanese companies do not practice continuous employment because, under human capital theory, early retirement is regarded as an emergency escape route. Long-term investment in human capital presupposes that it is necessary for older workers to recoup the investment made when young in the form of salaries that exceed their skill levels. It is thus advantageous for management to let older workers go early or to lower the age of mandatory retirement. Carried out on a regular basis, however, such practices make workers aware that the long-term balance between skill and salaries has been disrupted, causing morale to drop. The emergency escape route approach is nevertheless adopted frequently in Japan.

That these practices continue possibly arises from a misunderstanding of employment practices in Japan and the West. The belief is that in the West, ability is put first and there is neither a seniority wage curve nor permanent employment, whereas Japan has a different system that especially protects older workers. The real situation, therefore, goes unrecognized: Japan does not encourage the employment of older workers. Lack of awareness compounds the employment problems of older workers in Japan.

CHAPTER 3

THE 1990S RECESSION AND ITS IMPACT ON THE EMPLOYMENT SYSTEM

Introduction

It is thirteen years since the Japanese economy entered a phase of slow growth after decades of rapid expansion. During these years, it has experienced four recessions, the last of which still afflicts the country's economy. The Japanese economy has been in continuous downturn since 1973, initiated by the inflationary crisis of 1973-75. Through the long downturn the Japanese economy has performed a double shift downward: from high economic growth to lowered growth, and further to extremely low growth in the 1990s. Each time the result has been a growth rate less than half of the others.

The 1990s were certainly a troubling decade for Japanese society. After a half century of rapid economic growth and successful transformation to an advanced industrial nation, the economy stagnated and a mountain of bad debts weighed down the financial sector. Economic growth in the eight years from 1992 (when the slowdown began in earnest) through 1999 averaged a relatively weak annual rate of 1.0 per cent.¹ The general stagnation was accompanied by the first real recessions since 1974, with negative growth in calendar 1998 and in two consecutive negative quarters in the second half of 1999. After such a long period of unusually successful economic performance, the Japanese economy now, stands at a historical turning point from both domestic and international perspectives.

Faced with a persistent recession throughout the 1990s, many people in Japan have come to realize that their economic system, once so instrumental in achieving a high economic growth, is no longer effective in the 21st century, when the four mega trends already in place are further intensifying, namely: (1) economic

¹ Japan Economic and Social Research Institute, "Figures in Each Component Annual Figures", May 3, 2001.

maturity, (2) further aging of the population, (3) acceleration of globalization and, (4) advancement of information based economy.

From the standpoint of domestic time horizon, Japan has reached a stage in history where it must shift from the traditional system into a regulation-free, market-oriented and open economic regime if it is to maintain its standard of living in terms of real disposable per capita income. On the international dimension, in the post cold war environment, the Japanese economy has been exposed to the pressure of having to conform to “internationally accepted standards” in order to survive much fiercer world-wide mega competition, with the US economy revitalizing itself and newly emerging countries entering world markets.

Japanese companies have increased their flexibility with regard to employment and wages, and have reduced labor costs as a whole. There are several factors behind these changes. First, environmental changes such as globalization, progress in information and communications technologies, and the aging of Japanese society, have undermined the economic rationale for the Japanese employment practices, which are characterized by seniority-based wage profiles and long-term employment. These changes are promoting the reevaluation of seniority-based wage profiles, and the increased flexibility of the employment system itself. Second, with the protracted sluggishness of the economy in the 1990s, the labor share rose sharply, due partly to Japanese employment practices, and the need to correct excess employment and high wages became a major issue. Third, increasingly active international capital flows have led to heightened scrutiny of corporate profitability. Fourth, under balance sheet adjustment pressures after the burst of the bubble economy, many companies were forced to reduce labor costs to raise funds to repay debt; in extreme cases, companies went bankrupt, which led to the total restructuring of their workforces.

Unraveling the Bubble Economy

In the second half of the 1980s, Japan was involved in the biggest financial mania of the century, a boom that has now gone spectacularly bust. Japanese like to refer

to their spectacular boom gone bust, fuelled on cheap and super-say credit as the bubble economy.

The economic stagnation of the 1990s was largely macroeconomic in origin, stemming from the rise and collapse of real estate and stock prices. In other words, the proximate cause of the poor economic performance lay in the speculative asset price bubble in the stock market and real estate market during the second half of the 1980s. The bubble economy had its origin in the misguided efforts at international economic diplomacy; efforts on which the major international powers are now increasingly turning their backs as they pursue their own domestic agendas. The factor that directly triggered the bubble in Japan was fiscal and monetary policy aimed at expanding domestic demand after the September 1985 meeting of the G-5 leading to the Plaza Agreement. This was the international agreement to revise the excessively high exchange rate of the dollar and trade imbalances. Following the Plaza Agreement, the Bank of Japan lowered its official interest rate from 5 per cent at the end of 1985 to 3 per cent in November 1986 and further to an unprecedented rate of 2.5 per cent in February 1987, its lowest level in the postwar period. This sowed the seeds for the super-easy credit that led to the bubble economy.

As a consequence, bank loans were available for as little as 4 per cent to their best corporate customers. Even better than that, publicly quoted companies could exploit a rising stock market by raising money using the neat trick of issuing Eurobonds with warrants attached in London's offshore Euromark, the world's largest debt market; and swapping the dollar exposure back to the Yen. Money became virtually free in Japan. This sparked a liquidity boom, whose center lay in the economy's main engine of credit creation, i.e. the banks. They were able to use a rising stock market literally to create bank capital and thus, boost their lending. Boosting the value of banks favored collateral against which to lend still more money.

The expansion of domestic demand aimed at mitigating trade friction with the United States had to be sustained mainly by monetary policy, as fiscal operations

were constrained by the need to solve the worsened state budget crisis. At the same time, the policy of lowering the interest rate was facilitated by a floating exchange rate system combined with increasing foreign exchange reserves in Japan. Other things being equal, a fall in the interest rate raises prices of shares and land through comparison with the efficiency of investment. Simultaneously, land prices in Japan also began rising sharply, starting with Tokyo area. In five years, both equity prices and urban real estate tripled in value. Also, the Japanese government deviated from a tight fiscal policy adopted from the beginning of the 1980s and implemented a large emergency spending policy in 1987 aimed at public investment.

These policies provided a stimulus to developers, real estate agents and construction companies, thereby facilitating a rise in prices of land and other real estate. The Bank of Japan continued to supply money and did not pay much attention to the danger of a swelling bubble in asset prices. Soaring prices of land and real estate were regarded as secure mortgages for banks and other financial institutions to offer, expand or renew loans to business firms, real estate agencies and individuals. The turning point came in 1989. Internationally, the appreciation of the Yen reached its peak in 1988 and the Yen began to slide downwards; at the same time, the dollar price of oil turned upward. Meanwhile, the US Federal Reserve Bank gradually raised the official interest rate from 5.5 per cent in 1986 to 7 percent in 1989. The widened gap in interest rates between the United States and Japan induced international capital to flow into the former and thus, helped the fall of the Yen relative to the dollar. To prevent inflation, the Bank of Japan raised the official interest rate three times. This promoted a speculative zaitech mainly among business firms and financial institutions, resulting in a huge bubble in share prices.

The Japanese bubble economy started collapsing in 1990, as share prices began to fall. Asset prices collapsed from the beginning of 1990s wiping out all the price gains since 1985. This had a serious negative effect on the Japanese economy, as it would on any economy. The price of land didn't immediately follow the course of share prices. Banks initially continued to roll over and even to expand, loans relating to real estate, often through non-bank channels. They believed, together

with many business firms and individuals, that, land prices would sooner or later return to upward trend. However, they were also left with massive amounts of non-performing loans, secured by real estate collateral that was shrinking in value. The total decline in Japanese asset values, due to fall in land and share prices, amounted to ¥1000 trillion.² As business firms restricted and reduced their activities, employment conditions became more severe and real wages stagnated. Real disposable household income began to fall in 1993. The capacity utilization in Japanese manufacturing declined in the 1990s. In 1995, as confidence in dollar was shaken after the monetary and financial crisis of NAFTA (North American Free Trade Association) that started with the Mexican crisis, the Yen appreciated against the dollar. This encouraged Japanese exporting industries to transfer their factories abroad, resulting in industrial hollowing out.

Even though the problems of the 1990s can be traced directly to the rise and fall of asset prices, but were asset prices the only factor? Why did the speculative bubble occur? Why did the bad debt problem fester so long without any serious effort at resolution? Why did low interest rates in the 1990s fail to encourage new business investment? Answers to these questions lay in structural flaws in the organization and operation of the economy, particularly the financial system, rather than in just an unfortunate but understandable speculative mistake in asset markets. The causes for the creation and then, the bursting of the biggest speculative bubble seen by the century can only be found in the idiosyncrasies of Japan's long regulated, long corseted financial system.

The existing Japanese economic system is a modification of capitalism involving, among other things, a strong indirect government intervention in markets that may have been well suited to the needs of a rapidly industrializing nation. Similarly, the financial system that underlay Japan's postwar growth was one in which government regulation and control was the key. Interest rates on deposits and loans were controlled, with the government using differential interest rates as a

² Edward J. Lincoln, *Arthritic Japan. The Slow Pace of Economic Reform* (Washington DC: Brookings Institution Press, 2001), p. 6.

mechanism to target the growth of specific industries. Similarly, the design and pricing of insurance products were state-guided, keeping larger objectives in mind.

During the years of high growth, this system served the Japanese economy well. The question, however, is why the system failed to serve Japan during the 1990s as well? The answer lies in the fact that the system was changed and considerably diluted as a result of American pressure during the 1980s. The pressure came from three sources. First, from international banks and financial institutions that wanted Japan to open up its financial sector and provide them space in the financial system. Second, once these external agents were permitted to enter the financial system, they wanted a dilution of the special relationship that existed between the government, the financial system and the corporate world, since that implied the existence of internal barriers to their entry and expansion. Third, these agents and even some Japanese financial institutions, affected adversely by the deceleration of growth in the system, wanted greater flexibility in operations and the freedom to “innovate” both in terms of choice of investment and instruments with which they transact.

There was one principal reason why Japan succumbed to these pressures; its dependence on the world market, especially US market, to sustain growth. When faced with US opposition to protectionism against Japanese imports, Japanese investors sought to Americanize themselves by acquiring or establishing new production capacities in the US in areas like automobiles. In return for the “freedom” to export to and invest in the USA, Japan had to make some concessions. But US demands were quite damaging. They began by requiring Japan to reverse the depreciation of its currency. Following the celebrated Plaza accord, arrived in New York in September 1985, the Yen that had started to appreciate against the dollar in February 1985 from a ¥260 to the dollar, maintained its upward trend to touch ¥123 to the dollar in November 1988. Although the following year witnessed movements that signaled a strengthening of the dollar relative to the Yen, the downturn soon began resulting in a collapse of the dollar from an end 1989 value of ¥143.45 to its April 1995 level of below 80.

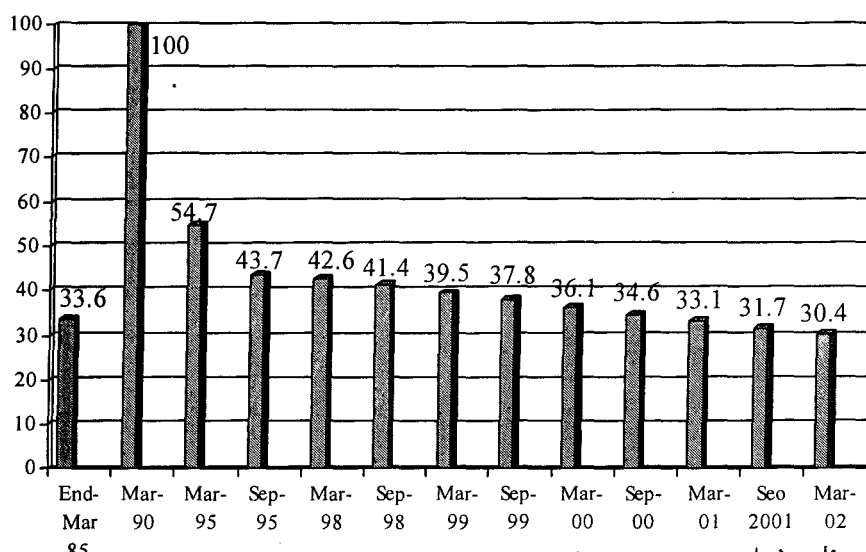
Any economy faced with such a huge appreciation of its currency was bound to stall more so an export-dependent one like Japan's. This trend, which resulted in the hollowing out of Japanese industry, undermined the principle area of business of the banks as well, which were faced with the prospect that some of their past lending could turn non performing. It was in response to this that the Japanese banks joined the chorus against financial controls, demanded that they be permitted to diversify away from their traditional areas. The government responded to this demand by making regulatory changes in the form of a revision of the Foreign Exchange Control Law in 1980 and by permitting commercial banks to create non-bank subsidiaries (*jusen*) to lend against real estate investments. Besides expanding overseas operations, the principle areas into which the banks diversified were lending against real estate and stock market investments. The rate of growth of real estate lending rose from 7 per cent in the second half of the 1970s to 18 percent in the first half of the 1980s and 20 per cent in the second half.

The result of this was a speculative boom triggered by a mad rush into the new areas. Even as GDP growth was slower in the 1980s than in the 1950s and 1960s, the six largest cities' index of real estate prices tripled between end March 1985 and end March 1990, from 33.6 to 100 (Exhibit 3-1, p.108). Similarly, there was a massive speculative boom in stock markets with the yearly high of the Nikkei stock market index rising from 12,500 in 1985 to 38,916 in 1989. By 1989 it was clear that the asset bubble was bound to burst, and in a belated effort to halt the frenzy and respond to householder complaints that acquiring housing was virtually impossible, the government stepped in by controlling credit and raising interest rates. The net result was a collapse in both real estate and stock markets.

The real estate index fell to half to half its peak level by 1995 and to a third by 2001. And the Nikkei, which registered a high of 38,713 on January 4, 1990, fell soon after to an intra-year low of just above 20,000, and continued its downward slide thereafter right up to 1998. A slight recovery in 1999 was followed by a further fall in 2000. The net result of this collapse and prolonged decline was a huge build of bad debts with the banking system. At the beginning of 2002, the official estimate of the non-performing loans of Japanese banks stood at ¥43

trillion or 8 per cent of GDP. This is despite the fact that over nine years ending March 2001, Japanese banks had written off ¥72 trillion in bad loans. There is still much skepticism about official estimates of the extent of bad debts.

Exhibit 3-1. Index of Real Estate Prices in Six Largest Japanese Cities.



Source: C.P. Chandrasekhar & Jayali Ghosh, "Explaining Japan's Decline," *The Hindu*, July 9, 2002.

Examining the Post-Bubble Recession

The collapse of the so-called bubble economy of the late 1980s plunged Japan into a deep and uncommonly long recession that has debunked the myth of perpetual and uninterrupted national economic growth. Just when domestic and international pressures were mounting to force Japan drastic changes in the basic framework of the Japanese economy, the "bubble economy" burst, intensifying the subsequent process of structural adjustment. Following this, the Japanese economy started receding in March 1997. Many observers both inside and outside Japan have argued that traditional economic policies have failed to revive the Japanese economy because it is suffering from structural problems. They also argue that without structural reform, there will be no future for Japan. Although many structural issues undoubtedly need to be resolved, it is difficult to blame them entirely for the poor performance of the Japanese economy in the 1990s. This is because most structural problems date back for decades and so cannot explain why

an economy that was so powerful until the very end of the 1980s suddenly lost its forward momentum from the 1990s onwards.

The key to understanding the sudden change and prolonged slowdown that followed lies in the state of balance sheets of Japanese companies. For nearly half a century since the end of World War II, the Japanese economy had been running on two large wheels, the high savings rate of the household sector and the high investment rate of the corporate sector. The ample pool of savings provided by the household sector enabled Japanese companies to borrow and invest at low interest rates and allowed phenomenal growth of the Japanese economy and its capital stock. It was this savings and investment combination that helped the Japanese economy to bounce back from the ashes of the war to become the second largest economy in the world.

From the first business days of the 1990s, however, asset prices in Japan began to slide (mentioned in detail earlier). The fall in share prices was soon followed by an even more acute fall in real estate and other asset prices, which wiped ¥1,000 trillion, or two full years' worth of Japanese GDP, clean off the board. Some assets, such as commercial real estate, have fallen to nearly one-eighth of their peak values, with devastating consequences throughout the economy. For a major industrialized nation in modern times, only the Great Depression in the United States in the 1930s has seen an equivalent loss in wealth relative to the size of the economy.

Since Japanese households and companies acquired those assets by borrowing money, the fall in asset prices left millions of balance sheets all over the country under water. In order to climb out of their negative equity position, households and companies were left with no choice but to refrain from consumption and investment and redirect any cash so saved to paying down debt. In other words, millions of companies all over switched their highest priorities from maximizing profit to minimizing debt.

Although they were all doing the right thing in view of what had happened to asset prices, the fact that they were all doing the same thing at the same time means that the economy suffers from weak consumption and weak investment. The weakness of the economy depresses asset prices even further, forcing Japanese companies and households to take even more drastic measures to repair their balance sheets. The result has been a vicious circle brought about by the so-called fallacy of composition, that is, everybody is doing the right thing from his or her individual perspective, but the combined result of their efforts has been the opposite of their aggregate goal.

With millions of companies all over Japan trying to repair their balance sheets, the high investment rate, which characterized the Japanese economy for so long, has disappeared. Form being a net taker of funds – 10 per cent GDP in 1990 – the corporate sector today is a net supplier of funds (i.e., debt repayment) to the tune of 4 per cent of GDP, or a total change of 14 per cent of GDP over the ten-year period. Losing private sector demand equivalent to 14 per cent of GDP is bad enough, but the matter is actually worse because the household sector during this period did not change its savings behavior at all. In other words, the household sector continued to save nearly 10 per cent of GDP as before.

The world's highest savers have become super savers now (Table 3-1, p.111), and when an entire society becomes suddenly scared and very keen to save, even an interest rate of zero will not dissuade them. With the household sector saving as much as before but the corporate sector no longer borrowing to spend the saved funds, a huge deflationary gap has opened up. It is this gap that has trapped the Japanese economy in an extremely rare type of recession called a "balance sheet recession".³

³ Richard C. Koo, "The Japanese Economy in Balance Sheet Recession," *Economic Review* May-June 2002, p. 1-16.

Table 3-1. Household Savings Rate by Country (%)

	Japan	Germany	UK	France	USA
1985	15.6	11.4	6.7	9.7	7.1
1990	12.1	13.8	3.7	7.6	5.3
1995	13.7	11.4	7.2	10.5	3.5
1998	12.6*	11.0	3.1	9.0	0.5

Source: Bank of Japan, *Kokusai hikaku tokei* (Comparative Economic and Financial Statistics), 1999.

Note: Household savings rate = household savings ÷ household disposable income.

Impact of Recession on the Employment System

The post-bubble recession continued through the second half of the 1990s. Some temporary improvement in the economic outlook was seen in 1995 and 1996, partly due to a fall in the value of the yen and additional demand generated by recovery efforts for the January 1995 Great Hanshin-Awaji Earthquake. In 1997, however, a variety of factors, including a rise in the consumption tax rate, a reduction in government investment activity, and the bankruptcies of major financial institutions, quickly worsened the recession. Burdened with a huge volume of bad debt aggravated by still-falling land prices, financial institutions tightened their lending policies, thereby forcing companies to reduce plant and equipment investments. This, combined with falling exports caused by the Asian economic crisis, resulted in lower profits in almost all industries. Employment and wages also fell, further dragging down consumer spending, and in 1998 the Japanese economy suffered negative growth (Table 3-2, p.112). Japan emerged from the recession only at the start of 1999, only now we know to slip back into it at the year's end. The immediate cause of what is essentially a continuing recession is fairly clear: ordinary Japanese people are just not spending.

Amid a prolonged economic slump and high unemployment rates, the Japanese system of employment, which traditionally has been supported by long-term employment and seniority-based pay, is undergoing change. The recession has resulted, among many other things, in the constraint on corporate expansion, which has exposed corporate inefficiencies in terms of an excessive labor force, a cumbersome decision-making process, and lack of innovativeness in generating

new products and ideas. Japan can no longer compete on the basis of production efficiencies alone; it is facing severe competition from other low-cost producers like China, South Korea and Taiwan. At the same time, the Japanese people are themselves changing, and new generations are less apt to respond to traditional incentives and to conform rigidly to traditional social norms.

Table 3-2. Economic Growth Rates (%)

	1996			1997		
	II	III	IV	I	II	III
Real GDP	-0.3	-0.4	1.1	2.0	-2.8	0.8
Personal consumption	-1.0	0.2	0.9	4.0	-5.3	1.6
Private housing investment	5.9	1.0	2.5	-5.1	-10.6	-10.5
Private plant & equipment investment	1.4	2.9	2.9	1.2	-1.7	1.6
Increase in private inventories	-48.1	-34.5	-70.0	-86.9	4725.0	4.1
Government consumption	0.1	0.2	1.0	-0.9	-0.9	0.7
Government investment	2.1	-12.6	-5.2	-3.2	0.5	1.3
Increase in public inventories	-58.3	-64.0	-37.5	309.0	-29.5	-65.5
Net exports of goods & services	-82.0	562.4	110.2	18.3	127.5	-6.6
Exports of goods & services	0.1	2.4	4.8	1.4	5.8	-1.3
Imports of goods & services	1.8	0.1	2.0	0.5	-2.3	-0.4

Source: Japan Echo Inc. Japan Information Network

Slow economic growth accompanied by increased competition from other industrializing countries, notably China and South Korea, has forced many Japanese companies to shift strategies and alter structures to meet the new realities. In their effort to cope with the new international environment, Japanese companies are modifying their traditional management practices as they relate to their employees in Japan. In terms of structure, some companies are introducing

elements of functional management and are separating lifetime employment from the seniority-based wage system.⁴

The recession has brought untold miseries to the Japanese economy. The postwar Japanese employment system, characterized by such features as lifetime employment and seniority-based wage levels, is changing dramatically, as the economic stagnation drags on. In 1999, 1.0 million people lost their jobs because of workforce reduction or bankruptcy. During 1998-2000, bankruptcies rose by 15.3 per cent and debt held by bankrupt firms totaled ¥ 27.50 trillion (\$240 billion). The 1990s recession forced Japanese firms to sack their workers in a way they never used to. The big firms are still doing it. The rational reaction to suddenly discovering that lifetime employment and everything it means in terms of health care and pensions is ending, is to save even more.

Forms of employment in Japan are rapidly diversifying. With the combination of low economic growth and an aging population, Japan is seeing growth in such systems as voluntary retirement and annual wage plans, as well as in the number of temporary workers, which has grown more than fivefold during the last ten years. In the future, the number of these workers is expected to grow even more enormously.

The prolonged depression has taken a heavy toll on Japanese firms, especially medium and small ones, and forced many of them to apply for liquidation. The surviving enterprises have been continually cutting their expenditures on investment, thereby fuelling the recessionary forces operating in the economy. Senior corporate management has finally realized that the economy has entered an extended period of slow growth, and virtually all businesses are undertaking some sort of restructuring as a result. Management's restructuring efforts to date have had little impact on the bottom line, however, because of the persistence of the practices of lifetime employment and seniority wage.

⁴ Yasuo Okamoto, "Nihon Kigyo no Grand Strategy" [The Grand Strategy of Japanese Business], *Chuo Koron Keiei Mondai*, (trans.) Mamoru Ishikawa, *Japanese Economic Studies* (Summer 1982), pp. 3-47.

These practices, traditionally followed by Japan's leading companies, make it impossible for management to lay off workers at will, no matter what the cost keeping them on might be to a company's health. Companies overcame previous recessions by other measures, such as furloughing workers, eliminating overtime, and cutting executive salaries. Blue-collar workers were offered early retirement incentives, and these retirements were ostensibly voluntary, rather than constituting forced separations. Workforce readjustments rarely if ever extended to white-collar workers. Managers might be shifted from managerial posts to sales positions or be transferred temporarily to subsidiaries, but the lifetime employment system guaranteed they would be kept at the company in some capacity.

In the current recession, however, it is becoming less economical and rational to maintain long-term employment. This is because the current recession differs from past recessions in that 1) the recessionary period is much longer, 2) the prospect of recovery after the recession is unclear, and 3) the long-term growth rate is following a downward trend. The factors mentioned above mean that the surplus employment in the current recession will last much longer than in previous recessions and proportionately will continue to pressure corporate earnings over a long period of time. This was testified by the fact that corporate efforts to maintain employment levels from 1991 to around 1997 pressured corporate earnings so badly that the cumulative earnings of all companies listed on the Tokyo Stock Exchange came virtually to nil, quite an abnormal situation. Stock prices tumbled, as a matter of course, further weakening corporate financial positions, and in turn deepened corporate management crises in a vicious cycle.

Corporations all across Japan are being forced to reexamine their lifetime employment and seniority systems. Unable to abandon these practices all at once, they are looking for ways to phase them out gradually. In the fall of 1992, IBM Japan Ltd. instituted a second career support program that offered generous terms of separation to employees over 50. Any employee willing to leave IBM and start an independent subsidiary was offered an average 150 per cent of their annual salary above the normal separation pay, depending on age. In addition, the retirement age from the subsidiaries was extended from 60, the norm for IBM

Japan, to 65.⁵ The changes in the long-term employment system have been brought not by employees themselves, but rather by companies that have attempted to reduce the number of regular employees and replace them with part-time and temporary workers. Over the last five years, the number of regular full-time workers declined by 2 million, while that of part-timers and temporary workers has risen by 2 million.

Changes in employment practices are a big factor in the increase in unemployment. The growth in the unemployment rates following the recession has been a reflection of downsizing by Japanese companies as they adjust to anticipated lower market growth. This manifests itself in companies consigning work outside their regular workforce, for whom job security is expected. Indeed, the demand for new workers among large companies was stagnant throughout the 1990s, with most new employment opportunities found in medium and small-sized companies where wages are lower and job stability is less. The rapid shift of the labor force away from stable, secure jobs to unstable jobs is a significant factor in the sharp rise in unemployment since the recession hit the Japanese economy.

During March 1994 to March 1995, some of Japan's leading companies announced workforce reduction plans as part of their broader cost-cutting efforts (Table 3-3, p.116). Among them were Nippon Telegraph and Telephone Corp. (NTT), the telecommunications giant, which slashed 20,908 jobs through transfers to its affiliates and voluntary retirement; Toshiba Corp., which reduced its total workforce by 1090 and thousands more in its affiliated companies. Similarly deep cuts were announced about the same time at Nissan Motor Co., which cut 2,221 workers, Mitsubishi Electric, shedding 1,421, and Nippon Steel Corp., cutting 5,048 employees.

⁵ Harumi Yamamoto, "The Lifetime Employment System Unravels," *Japan Quarterly*, October-December, 1993, pp. 381-386.

Table 3-3. Ranking of 20 companies by level of staff reduction, March 1994 to March 1995

Company	Staff reduction	Company	Staff reduction
1. NTT	20 908	11. Kawasaki Steel	1 851
2. Nippon Steel	5 048	12. Mazda	1 840
3. Sharp	4 800	13. Kobe Steel	1 594
4. Toyota	3 298	14. Mitsubishi Electric Industry	1 421
5. Fujitsu	2 883	15. Oki Electric Industry	1 275
6. Hitachi	2 660	16. NEC	1 209
7. Nissan Motor	2 221	17. Toshiba	1 090
8. NKK	2 024	18. Matsushita Electric Industry	1 065
9. Sumitomo Metal	1 968	19. Minolta	973
10. Nittu	1 853	20. Mitsubishi Heavy Industry	964

Source: International Labor Organization, Labor Administration Branch.

The “employment adjustment” tax fell hardest on older white-collar workers – those aged 45 and above. Those with large companies were drawing an annual salary of ¥10 million or more and those with medium-sized and smaller firms, ¥7 million or more. Over time the job crunch extended to younger workers in their early 40s, who were making about ¥9 million a year at large companies and about ¥6 million annually at small companies. Moreover, blue-collar workers at big corporations, workers who had enjoyed relative job security in previous economic slumps, were also discharged or demoted to lower paying jobs at subsidiaries and affiliates.

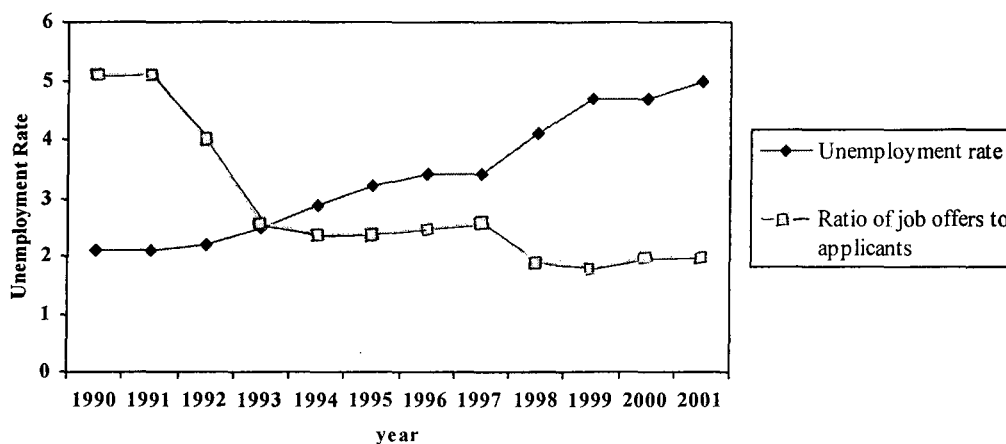
The Japan Federation of Employers Associations (*Nikkeiren*), an organization representing larger corporations, gave reasons for employment adjustment in its May 1995 report titled “Research Project Report on New Japanese-Style Management Systems.”⁶ The Report called for a shift from the traditional unilateral wage system whereby wages rise with the worker’s age and length of employment, to a multilateral structure that factors in job performance, nature of the job and individual ability. The *Nikkeiren* report classifies work into three major types: (1) work that requires long-term, step-by-step efforts to develop ability and skill – the kind of work regular employees are normally required to do under the traditional wage and employment systems; (2) work that demands high level of technical and specialist ability and skill; and (3) short-term work that calls for flexible forms of employment, such as part-time and temporary work. Based on

⁶ Kiyotsugu Shitara, “Workers Caught in Job Crossfire,” *Japan Quarterly*, October-December 1998, pp. 17-21: 18.

these classifications, the report says, an optimal combination of work, people and cost should be achieved. In other words, *Nikkeiren* advocates extending the “just-in-time” concept of inventory management to workers. The idea, of course, is to keep only the minimum necessary number of parts (workers) on hand to keep overhead (payroll) low. Such an efficiency-oriented employment system is incompatible with the stability-oriented seniority wage and lifetime employment systems.

Long accustomed to guaranteed and lifelong employment, the Japanese have had to contend with a rising unemployment rate, which nearly tripled from just above 2 per cent in 1990 to 5.2 per cent during 2003-04. A more accurate indicator of the rapidly shrinking employment opportunities in Japan is the recent trend of job offers to applicants. The ratio stood at 2.5 per cent in December 1997, but declined to 1.9 per cent in December 1998 and to 1.8 per cent by end 1999 (Exhibit 3-2). In the context of these figures, it is not very difficult to appreciate the growing apprehension of Japanese households regarding their earning prospects and the consequent fall in the average propensity to consume along with a decline in housing expenses.

Exhibit 3-2. Japan's Unemployment Rate and Ratio of Job Offers to Applicants



Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, and Ministry of Health, Labor and Welfare.

Note: Since 1990, Japan's unemployment rate has more than doubled while the ratio of job offers to applicants has fallen to less than half of what it was.

Corporate on-the-job training is also being subjected to important changes, as companies find their in-house training no longer capable of nurturing human resources competent to respond to rapid technological innovations, globalization of corporate management and other changes. A survey conducted by the Ministry of Labor in June 2000 showed that listed companies are hiring more mid-career white-collar workers. Mid-career employees account for 15.9% in the manufacturing sector, but the ratio stands at a high 39% in the service sector. Major companies used to recruit new university graduates on a regular basis every year and employ them for a long period of time. Many companies are finding it increasingly difficult to swallow the costs associated with maintaining the in-house unemployed, and they are being thrown out. Japan will no longer be able to boast that the heart and soul of Japanese management is the maintenance of employment. When one thinks of it, it is natural enough that changes in economic conditions have compelled the Japanese system of personnel and labor relations to change. The traditional system can just no longer be maintained.

A detailed study of some of the major changes currently underway in traditional Japanese employment practices and the external factors that may significantly influence the direction of those changes are discussed below:

Gradual Disappearance of Lifetime Employment.

Major Japanese corporations up till now have founded their hiring practices on a system of lifetime employment and have made employment security a top management priority, even when this meant keeping surplus workers on the payroll. The rising unemployment rate indicates that corporations are losing their capacity to support this surplus. During the postwar years, Japanese companies have resorted to a number of techniques to maintain lifetime employment during periods of normal business downturn. These include encouraging employees to take early retirement; placing permanent employees in maintenance and other routine and even trivial jobs previously performed by temporary workers, or not performed at all; transferring employees from parent company to supplier firms; and lending workers from companies with excess capacity to those experiencing temporary shortages of labor.

In the past, these kinds of adjustments were tolerated, accepted and also worked well because downturns were considered short-run phenomena. Now, the situation has changed. Confronted with slowing economic growth and increased international competition, the Japanese see that the need to reduce the workforce is no longer temporary. Techniques of employee reduction have gained an aura of permanence, and employers' tactics have lost their gentility. Japanese companies are using coercive measures that are ripping the fabric of Japanese employer-worker relations. Early retirement is becoming increasingly less "voluntary." In the effort to make large cuts in payrolls, many companies have resorted to harassing employees into voluntary and early retirement. For instance, in early January 1993, the *Asahi Shinbun* and a few other newspapers reported that Pioneer Electronic Corp., a leading manufacturer of audio and video equipment, had ordered 35 managers in their 50s to resign and accept a company offer of an early retirement bonus. The newspaper reports indicated that those who failed to accept the offer by January 31 were to be summarily discharged.⁷

The length of the recession is making it increasingly difficult for companies to simply unload surplus workers on subsidiaries – hence the layoffs of virtually unemployed managers. Those who retire early or "voluntarily" face significant hardships mainly because they have little prospect of finding a job with a large corporation that pays comparable wages and carries the same prestige and social status. Even jobs at lower wages as temporary workers have become increasingly scarce in a recession economy. The result has been a record number of out-of-work Japanese employees.

A major drawback of the lifetime employment system is the inherent rigidity in the size of the workforce. Many Japanese companies, in addition to cutting back the number of employees, have been making their workforces more flexible by reducing the number of lifetime employees and increasing the number of temporary workers. This category includes seasonal workers, part-time workers, and female workers who can be laid off at the companies' convenience. It appears

⁷ Yamamoto, "The Lifetime Employment System Unravels," p. 382.

that the structure and composition of the workforce in large Japanese companies is beginning to gradually skew toward more non-lifetime or temporary workers.

All these changes are having a significant impact on the traditional employee-employer relationship. The success of lifetime employment is based on a dual set of expectations and mutual obligations between employers and workers. The employer guarantees a lifetime job at reasonable rates commensurate with the company's own growth and profitability. The employee is expected to work diligently and dedicate himself to the success of the employer. So as more and more companies lay off excess workers, those workers feel betrayed. Those who remain behind realize that it is not "their" company any more, and that they may also be discharged if the company decides it cannot keep them. When older workers are forced to take early retirement in increasingly large numbers, a sense of abandonment adds to the feeling of betrayal. The changes adversely affect employee loyalty and morality, making the workforce less dedicated and dependable.

Changing Salary Structure

The second mainstay of the customary employment system in Japan, seniority-based pay and promotion, is also changing considerably. An aging society with fewer children is one of the underlying factors. The seniority-based promotion and wage system, coupled with lifetime employment, implied that almost all regular employees would receive higher positions and responsibilities as they reached "appropriate" age levels. This is easily accomplished in a growing company and an expanding economy. But problems occur when the economy can no longer absorb the expanding cadre of middle- and upper-level managers.

A salary curve that rises sharply along with employees' age was acceptable in times when there were a greater number of young people. But in an aging society it has become necessary to revise the seniority-based salary structure, to keep down total personnel costs. An increasing number of enterprises are raising the proportion of performance-based wages as an incentive for higher performance. Some companies have even gone so far as to put excess middle-level managers

who were incapable or incompetent into sideline positions without specific job responsibilities. These managers are usually called *madogiwa-zoku* (window tribe), or those who sit along windows. They get paid, but they do not do any work; they sit by windows and spend their time looking through them. This is a rather clear message that the employee is not wanted. *Madogiwa-zoku* are largely people between the ages of 40 and 55 who have not reached top management positions or who have little prospect of reaching top management before retirement.

Many corporations have turned away from strict seniority-based salary structures and have instead adopted compensation practices more similar to those in Europe and the United States. In rapidly increasing numbers, Japanese companies are switching to a system of annual salaries with pay scales based on workers' yearly performance, similar to those present in Europe and United States. At present the typical annual-salary system in Japan ties less of the employees' salaries to the assessment of their performance than the US-style system; it remains to be seen whether a more full-scale performance-based system will develop in Japan.

The number of companies paying performance-based wages has been skyrocketing over the few years since the bubble economy met its end. According to the Ministry of Labor statistics, in 1998, 25.6 per cent of companies with 1,000 employees or more had an annual salary structure based on performance, up from 15.9 per cent in 1996. In another survey of 510 listed companies, fully 68.2 per cent of the firms not yet using an annual salary system were discussing or actively planning its introduction. Performance-based annual wages seem set to win over an even bigger share of the Japanese corporate world in the near future.

Matsushita Electric Industrial Co. will abolish seniority-based pay for domestic employees in April 2004 to cut personnel costs amid intensifying competition in the electronics industry.⁸ Both the management and the labor sides have agreed upon a merit-based pay system for the company's entire domestic workforce. The company's new salary system will affect 64,000 union member employees, as

⁸ "Matsushita Electric to Abolish Seniority-Based Pay System." *Kyodo News International*, November 26, 2003.

against the 10,000 managerial employees covered under the result-oriented pay system since April 1999.

The new Matsushita pay structure breaks salaries down into three components: a base component that rises automatically with seniority until age 45, a rank-related component that is linked to employee grade, and a merit component that is tied to job performance. Under the current formula, the base and rank-related components each account for 30 percent of salary, while the merit component accounts for 40 percent. The new formula will eliminate the base component and raise the merit component to 70 percent of the entire salary, the officials said. Hitachi Ltd. had earlier decided to scrap its seniority-based salary system. The addition of Matsushita, which has one of the largest domestic workforces in the entire manufacturing sector, is expected to spur a broad move toward a revision of pay structures across all industries.

The annual salary systems adopted by Japanese companies feature much less stringent performance assessments than similar systems in the West. In general, college graduates in the United States who put their degrees to work when hired are, after a fixed trial period, placed in managerial or specialized positions and paid annual salaries. The guaranteed yearly wages are paid out monthly and a bonus tied to performance is awarded at the end of the fiscal year. The entire sum of the bonus is subject to assessment; the amount can vary widely depending on company performance and employee evaluations, and there are cases where bonuses are not awarded at all.

Japanese versions of the annual-salary system differ somewhat from this. In the most common form of the scheme, employees are paid salaries tied to their positions, intended in part to safeguard their livelihoods, as well as performance-based payments much like bonuses. Their annual salaries are paid in monthly installments and bonuses paid out at fixed times during the year. The form seen at many Japanese companies diverges from the US model in that only a portion of the bonus amount hinges on performance assessments.

Japanese firms are unlikely to take to a system with overtly large fluctuations in the amount paid. The annual salary system being adopted by Japanese companies today provides for reduced payments based on negative assessments, but this is rarely seen. This doesn't mean that highly positive assessments are heavily relied upon though; most employees receive decent grades. The system as a whole is rather loosely applied. It's a Japanese-style performance-based system, basically. But the age systems used by US companies, which continue to evaluate individual ability, are rapidly becoming an international norm. There are many economists who predict that the Japanese version of the annual salary system will sooner or later become more of a full-fledged performance-based scheme like those seen in the West.

Shorter Working Hours

Nikkeiren has considered a form of employment called "regular employees with shorter working time," in which employees carry out the same tasks as regular employees but in reduced working hours.⁹ In the near future it is likely, and indeed is desirable, that this form of employment gradually increases. One reason for the need for a short working hour system is that in the current trend toward an aging society with fewer children, more women will want and need to work, while working conditions also need to be established to suit older workers. Currently, Japanese workers are strongly bound with the company work as their working hours are extremely long, and they are often ordered to transfer immediately to work in places in different parts of the company. As such, only a very limited number of people can dedicate themselves to work as regular employees. It will therefore become indispensable for companies to think of ways to maintain productivity per hour while mitigating these restrictions.

The second reason is that under the beleaguered economy, a greater number of women are actually forced to work today as part-time workers. Until now, it has been customary in Japanese society to distinguish between the roles assumed by men and women. Husbands usually worked outside while the wives managed

⁹ Higuchi Yoshio, "The Death of Lifetime Employment," *Look Japan*, August 2002, pp. 13-15.

home affairs. As many companies started reducing wages, however, husbands no longer feel assured about their jobs, and it is now apparent that there are risks involved if one tries to maintain a lifestyle in which men and women assume clearly differentiated roles. An increasing number of wives have thus come to feel the need to seek jobs, to maintain their current standard of living. To support those people participating in economic and social activities, it is desirable to establish a system of regular employment with short working hours.

Five-Day Workweek - To reduce work hours, the Ministry of Health, Labor, and Welfare is exercising administrative guidance with the goal of cutting the average annual number of hours worked per person, which stood at 1,853 hours in 2000, to 1,800 hours. To this end, the Labor Standards Law was revised in 1987. The legal workweek was reduced from 48 to 46 hours in April 1988, to 44 hours in April 1991, and to 40 hours in April 1994. The introduction of the five-day workweek has come late to Japan compared with some other countries. In 1985 the implementation rate was only 76.5% of workers in surveyed companies. However, by 2000 the figure had risen to 91.6%, indicating that the five-day workweek was becoming nearly universal in Japan.

Meanwhile, to reduce the number of working hours of regular employees, such schemes are emerging as the “discretionary work system,” by which such employees as research and planning staff work at their own discretion and are considered to have worked for a certain time however many hours they put in, and work sharing, by which per capita work is reduced and more than one worker does the same job, thus protecting employment.

Layoffs and Unemployment

Japan’s employment situation is rapidly deteriorating. According to a survey by Japan’s Management and Coordination Agency, the unemployment rate rose to 4.1 percent in April 1998, exceeding the 4 percent level for the first time since the period of upheaval immediately following World War II. In addition, the number of people falling into the ranks of the unemployed involuntarily due to bankruptcies and restructuring has jumped, indicating that Japan’s depressed

economy has begun to affect the employment situation seriously. For much of the postwar period through the early 1990s, Japan maintained an impressive record of near full employment, with its jobless rate hovering at a mere 1-2 per cent. The jobless rate stood at 2.1% in fiscal 1990, when the Japanese economy was at the height of the bubble boom. The rate remained unchanged in fiscal 1991 when the recession started. It rose only slightly to 2.2% in fiscal 1992 when the recession deepened and the government adopted a fiscal stimulus package. Up to fiscal 1994, the jobless rate hovered around the 2% range, which amounted to full employment. Beginning in 1993, however, the job market began to feel the repercussions of the collapse of the bubble economy, and by 1995, unemployment had climbed to 3 per cent. The rate began rising again in 1998, breaking through the 4 percent benchmark in April. In 1999 it stood at 4.7 per cent, with the number of unemployed persons (due to layoffs and corporate bankruptcies) rising from 380,000 in the previous year to 3.2 million. New record highs have been registered every year since. The number of employed persons, according to the Labor Force Survey, in November 2003 was 63.23 million, a decrease of 230 thousand or 0.4 percent from the previous year. Conversely, the number of unemployed persons was 3.30 million, a decrease of 80 thousand from the previous year. The unemployment rate, seasonally adjusted, was 5.2 percent (Table 3-5 and 3-6, p.126).

Table 3-5. Trends in Employment & Unemployment

	(10 thousand persons)		
	Actual figures	Change from the previous year	
Population of 15 yrs old or more	10982	39	0.4 (%)
Labor force	6654	-30	-0.4
Employed person	6323	-23	-0.4
Unemployed person	330	-8	-2.4
Not in labor force	4318	69	1.6
Labor force participation rate (%)	60.6	-0.5	-
Ratio of unemployed in labor force, original series (%)	5.0	-0.1	-
Ratio of unemployed in labor force, seasonally adjusted (%)	Current month 5.2	Change form previous month 0.0	

Source: Labor Force Survey, Statistical Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications.

The main causes for the rise in unemployment are the various social conditions arising in Japan at the moment, especially the rise in voluntary retirement among women and young people wishing to change jobs, the increase in the number of elderly people wanting to work, and the rise in involuntary retirement among mainly middle-aged and elderly people brought about by corporate restructuring. Among these factors, the main cause for the rise in unemployment among the elderly people is that more people, now that they can expect to live longer, want to work even in old age.

Table 3-6. Unemployment Rate (Seasonally adjusted) (%).

	2001	2002	2003
Jan	4.8	5.3	5.5
Feb	4.7	5.3	5.2
Mar	4.7	5.3	5.4
Apr	4.8	5.3	5.4
May	4.9	5.4	5.4
Jun	4.9	5.4	5.3
Jul	5.0	5.4	5.3
Aug	5.0	5.5	5.1
Sep	5.3	5.4	5.1
Oct	5.3	5.5	5.2
Nov	5.4	5.3	5.2
Dec	5.4	5.3	----

Source: Labor Force Survey, Statistics Bureau, Ministry of Public Management, Home Affairs, Posts and Telecommunications.

According to an opinion poll conducted by Trends In Japan, 74 per cent want to work after the age of 60, either for income purposes or to give themselves a purpose in life. At the same time, the increased unemployment of middle-aged and elderly people as a result of corporate restructuring in the wake of the collapse of the bubble economy is continuing. For instance, according to a report by the Asahi Shimbun, (Japan's leading daily) a 56-year-old man who worked in the production of audio-visual equipment at Matsushita Electric Industrial Co. left the company in March 2002 under an early retirement program. He had planned to work until 65 under Matsushita's rehire program and pay off his mortgage. However, Matsushita recorded its biggest annual loss ever in fiscal 2001. The company introduced the

early retirement program, and about 13,000 workers, mainly in their 40s and 50s, have left the Matsushita group.¹⁰

In October 1994, a 52-year-old *bucho* at a major electronics company, with 30 years of continuous service and an annual salary of ¥12 million, was asked to quit by the end of December. He was head of a semiconductor trading division at that time, but with little or no work to do and with nobody under him from then, he was forced to stay home. Another 57-year-old man at a major electronics parts manufacturer was told in the spring of 2002 that the company had no post for him. He had worked on semiconductor design for 21 years. In 1990, the man had been put in charge of all aspects of semiconductors, from design to sales. However, after losing out to international competitors, company executives decided to reduce semiconductor operations. The man's efforts to find a new job were hampered by a seemingly redundant skill set. He was told he could not solve detailed technical problems because of rapid progress in semiconductor technology. Smaller companies said he had too successful a past as a department head. Overseas semiconductor firms that he spoke to indicated that superiors who would be younger than him might find it difficult to supervise him.

Many managers in their 40s and 50s, like these people, lost their long-held jobs for reasons that had nothing to do with them but everything to do with their companies. Some workers say Japanese companies have thrown their life plans off course due to downsizing efforts. "I've been working for this company for many years. The company was my life, and I worked even on holidays because I thought that was good for the company. Now, all of a sudden, everything has changed. I don't know what I've been working for all these years."¹¹ Remarks such as his are not uncommon.

Some Japanese economists argue that Japanese corporate management is based on respect for humanity. Quite a few corporate executives share their views. Only several years after the start of the recession did companies take full-scale

¹⁰ "Gaps in the Workforce Mean Companies are Looking to Retain the Talent of Senior Workers," *Asahi Shimbun*, August 18, 2003.

¹¹ Quoted in Kiyotsugu, "Workers Caught in Job Crossfire," p. 19.

employment adjustment measures. But business leaders still tended to believe in maintenance of employment. When a major company declared it had to start cutting jobs, many other major companies criticized it for shirking its social responsibility, indicating their belief that companies have a moral obligation to maintain employment. But things began to change in 1997 with a further deepening of the recession. In November that year, major companies went bankrupt one after another. Sanyo Securities Co, a medium-sized securities firm, folded, closely followed by the failure of Yamaichi Securities Co., one of the Big Four securities houses and Hokkaido Takushoku Bank, the first of Japan's 10 "city" commercial banks to go bankrupt. This added an impetus to employment adjustment in a broad spectrum of industries, pushing the unemployment rate to new highs. Japanese financial institutions began to tighten credit, resulting in a credit crunch. Deflationary pressure weighed heavily on the Japanese economy, which faced its worst crisis since the end of World War II. Many small businesses that were especially affected by the said credit crunch have been forced to trim their payrolls. Many others have gone bankrupt or are on the verge of collapse.

Against such a background, major Japanese companies could no longer afford to regard job cuts as taboo. They began to feel a sense of crisis; they feared that unless they adjusted employment and curtailed labor costs, they could no longer earn profits and their shares would be sold on the market, which in turn would plunge their business into a crisis. In Japan, adjustment of employment was minimal for several years after the recession started, at the expense of corporate profits. Pressures on corporate earnings reached a limit around 1997, and companies found it unavoidable to abandon the policy of maintaining employment, the hitherto corporate sanctuary, in order to survive. After several influential companies started employment adjustment, others followed suit one after another, more at ease and more vigorously, as they found themselves compelled to do so.

It is not that Japanese corporate employers no longer feel that the maintenance of employment is their social responsibility. They are simply becoming gradually less conscious of such a responsibility, as they push for the adjustment of employment after pressures on their earnings have reached a limit.

"*Risutora*," the Japanese abbreviation of the English word "restructuring," became a Japanese catchword. But the meaning of "*risutora*" used by Japanese was very different from the original meaning of "restructuring" in the U.S., where the term originated. In the U.S., restructuring refers to a company's rebuilding of its corporate strategy and system in order to strengthen its structure, whereas in Japan "*risutora*" was used to refer to adjustment of employment or curtailment of manpower costs, in a broader context of downsizing and cost cutting in response to recessionary trends.

Growing Number of Temporary Workers

Another symbol of the growing diversification in employment systems is the increase of temporary employees. Generally speaking, a temporary employee is one whose salary is lower than that of a regular employee and does not receive the fringe benefits or company insurance that full-time employees do. The number of temporary employees started to grow in the 1980s, and this growth accelerated in the 1990s. According to a Ministry of Labor Survey, as of the end of March 1997 there were approximately 720,000 temporary employees, whereas ten years earlier the number was 140,000. In the future, it is expected to grow even more enormously.

While most firms continue to reduce the number of regular employees, including white-collar employees and middle-level managers, they also tend to employ atypical workers of various types. According to the general survey on the diversification of forms of employment carried out by the Ministry of Labor in 1994, the ratio of regular employees to all employees decreased by 4.7 per cent between 1987 and 1994, while the ratio of atypical employees (including part-time workers, casual workers, temporary employees and so on) to all employees increased. The general survey found that the main reason that firms employed atypical employees was to reduce labor costs. The expansion of atypical employment has thus gone hand in hand with the decrease in regular employment. Some big companies have recently stopped employing female regular employees, and have started to use dispatched temporary workers instead.

Table 3-4. Number of part-time workers by working hours, Japan, 1995 (thousands)

	All part-timers	%	Normal part-timers ¹	%	Others ²	%
Total	7 983	100	6 687	83.8	1 296	16.2
Male	2 094	100	1 521	72.6	573	27.4
Female	5 889	100	5 166	87.7	723	12.3

1. "Normal part-timers" are those who work for shorter hours than regular, full-time workers at the same firm. 2. "Others" are those so-called part-timers who work for the same hours or longer than full-time workers at the same firm.

Source: Ministry of Labor, investigation into actual condition of part-time workers, 1995.

There is a much greater disparity between the working conditions and benefits of regular employees and of atypical workers in Japan than in, say, the industrialized countries of Europe. This gap is probably related to the inadequacy of labor standards in Japan. This is illustrated by the long hours worked by part-time employees. One of the significant characteristics of part-time employees in Japan is that they often include those working for as long hours as full-time employees (Table 3-4). The working conditions and benefits of these so-called "full-time part-timers" are worse than those of full-time, regular employees, even if their working hours are the same. No labor laws in Japan prohibit employers from making part-timers work for longer hours. So, some employers recruit female workers under worse working conditions than those of regular or full-time employees and by calling them "part-timers", evade their responsibilities as employers. The increase in the number of female atypical employees, such as part-time workers, is also closely related to sexual discrimination. In Japan, some people still hold the opinion that the male should work, while the female should accept family responsibility. Most male employees thus leave the housework to their wives, and work overtime until midnight without overtime pay. Some of them die from overwork, a fate known as *Karoshi* (death from overwork) in Japanese.¹² Married female employees who have young children can now work overtime; as a result,

¹² The exact number of people who die from overwork is not known, but has been estimated at more than 20,000 per year. A total of 3,354 people contacted a hotline consultation on *karoshi* held by lawyers from June 1988 to June 1994.

most of them are obliged to return to the home or transfer from full-time jobs to part-time temporary or casual jobs.

Companies, seeking to increase flexibility in their labor costs, have become more dependent on non-regular employees. While many of these non-regular employees are still part-time workers, the number of contract and temporary workers has been rising. In terms of the type of jobs, the number of non-regular employees has been increasing not only in office and retail jobs but also in high value-added professional and technical positions. In other words, Japanese companies have begun to cut manpower not only in quantitative terms but also in qualitative terms. Specifically, companies have been taking on part-time workers at the expense of regular workers. They are increasing non-regular employees for the following reasons. First, they find it difficult to change traditional employment practices quickly with regular employees, so they are compelled to increase the weight of non-regular employees to realize their goals of increasing labor cost flexibility. Second, progress in information and communications technologies has made it feasible to use a larger number of unskilled workers. Third, institutional improvements such as deregulation of temporary employment services have made it easier to smoothly match supply and demand in the labor market.

In 1997, one major hotel chain introduced a non-regular employee system. Work categories include guest relations, restaurant operations, and special events planning. Working conditions and fringe benefits are the same as those of permanent employees, but the longest term of employment is three years, and contracts are renewed every year. Furthermore, these non-regular employees cannot become permanent employees. Even so, the number of applicants for these positions in 1997 was 10 times greater than the approximately 25 people the hotel had planned to hire. In another example, in spring 1998, a major electronics maker took a slightly different approach, hiring engineers and researchers as fixed-term contract employees and paying them greater compensation than regular employees.

Added to conditions on the part of employers, this growth was spurred on by a growing desire among the younger generation to adjust their work patterns to their own preferences as much as possible. For instance, one man who registered with a temporary agency upon graduating from college five years ago is now at his third workplace, a Tokyo-based computer software firm. On being asked the reason for his choice of career path, he gave reasons such as not wanting to be tied down to one company, and also not wanting to have to worry about organizational hierarchies. His salary is somewhat lower than that of a regular employee and he does not receive the fringe benefits or company insurance that full-time employees do. But he sees this rather positively, saying that he prefers this to being stuck with one company for his entire life.

New Breeds of “Volunteer” Workers on the Rise

More and more young Japanese are turning to part-time jobs with a “volunteer” flavor. They are paid, so the term “volunteer” is not appropriate. For this reason, a new word has been coined to describe this kind of labor: “*volunbeit*”, a combination of “volunteer” and “*arbeit*,” the German word for “work” that has been imported into Japanese to describe part-time or irregular labor. The *volunbeit* boom is beginning to spread, as more workplaces take notice of this new breed of workers. A *volunbeiter’s* pay, on average is less than that of a part-timer in a regular position but there are more and more young people looking for work in nursing care, agriculture, and the nonprofit sector. And a growing number of companies are looking for this kind of worker.

When one thinks of it, it is quite unusual that people should like to work for such low-paying jobs. Many observers point to a change in popular consciousness that has led people to look not for jobs that merely pay well, but for jobs that are rewarding in other ways – work that offers interesting experience or the chance to contribute to society. Volunteerism has come to be seen as an attractive choice. The general perception of this trend is that it began to take root during the 1990s, a decade during which educational reforms placed more emphasis on Japanese students developing their individuality. Moreover, with the collapse of the bubble

economy, getting a job with a company no longer meant guarantee of a stable future. With this in mind, some say, many young people decided to pursue something they truly believed in, and hence, the *volunbeit* boom was born. This does not mean that this volunteer boom resembles similar movements in other nations; elsewhere, volunteer activities are essentially those performed outside of one's regular job for no money. In the Japanese sense, the term volunteer refers often to paid work in nursing or health care and other "volunteerish" fields. This broader definition is contributing to the *volunbeit* trend in the job market.

However, the interest is not limited to the younger generation only. One non-profit organization in Tokyo, Lifestyle, Welfare, and Environment 21, has crafted a plan to get older people into the act. Its "mature *volunbeiter*" scheme has already attracted more than 10 older people willing to contribute to society. As an organization representative notes, "by supporting the efforts of these mature individuals, who have retired and are free to pursue new activities, we can tap into a powerful societal resource."¹³

Simultaneously, another breed of volunteer workers known as "freeters" have also come to take a hold on the Japanese labor scene today. "Freeter" is a Japanese word recently coined by combining the English word "free" and the German word "*arbeiter*" (laborer). Typically, freeters are young mobile people who do not have a permanent full-time job, but have one or more part-time jobs or move from one short-term job to another. Instead of battling for scarce full-time positions, many young people are drifting from one part-time job to another in today's only growth industries, like flipping burgers, delivering pizzas, selling soda in convenient stores, etc. Many freeters say that they have chosen this lifestyle because they wish to pursue their dreams. Others feel more comfortable living this way and prefer having more time for themselves. Many part-timers actually work as long and hard as full-timers, but they are usually paid by the hour and get no benefits. A flood of articles and documentaries has glamorized the freeter's flexible lifestyle and iconoclastic, anti-salary man attitude. In reality, many freeters are more a product of

¹³ "Doing Good Work: New Bred of Volunteer Workers on the Rise," *Trends in Japan*, November 5, 2001.

hopelessness. Part-timers now make up 23 percent of the workforce, up from 17.3 percent in 1995, according to government data.

Because of the recession and the continuing uncertainty about employment, it is not difficult to understand the growing apprehension of regular employees that they too may have to become freeters some day. A number of surveys and analyses of freeters have been conducted by various bodies. In its White Paper in 2000, the Ministry of Labor estimated that there were 1.5 million freeters in 1997. According to the results of an interview survey of 97 freeters conducted in 2000 by the Japan Institute of Labor, 60 per cent of freeters are women; the majority aged 20 to 25. The report classifies freeters into three types. One is the “moratorium” type (where freeters put off taking a regular job until they know what they want to do). Another is the “dream pursuing” type, and the third is the “no alternative” type. Average time worked per week was 4.9 days, and average monthly pay was ¥139,000. Freeters’ employment opportunities are usually limited to the food-service industry, working retail at places like convenient stores, telephone sales, and working at outside sites, such as traffic and monitoring.

Growing Need for Foreign Workers

The biggest paradox haunting the Japanese labor market today is the increasing unemployment and the labor shortage. In an economy already troubled by rising unemployment, an aging population and declining birthrate is further pushing down economic growth. While falling birthrates are creating acute labor shortages, the young generation is not ready to accept “3K” jobs. The irony of the situation is that while everybody talks about recession and unemployment, the demand for skilled foreign workers is as high as ever in the field of IT, as well as in the “3K” jobs in manufacturing industries. The term “3K” jobs stand for *kitsui* (difficult), *kitanai* (dirty) and *kiken* (dangerous). The term was popularized around 1990, when there was a great demand for foreign workers at construction sites and factories during the go-go days of the bubble economy while Japanese workers showed an increasing preference for white-collar jobs.

In Japan, employees of all ranks, including managers in well-established large firms, are now at risk of *risutora* -- quasi-forced retirement or even outright dismissal under corporate "restructuring" measures. The country's decade-long economic downturn has hit native and foreign workers alike. However, the impact of the recession on Japan's low and unskilled foreign labor is less than clear. Trends show that Japanese firms have filled lower-paid, short-term jobs with overseas recruits, particularly with South Americans of Japanese ancestry (*Nikkeijin*). These new legal laborers, who have benefited from liberalized immigration laws for people of Japanese descent, are rising in number as the population of unauthorized workers such as visa over-stayers dwindles.

Despite the bursting of the "bubble economy" in 1991, the number of foreigners living and working in Japan continued to grow in the past decade. In March 2002, the Ministry of Health, Labor and Welfare estimated the number of foreign workers in Japan at the end of 2000 to be at least 710,000, up 6 percent from the previous year and accounting for just over 1 percent of the Japanese workforce. This figure includes approximately 100,000 professionals and other highly skilled workers, as well as 54,000 people holding "entertainer" visas. Excluded are permanent residents such as "old-comer" Koreans and a small segment of Brazilian *Nikkeijin* (Brazilians of Japanese descent).

Immigrant workers continue to bolster Japan's low-skilled and semi-skilled labor pool. In particular, South American *Nikkeijin* and visa over-stayers make up the largest proportion of these workers. Added to this are trainees and technical interns who participate in special government-sanctioned programs. Each of these groups has carved out a unique niche in Japan's stressed economy.

There is a growing consensus among the Japanese now that the declining working population can be counterbalanced by higher productivity, by allowing more foreign workers and by an increased number of female and older workers. This is a dramatic change in the attitude of a nation that has always shunned foreign workers as culturally inferior and has exhibited reservations towards them. Already many foreigners are working in restaurants, factories, hospitals and various companies

and provincial areas as well such as fishing ports and farming villages. In 1990, Japan revised the Immigration Control Law in order to restrict the entry of foreigners. According to this law, only the children of people with Japanese nationality and the third generation Japanese descendants in other countries can legally work in Japan. Foreigners wishing to work in Japan must belong to the skilled category. The reality, however, is different. Most of the foreign workers fall under the unskilled category, who work illegally by overstaying their tourist or student visas. And they are treated with contempt. As long as the present laws and immigration policies remain the same, these foreign workers will have to continue living as second-class citizens and outlaws.

The large presence of illegal foreign workers is a manifestation of the closed nature of the labor market for non-Japanese workers. This “closed-door” policy of Japan continues to face criticism from Asian countries wishing to expand economic relations with Japan. Although foreign workers are increasingly becoming important members of the nation’s labor force, by and large, the job market remains effectively closed to them. Accepting foreign workers at a time of high unemployment is indeed difficult. But now, with the decline in the working population, coupled with falling birthrates and a rapidly aging society, increased foreign employment seems inevitable. Foreign employment looks set for a gradual increase in the long run. Demand for skilled workers is bound to increase in labor-intensive service sectors, including those related to health and nursing care. However difficult a task, opening of the labor market is a necessary condition for Japan to overcome the chronic labor shortages and falling productivity. Japan has to think about ways of accepting these valuable members of society, who can help her at a time when her own people are turning their backs against her as they pursue their own domestic agendas.

Some Implications of the Changing Employment System

Japan’s employment system is rapidly deteriorating. The number of people falling into the ranks of the unemployed involuntarily due to bankruptcies and corporate restructuring has risen tremendously, indicating that Japan’s depressed economy

has begun to affect the employment situation in earnest. Apart from the country's current downward economic spiral, structural changes in Japan's business and society, such as the internationalization of the economy, the aging of the nation's population, and changing attitudes toward work, are also at the root of Japan's present employment concerns. The deeply ingrained belief in employment security as the foundation of economic and social stability has weakened. The system of lifetime employment that was once the pride of Japanese management system is showing cracks. Apart from economic consequences, this has a lot of social implications too. How the Japanese people and society have been affected by the changes in the employment system following the recession of the 1990s also make an interesting area for observation.

Suicides as Increasing Causes of Death

In recent years, some Tokyo commuter trains, although renowned for their punctuality, have begun arriving at stations behind schedule during the morning rush hours. The explanation, according to the public address announcements of apologetic station officials, is almost invariably consistent: There was an accident involving human casualty. In most cases, this means that someone attempted suicide by jumping off the platform in the path of an incoming train.

With the economy in recession, *risutora* (restructuring) – layoffs – is spreading like poison ivy. Recent official statistics put the suicide rate above 30,000 a year. Most are middle-aged and older men. The high suicide rate among men is even presented as a factor in holding down the average life expectancy for Japanese males, which in August 2001 stood at 77.64 years, compared with 84.62 years for females. In 1998, the number of suicides marked 32,863, (Table 3-7, p.138) and occupied the sixth place of all the causes of deaths. The figure, up 34.7 percent over the previous year, was the highest since records began in 1947. The main reason for this was hardship from sickness, accounting for 11,499 cases and 35.0 percent of the total. Financial difficulties followed at 6,058 cases and 18.4 percent, dramatically increasing by 70.4 percent from the preceding year due to the prolonged economic recession.

Table 3-7. Suicides, 1998

Age group	Total	Male	Female
19 & under	720 (2.7)	489	231
20-29	3,472 (18.3)	2,418	1,054
30-39	3,614 (22.1)	2,634	980
40-49	5,359 (29.5)	4,187	1,172
50-59	7,898 (44.1)	6,103	1,795
60 & over	11,494 (40.7)	6,914	4,580
Unknown	306 (-)	268	38
Total	32,863 (26.0)	23,013	9,850

Source: National Police Agency.

Note: Figures in parenthesis are per 100,000 persons in the age group.

Increasing Workplace Harassment

As already mentioned earlier, Japanese companies are harassing employees in an effort to make large cuts in payrolls and to reduce the workforce. Beginning in late 1995, as retrenchment gained momentum from May 1993 to May 1996 (the period of first-round restructuring), harassment at work is becoming more and more frequent. The basic reason for this is that job reductions aggravated human relations in the workplace, creating an atmosphere of mutual distrust and outright acrimony. Related to this is the fact that sacking of middle-aged and older workers meant the loss of "volunteer counselors" who had lubricated workplace human relations by virtue of their experience and wisdom. Another reason is that promotions and reassignments – which had been effective ways of coping with workplace animosities in expansionary periods – became increasingly difficult to obtain as restructuring set in motion a bruising process of business contraction.

Workplace harassment has many forms. First, the victim is usually isolated from the rest of the workers in the workplace. For example, he/she is given little or no work to do, is not informed about work-related events and programs, is not invited to dinner or to parties, and is not greeted or spoken to. Studies indicate that about half the harassment complaints involve ostracism in one form or the other.

Harassment usually escalates over time. After the victim is shunned for a certain period, he/she then becomes the object of snide remarks or malicious gossip, or is given a workload far above normal. If the victim keeps silent, physical violence is often the next step. The following example is a good manifestation of this kind of

harassment: a 52 year old general affairs manager (*kacho*, one rank below *bucho*) at a medium-sized jewelry company with about 100 employees was frequently required to work overtime doing private chores for the company owner and president. On protesting, he was ordered to do sales work without any established sales channels. Eventually he was forced to retire because of his poor sales record. The company, which was trying to reduce its payroll overhead in the business slump, had no separation policy. After negotiations between the manager and the company through the Tokyo Managers Union (TMU), he obtained ¥6.5 million in retirement allowances – a sum equal to his annual salary.¹⁴

About 60 percent of workplace harassment incidents are a direct result of restructuring. In many cases, supervisors or personnel directors are involved, directly or indirectly. Several complaints have been reported from employees suffering in a hostile working environment created by workforce reductions. Surveys have shown that 15 to 20 percent of those harassed at work complained of mental and emotional problems such as loss of appetite, insomnia, depression and even nervous breakdowns. Further, about 20 percent of women complained of sexual harassment. Of course, workplace harassment is not unique to Japan, it happens elsewhere also. But the fact of the matter is that in Japan, the accelerated pace of corporate restructuring has upset the job market, thereby resulting in a rash of harassment complaints.

Middle-aged and older workers were also the main victims of the second round of big business restructuring that began in May 1997. JAL (Japan Airlines) Mobil Sekiyu, the Japanese affiliate of Mobil Oil Co., were among those corporations that urged many of their employees in their 40s and 50s to take hefty early retirement payments. In such programs to encourage early retirement, the age at which workers become eligible for retirement premiums were lowered, for instance, to 48 from 55 or to 45 from 52. Those who stayed on took 20 to 30 percent pay cuts. Relatively weak companies offered less generous retirement incentives, and the workers who stayed too pay cuts of as much as 40 percent.¹⁵

¹⁴ Kiyotsugu, "Workers Caught in Job Crossfire," p. 20.

¹⁵ *Ibid.*, p. 21.

Growing problem of Youth Joblessness

Joblessness is not just an adult problem in Japan anymore. The surge in youth unemployment is an indication of this fact. Due to economic stagnation, job markets are shrinking. The middle-aged and the elderly (who are family breadwinners) are trying to protect their jobs, while the job markets for new graduates has shrunk dramatically. Japan's depressed economy is leaving more young people without work than at any time in half a century. According to government statistics, more than one in eight of Japanese 15-24 year olds are unemployed, and it is the worst since records began at the end of the post-war US occupation in 1953.

The future has never looked so grim for young Japanese with a high-school education. High-school graduates were long cherished by employers as "golden eggs" full of potential. Secure jobs in factories and offices paid so well that they guaranteed a middle-class lifestyle for millions who parents had been farmers or laborers. While companies are trying to keep their lifetime employees to honor Japan's tradition of lifelong jobs, they feel free to slash openings for fresh high-school graduates. Nissan Motor Co. hired 2,500 in 1990 but hasn't hired a single one in the past five years. The *Nikkeiren* surveyed 550 member companies in Tokyo last year and found out that half have stopped hiring new high-school graduates, in part because college graduates are grabbing jobs once earmarked for high-schoolers.

This year's high-school graduates faced the worst ever employment rate of 86.3 percent. According to a survey by the Ministry of Education, Culture, Sports, Science and Technology, about 35,000 high school graduates failed to get jobs, 6,000 more than last year's. Difficulty in finding jobs and an increase in the number of the unemployed is so serious that they will affect Japan's future. For university graduates, 92.0 percent were successful in getting jobs this spring. The number of the unemployed among both university and high-school graduates is estimated at over 200,000. An immediate cause of the worsened employment rate

is a drastic drop in the number of job offers. After the 'bubble economy' burst, the rate for high-school graduates sharply declined compared with the previous peak.

Recession, of course, is the root cause, but not the only one. The strategy of major corporations rushing to implement corporate restructuring in order to secure immediate profits is another reason behind Japan's growing problem of youth unemployment. The measures they take, such as the closing of workshops and compelling subcontractors to accept tougher contract conditions, led to destroying local economies and reducing job offers. Also, in pursuit of drastic cost reductions, major businesses are transferring their major factories abroad and replacing regular employees with part-timers and other workers with unstable contracts. Even if Japan succeeds in overcoming the present economic recession, it will not directly be linked to creating more job opportunities, and even if there is an increase, most will be jobs for contingency. The following points can be summarized from a close examination of the recent situation of the employment of young people in Japan, keeping the previous observations in mind.

First, contrary to reports by the mass media, enterprises have been sticking to "traditional Japanese employment practices" to achieve employment adjustments in the protracted recession. That is, they are aiming at labor hoarding by reducing working hours and by a hiring freeze. As a result, employment adjustment has weighed heavily on job prospects for new graduates, particularly from universities and colleges, and job scarcity has become a social problem. According to the Basic School Survey by the Ministry of Education, those who had found a job at the time of graduation (March) accounted for only 70% of all new university graduates in 1994, about the same level as in 1976 when the impact of the first oil crisis was felt hardest. It is reported that similarly difficult conditions existed for the graduates in 1995. This year's employment situation for new graduates is said to be as bleak as a heavy rainstorm or even an "Ice Age."

Second, looking at the opening to applications ratio, the job shortage is more severe for university graduates than for high school graduates. The increase in percentage of youths advancing to higher education can be seen as an increase in

human capital investment. It is, however, becoming harder to recover this investment. One big reason is that they (companies) are suffering the aftereffects of excessive recruitment of university graduates into 'white collar' positions during the bubble economy. Another reason is that the second generation of baby boomers has reached university graduation age.

Third, the job shortage among university graduates is more serious for women than for men. This is partly because female university graduates major in limited fields. For example, there are few science and engineering majors. It is also affected by the restructuring of corporate organizations. Introduction of mechanization and advanced information systems has enabled enterprises to reduce the number of workers in the less specialized office work fields. However, it has also been reported that there were firms that gave priority to the hiring of men, violating the principles of the Equal Employment Opportunity Law that requires that men and women be given equal opportunities at the time of employment.

Meanwhile, an increase in the number of those advancing to higher education is observed for women. The job shortage for university graduates is increasingly becoming the issue for female university graduates. According to reports from the Labor Force Statistics Office, young people have been clinging to jobs they disliked because of fears about unemployment. Serious joblessness with 1.25 million youths being out of jobs is distorting Japan's society, and robbing the youth of their dreams, hopes, and zeal to study. At the same time, it is also increasing dissatisfaction with society, which may add fuel to social uneasiness. Educational circles are worried that the current corporate restructuring will only ruin the companies themselves and all of Japan sooner or later. They are also concerned about the future of a nation where the youths are not being given a chance to work and that more and more young people will abandon looking for work if they continue to have a hard time finding employment. Amid growing concerns over the declining birthrate and the aging population, if young people abandon efforts to find jobs, this will no doubt have a social and economic impact when the current young generation becomes the core of society. These circumstances therefore

require coordinated efforts between companies and the government to take comprehensive measures to tackle this urgent issue.

At the same time, the number of so-called freeters continues to increase. The term freeter, coined from the English word "free" and German word "*arbeiter*" or worker, refers to young people with part-time jobs. The number of freeters is not included in overall unemployment rates. According to the results of a survey conducted by Recruit Co., 81.7 percent of male freeters who responded said they hoped to obtain full-time jobs, as did 64.7 percent of all freeters who responded.

Fading Labor Relations

As of December 2001 about 11.2 million workers in Japan were organized in unions. These unions are usually formed within a company or a company office or plant, a practice known in Japan as the enterprise union system. The percentage of workers belonging to unions hovered around 35% from the early 1960s to about 1975 but since then has been on a downward trend, reaching 20.7 percent in 2001.

The reasons include the stagnation of the labor movement per se and diversification in the structure of employment. With more people working as part-time or temporary staff, workers' needs and interests have grown apart and are less easily covered by unions. Amid rapid changes in the employment environment, cross-enterprise unions (rather than single-enterprise ones) catering for specific groups, such as managers, part-time workers, and women, are beginning to emerge in response to redundancies, transfers, and other consequences of restructuring.

A New Generation of Homeless in Japan

A new generation of homeless has hit the streets of Tokyo. They are no longer just in and near the major rail hubs of Shinjuku, Takadanobaba and Shibuya, but are now seen in small playgrounds, in residential neighborhoods throughout Tokyo. The number of people on the streets began to grow in 1990, after the bursting of the bubble economy began to show an increase in the joblessness rate, and opportunities for construction work also faltered. Men aged 50 and older were

most seriously affected. Although the exact number of the homeless in Japan is not known but official estimates range between 5000 and 10000.

In the recent past, the word 'homeless' in Japan immediately brought to mind the day-labor concentrations in Tokyo's depressed Sanya district (Asakusa, 1&2 *chome* [ward]), Kotobuki-cho in Yokohama, and Kamagasaki in Osaka. Men immigrated to these areas first because of the job opportunities there. Since the economic bubble burst, however, the makeup of the homeless population has drastically changed. Now there are down-and-out salary men, and women are turning up on the streets too. Some who now are day laborers were once office workers, with good jobs, families and the trappings of mainstream society. Some of the homeless are well educated and have held good jobs, and they are not long-time street people. But they had problems at work, or they had other problems that led them to borrow money they couldn't repay. Things gradually got increasingly out of hand and they had no alternative but to go on to the streets, as they do not want to go back home. The reason, it seems, is that they feel they have failed their families or those who trusted them, and are too ashamed to go back. In contemporary Japan, society and its expectations apply pressures that can cause some people to break.¹⁶ This is especially true for those who have been brought up in a system of lifetime employment – a system that is now fast changing. In Shinjuku and Sanya, the homeless population ranges from those recently unemployed to those who have lost everything, including their hope.

The homeless sit in their personal spaces, and "home" for them, is a cardboard box. And these communities are literally along the path of tens of thousands of well-dressed office workers who hurry past everyday. There is hardly any contact between these two worlds. Japanese people are averse to pollution and to people who, for whatever reason, have drifted from or fallen from the normal order of things. Even so, no one lives on the streets out of choice. The homeless in Tokyo have no option. They cannot go back. In the words of Benedict Giomo, a Notre Dame University professor of sociology, who has studied the homeless:

¹⁶ Tony D. Guzewich, "A New Generation of Homeless Hits Tokyo's Streets," *Japan Quarterly*, July-September, 1996, p. 43.

“Given the heightened sense of social uniformity in Japanese society, the public response to homelessness often expresses the strict bifurcation between order and disorder. The broader cultural meaning and social significance to the situation in the (United States) appears even more problematic in Japan. There seems even less tolerance or compassion for those who, for one reason or another, slip off the ladder of social obligation. To even hear about, let alone encounter, the homeless evokes a sense of fear and loathing. Such people are often regarded as the dregs of the economic miracle, the defiled ‘other’ threatening to pollute the entire social system.”¹⁷

Researcher’s enquiry with some New Delhi Based Japanese nationals regarding the issue of “homeless persons in Japan” revealed that many Japanese do not even seem to be aware of the existence of homeless persons in Japan. Whatever little they know is due to newspaper reports. Besides being shocked at such enquiries, many Japanese do not even offer to discuss the issue. They are not familiar with the words used often to denote “homeless” in Japan, like for example, “*yoseba*” and “*doyagai*”. However it is felt that unless the general apathy is removed, the problem of homelessness is likely to continue at least in the following few years.

An interesting feature of the homeless is that usually, unless a person is in a box or carrying bags of belongings, it is not easy to distinguish the homeless from others. Further, Tokyo’s homeless rarely ask for money on the streets. For the most part, they are particular about hygiene and keep themselves as clean as possible. When volunteers distribute food, they will wait patiently for their turn. The homeless may be disenfranchised from society, yet they still seem to try to follow society’s rules as best as they can.

Recent Problems and Ongoing Policy Measures

While examining the recent employment situation and the current recession in Japan, it becomes evident that the number of employees quickly responded to the economic downturn and subsequently fell sharply. Industrial production declined more steeply in this recession than those in the past and other signs were seen that the recession had taken a turn for the worse. The worsening of labor market

¹⁷ Quoted in Tony D. Guzewicz, “A New Generation of Homeless Hits Tokyo’s Streets,” *Japan Quarterly*, July-September, 1996, p. 43.

conditions, therefore, appears to some extent to have reflected the severity of the economic downturn. In view of traditional Japanese employment practices characterized by long-term employment and labor hoarding during recessionary periods, however, the quick and clear decline in employment may indicate that structural changes in corporate behavior had taken place. Due to reasons of space, government measures to alleviate problems other than that of unemployment are not being discussed here, although this is not to undermine the same.

Addressing the Problem of Youth Unemployment

First, the government's job-matching activities for new graduates, which were mostly meant for high school graduates, are being expanded to help university graduates as well. Specifically, the government organized group interview sessions where students expecting to graduate from universities were introduced to and interviewed by companies that want to hire new employees (mainly small and medium enterprises). Vocational college graduates are finding it even harder to find jobs. To help them, the Ministry of Labor is encouraging the schools to strengthen communication ties with enterprises.

Second, to further help those who have already graduated and who are without a job by the time of graduation, job placement offices are offering guidance to enterprises and are introducing more aggressively these new graduates to enterprises. In FY 1995, a "Job Experience Program" was introduced in which wages and training costs were subsidized for enterprises hiring unemployed graduates on a short-term employment contract and allowed them to work at an actual job and receive training. In addition, group interview sessions continued to be held periodically during Fiscal Year 1995.

Third, to prevent discrimination against female students by enterprises when recruiting new employees, administrative guidance was given to the enterprises to observe the Equal Employment Opportunity Law. This will be a priority for the Ministry of Labor this year, too.

Deregulation of Labor Market Policy

Deregulation of labor market policy is closely related to flexibility of employment. The former will increasingly promote the latter. Behind the deregulation of labor market policy and the increase in flexibility of employment lies the aim of both the Government and the business community to overcome the weakening of Japanese economic power resulting from the steep rise of the yen, and to recover the ability to compete against European countries and the United States. Large companies have set about reducing fixed costs, and lowering the break-even point. The reduction of labor costs is seen as a priority in achieving these aims.

The Government and the business community want to change Japan's current high-cost structure to a low-cost structure by opening up the domestic market to foreign countries, importing low-priced goods, including agricultural products, and reducing distribution costs. In order to promote these policies, many regulations in the economic and social areas will have to be relaxed. However, if deregulation is to be fully implemented, many small and medium-sized firms and establishments in the less efficient industries, such as agriculture, wholesale and retail, and some branches of manufacturing, would inevitably go bankrupt because these firms and establishments, which have hitherto been protected by various economic regulations, cannot survive tough competition. For example, the recent increase in the number of large-scale retail stores, brought about by the partial relaxation of the Large-Scale Retail Store Law,¹⁸ has forced a lot of smaller stores to go out of business.

It is generally anticipated, even by supporters of deregulation that the rapid introduction of deregulation will lead to an increase in unemployment. The Government, however, considers that it is necessary to move employees who work in out-of-date industries to new advanced industries, such as the information and communication industries and new service industries, in order to avoid an increase in long-term unemployment. The Government and the business community are

¹⁸ The Large Scale Retail Store Law regulates the opening of new large-scale retail stores in order to protect the smaller stores in the same areas. This law was recently partially relaxed to promote deregulation in the area of distribution.

trying to establish new advanced industries, with which firms in other industrialized countries cannot compete. But many existing regulations will have to be eliminated in order to promote the foundation of such new advanced industries.

Government and industry expect much from private employment agencies, which play two roles in today's economy. First, private employment agencies are needed to provide atypical employees, above all, dispatched workers or temporary workers. That is to say, without private employment agencies, there would be no flexibility of employment. Second, the private employment agencies are expected to promote labor mobility smoothly. As mentioned above, the Government and the business community are afraid that the introduction of deregulation in many areas may lead to an increase in unemployment, and they expect private employment agencies to decrease unemployment by promoting labor mobility.

Many scholars have expressed their apprehensions that labor mobility may not prevent unemployment, because it is not certain that there will be enough job opportunities in the new advanced industries for the people who are likely to be driven out of less efficient industries, such as agriculture, wholesale and retail. Moreover, the fact that the types of occupation in the new advanced industries are different from those in the less efficient industries might bring about a mismatch between job offers and job applicants. Forecasts of changes in the labor market, in the event of liberalization, vary among research organizations.

CONCLUSION

It is often pointed out that "lifetime employment," a "seniority-based promotion system" and "paternal corporate welfarism," among others, characterize the Japanese employment system and practices. But the employment system and practices, referred to as "typically Japanese," have been undergoing major verifiable changes. In fact, some of these practices are already disappearing or have been transforming for some time. Structural changes in the Japanese economy and society have occurred even before Japan was plunged into the current protracted recession and stagnation. As a result, many "typically Japanese" employment practices are already becoming a myth.

For instance, "lifetime employment" can never mean employment for life. In reality, it is "half lifetime" employment, since people are employed for only half the duration of their lives. It is said that the practice known as "lifetime employment" started about 90 years ago, when a manager of the Mitsui Corporation, which would later establish the Mitsui concern, promised to employ workers until they turned 55 years old. By the mid-1980s, most Japanese companies had adopted this system. Initially, this system was "lifetime" employment in the strict sense of the word, because the average life expectancy of Japanese in prewar days was below 50. Therefore, it was correct to say that Japanese companies practically employed their workers until they died. The life expectancy of Japanese has been continually increasing since the end of World War II and currently stands at around 77 for males and 84 for females, the longest in the world. While most Japanese companies have extended their mandatory retirement age to 60, retirees still have about 20 years left to live after leaving the company stage. Most university graduates get jobs at the age of 22 or 23 and work for 37 or 38 years before they retire at 60. Living for 20 years after retirement is a long time. From this viewpoint, "lifetime" employment is never true to the word; it should be referred to as "half-lifetime" employment.

Lifetime employment, or strictly speaking "half-lifetime" employment, is itself not stipulated in management-labor contracts. It is merely a customary practice tacitly

agreed upon between management and labor. Furthermore, only major companies adopt such a practice. Such a tacit understanding does not exist in small companies and backstreet workshops, which far outnumber major companies. Even so, Japanese sociologists have given high marks to the Japanese employment system, since it has social significance in that it gave Japanese society a sense of security in regard to employment.

However, the protracted recession and economic adjustment that followed the burst of the asset-inflated bubble economy have subjected the stable, long-term employment system to structural changes. These changes picked up momentum in the latter half of the 1990s, particularly in the five quarters from the fourth quarter of 1997, a period that saw the Japanese economy shrink in real terms. The current recession started with the burst of the bubble economy. In the autumn of 1990, triggered by the collapse of the "bubble economy", the boom suddenly turned to recession. Since then Japan has been troubled again by a long recession, following the *endaka-fukyo* (recession caused by the strong Yen) in the mid-1980s. Since there was time lag between the beginning of the recession and its impact on the labor market, there was still a labor shortage at the beginning of the 1990s. But the labor shortage was gradually replaced by "employment adjustment". The pace of adjustment of employment was initially slow, in stark comparison with the United States. In the United States, companies start adjusting employment as soon as a recession hits. Such a measure results in higher jobless rates, but reduces corporate labor costs and in turn allows corporate earnings to improve in a relatively short time. In Japan, on the other hand, employment is also adjusted as soon as a recession comes, but only in the form of reduced overtime. Jobs are seldom eliminated. In explaining such a practice it is often said that Japanese companies have a greater sense of social responsibility and show more consideration for their workers than other countries.

Japanese companies are doing their best to maintain employment levels even in the current recession that started in 1991. The jobless rate stood at 2.1% in fiscal 1990, when the Japanese economy was at the height of the bubble boom. The rate remained unchanged in fiscal 1991 when the recession started. It rose only slightly

to 2.2% in fiscal 1992 when the recession deepened and the government adopted a fiscal stimulus package. Up to fiscal 1994, the jobless rate hovered around the 2% range, which amounted to full employment. Only several years after the start of the recession did companies take full-scale employment adjustment measures. But business leaders still tend to believe in maintenance of employment. When a major company declared it had to start cutting jobs, many other major companies criticized it for shirking its social responsibility, indicating their belief that companies have a moral obligation to maintain employment.

In Japan, employment adjustment not only means a form of direct staff reduction, but also includes, in addition to voluntary retirement and dismissal, such forms as cuts in overtime, increased holidays, transfer of posts and suspension of recruitment. Nevertheless, since 1991, the leading companies in Japan have been reducing their staffing levels. Following the protracted recession, the rapid rise of the yen in the foreign exchange market since the spring of 1993 has offered employers a plausible pretext for speeding up employment adjustment.

The characteristics of staff reduction in Japan today are twofold. First, regular employees including white-collar employees and middle-level managers, who have been the very core of firms, are now the main target for staff cuts on the grounds that their labor costs are comparatively higher than those of younger employees. As a result, the number of managers decreased by 230,000 from 1992 to 1994. Second, reduction in the number of white-collar workers is also brought about by means of suspending or decreasing new recruitment. According to a survey by the Ministry of Education, only 67.1 per cent of graduates leaving colleges and universities in March 1995 were able to find employment. This is the lowest level recorded since the survey began in the 1950s. The difficulty female graduates face in finding jobs is particularly serious. One in five is unemployed (*Asahi Shinbun*, 5 November 1995). This situation indicates that there is open violation of the Equal Employment Opportunity Law which prohibits employers from discriminating between females and males in employment opportunities, including recruitment, promotion, training and retirement. There are widespread complaints by female students who say that, since it will be hard for them to get regular jobs after

graduation; they have no choice but to find temporary employment. Moreover, some female students suffer sexual harassment during interviews by employers or their staff. As a result of this personnel management approach, the average annual unemployment rate in May 1996 was 3.5 per cent, a record high since the government unemployment survey began after the Second World War.

Regarding wages, flexibility has been high in Japan due to great flexibility in bonuses. Recently, however, regular wages, the largest component of total wages, have become more flexible compared to the period before the mid-1990s, when there was little flexibility in regular wages. To a great extent, this reflects the higher weight in total employment of non-regular employees, whose wages change depending on the number of hours or days they work. At present, it is hard to conclude that the flexibility of nominal wages as a whole is much higher than the period before the mid-1990s. However, the increasing flexibility of regular wages could lead to a higher flexibility of nominal wages as a whole, and thus a higher flexibility of real wages, even if prices continue to fall. In such a case, a close observation is necessary on how the process of regular wage determination for regular employees, which already shows signs of changing, continues to change in the future. During this period, it is possible to notice broad changes in the society and identify some social phenomenon, which often overlaps with the economic phenomenon. Through the diversification of society, employment has been taking on new forms, including the popularization of freelance employment and the introduction of outsourcing. In response to such changes, the wage system has also been diversified

Around this time, there is an impact of the structural adjustment pressures that confront the Japanese economy on employment and wages. One of the most obvious features is the increased competitive pressure on labor-intensive manufacturing industries, which has stemmed from the expanding supply of labor in East Asia. Labor-intensive manufacturing industries such as textiles and electrical appliances have reduced employment most conspicuously. Construction contractors, financial services companies, wholesalers and other non-manufacturing companies also face changing business environments; deregulation,

fiscal reform and balance-sheet adjustment pressures have contributed to weakness in the employment and wages of those industries. In these environments, the two sectors, manufacturing and non-manufacturing, have shown slightly different approaches to reducing labor costs. While manufacturers have made deeper labor cuts than non-manufacturers, the latter have lowered wages more than the former. Some background factors for the difference are as follows. First, in the past, wages were relatively high in many non-manufacturing sectors because these sectors were more protected by regulations. Second, non-manufacturers also generally found it more difficult than manufacturers to change their labor-intensive structure. Third, non-manufacturing companies employed a relatively high number of unskilled workers, for whom the supply-demand conditions became significantly loose, partly because of globalization.

While restraints on employment have become severe in many industries, new employment opportunities are beginning to arise. This is because new industries gradually grow, and newly emerging companies expand their businesses even in traditional industries. New job offers and employment are relatively high in social welfare-related and health care industries as a result of Japan's aging society, and also in information services and outsourcing business-related industries such as temporary employment services. Overall employment is weak for retailers and wholesalers, but new job offers are on an increasing trend, due mainly to the expansion of newly emerging companies. These new employment opportunities, which could result from firms' making use of low wage workers, may indicate that the wage adjustment mechanism has begun to function in Japan. However, it is still no more than a marginal phenomenon. While new job offers are at a high level in the macro economy, overall employment has not been increasing. This indicates a growing mismatch in the labor market: in areas where demand for part-time and professional workers is strong, supply cannot keep pace.

As can be seen in the above discussion, important changes are taking place in Japan's labor market. Japanese employment practices are also in a process of change. As demonstrated by the high labor share, "structural" excess employment and high wages remain, indicating that labor resource allocation is still inefficient.

As a result, if the economy heads for a recovery, overall employment and wages are likely to remain under restraining pressures for a long time to come, although some improvement will be observed in the supply-demand balance for non-regular employees. These pressures may also exert negative influences on household spending and services prices. In addition, it will be interesting to see whether the characteristics of Japan's business cycles, which are heavily influenced by business fixed investment, will become more affected by household spending, as the flexibility in employment and wages increases.

It is quite obvious that Japan's labor market will continue to undergo structural changes, and that in the medium- to long-term view, these are an inevitable process that will help make the Japanese economy more efficient, given the resilient factors in the Japanese society. Therefore, it is essential to improve the structure of the employment system for the overall labor market to become more flexible. In doing so, priority must be given to a revision of the institution that limits labor supply for non-regular employees, who are becoming increasingly important in the labor market. While the labor market is becoming more flexible, Japanese companies maintain traditional employment practices with regular employees, and have refrained from hiring new graduates. As a result, a serious problem of rising youth unemployment has emerged. Therefore, in reviewing current labor policies, which have mainly focused on workers middle-aged and older, it would be also important to give a consideration to the formation of the human capital of youth.

The ability to maintain the favorable performance of the labor market with regard to employment of youth has become a major issue for the Japanese economy, which is suffering from a long recession and the transition of the economic structure. The solution to this problem will not be found in the establishment of a "mobile labor market," as some economic commentators argue. In the utopia, which they dream of, workers do not stay in one enterprise, but move freely from enterprise to enterprise corresponding to the changes in demand for labor. The emergency measures provided by the government in response to the current problems of youth employment will offer some relief, but does not appear to be a permanent solution to the problem.

In sum, the stereotyped image of the Japanese employment system, that is, "lifetime employment" and "seniority-based salary and promotion," is already slowly becoming a myth and a thing of the past. Japan's lifetime employment system was once rational. It is now time for Japan to seek a new, rational employment practice under a rapidly changing environment. It should not be a process of developing a new myth, but a process of creating new employment practices in response to changes in various employment conditions.

If Japan is to learn from past experience, it seems more important to consider the emerging but amorphous new industrial fields into which numerous young workers will be absorbed. What employment opportunities are those fields offering? What training opportunities will be provided? Will these young workers be able to establish a stable professional career in these fields? The government should consider such points and find ways to provide support. Whether the government should work on deregulation, inducing industrial policies, or a combination of the two is not clear. However, what is clear is that the government must provide leadership as well as a supportive environment so that growth industries can continue innovative activities and create new employment opportunities. It is desirable that the government makes efforts to set up responsible policies that will solve the financial crisis so that the growth industries can receive financing. The government could also adopt macro economic policies within a feasible range. Based on the precondition that such economic and industrial policies will be established, policy issues concerning the labor market can be addressed in an appropriate way, as a central issue and not a peripheral one, including development of labor market systems for university graduates and revisions in 'seniority -based' pay systems

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