

Japan's Employment Reform

By *Risaburo NEZU*

■ Employment Problems So Far Held Off

WHEN the Diet started a regular session in January 2007, the reform of the labor market, dubbed a “Labor Big Bang,” was generally expected to become a prime subject of discussion. A drastic reform of labor-related regulations was scheduled for the first time in 60 years since the Labor Standards Law was enacted in 1947 soon after the end of World War II. As it turned out, however, parliamentary debate became snarled, and to make matters worse, the government of Prime Minister Shinzo Abe collapsed. As a result, the employment reform remains stalled midway. What problems underlie such a situation? Let us sort out these problems.

Japan's postwar employment system was based on lifetime employment and seniority. This was best suited to the manufacturing industry while corporate scale continued to expand in step with the rapid growth of the Japanese economy. Under this system, employees fresh from college started at the bottom rung of the promotion ladder and everybody eventually rose to certain levels of corporate hierarchy, such as section and department chiefs, while building up job experience. Under this stable system of equality, skills were transmitted smoothly from generation to generation. In exchange for a guarantee of income necessary for livelihood, employees were asked to leave decisions on the contents and location of their work to the personnel division, which thus lent no ear to employees' wishes. This system assumed a tacit understanding that if employees left everything to their employers, the latter would never betray their trust.

Nonetheless, this assumption has crumbled during the past decade. After the collapse of the asset-inflated “bubble economy,” big banks, which in effect symbolized Japan, went bankrupt one after another, while surviving businesses were forced to undertake severe restructuring. Employees, no longer assured of a stable life by leaving everything to their employers, had no alternative but to chart the course of their life on their own. People, ousted from their companies in mid-course, had to hunt for new jobs. But Japan had scarcely anything worth calling a labor market for such people. Those who changed jobs in mid-career hardly had their experience and skill fully appreciated. Consequently, talented people sought to find new fields of activity in the affiliates of foreign businesses.

Changes that occurred during the 1990s were not limited to these developments. Like in other developed countries, a shift to service trades made rapid headway in Japan as well. Unlike factory workers required to work during regular hours from 8 a.m. to 5 p.m., employees in service trades are called upon to work over a longer span of hours from early morning to late at night. The accelerated change in the industrial structure made it necessary to shift workers fast from waning to growing sectors. Moreover, with women's advance into the labor market, a spate of new problems emerged during the 1990s, such as

how to ensure a balance between their work and household duties, including childbirth and childcare. Work over prolonged hours and unpaid overtime work became rampant among businesses eager to reduce costs. As a result, there occurred frequent cases of excessive overwork as represented by the word *karoshi* (death due to overwork).

Young people, who got tired with working for long hours and had their wages cut, came to shun marriage and childbirth, bringing about a rapid decline in the birthrate. As a consequence, the aging of the Japanese population has progressed at the highest speed in the world. People who could not catch up with globalization and the progress of information technology were left at the bottom of society. They retired into their homes and became NEET (people not in education, employment or training).

On the other hand, corporations have been very busy liquidating excessive liabilities, equipment and employment, holding off efforts to improve workers' life to this day. Employment practices of Japanese corporations are evidently lagging behind the changing times. Consequently, it is said, the most popular employers among job-hunting able graduates of top-notch universities in Japan are securities and consultancy firms affiliated with foreign businesses rather than Japanese companies and government offices.

■ Declining Wages

What happened in the Japanese labor market from the second half of the 1990s? The telltale statistical data testify to extreme hardships that befell workers in those days. First, the unemployment rate climbed gradually from 2% in 1990, reaching 5.4% in 2002. Later, it declined in parallel with economic recovery, but the latest figure still stands at 4%, well beyond the previous low level. The ratio of job offers to job seekers stayed below 1 for as long as 13 years from 1992 to 2005. Corporations whittled down new employment to trim their superfluous work force. That is why this period was dubbed the “Ice Age of Employment” for college graduates. Above all, workers' wages began to fall, continuing to decline until 2004 after hitting a peak in 1997. A nationwide wage downtrend is seldom witnessed among developed countries. Therefore, the prolonged downswing in Japan represented a very rare case, attesting to the serious depth of recession in the country. By contrast, corporate earnings rebounded fast after hitting bottom in 2002, bringing about a decline in labor's relative share – namely, the portion of value added that is allotted to workers.

There is no gainsaying that workers have scarcely benefited from the longest economic recovery in postwar Japan, continuing since 2002. Amid indications that the pace of Japanese economic growth will be 2% or so at most in the years ahead, what institutional system should be established to ensure the

improvement of workers' life while maintaining the competitive strength of corporations? This was the very problem confronting the "Labor Big Bang" in 2007.

Relaxing or Toughening Regulations?

What makes labor market reform difficult is that not only are management and labor at loggerheads, but opinions are also divided among academic experts as to the basic question: in what direction the planned reform should be steered. Moreover, assessment is divided over the effects of related institutional reforms so far implemented as well as the experiences of other countries concerning labor market reforms.

Generally speaking, labor is eager to protect workers' interests by having the government exercise control over such matters as dismissal of workers, overtime work and minimum wages because individual workers have no power to negotiate with their employers on an equal footing. On the other hand, management is anxious to keep a free hand in making decisions on labor matters between employers and employees.

The biggest change witnessed in the labor market over the past decade is a marked increase in temps – workers dispatched by temp agencies. Since temps cost about one-third less than regular workers and can be dismissed at any time when no longer needed, their number increased rapidly during the 1990s. They accounted for about 20% of all workers in the early 1990s, but their proportion in the entire work force has now reached as much as one-third.

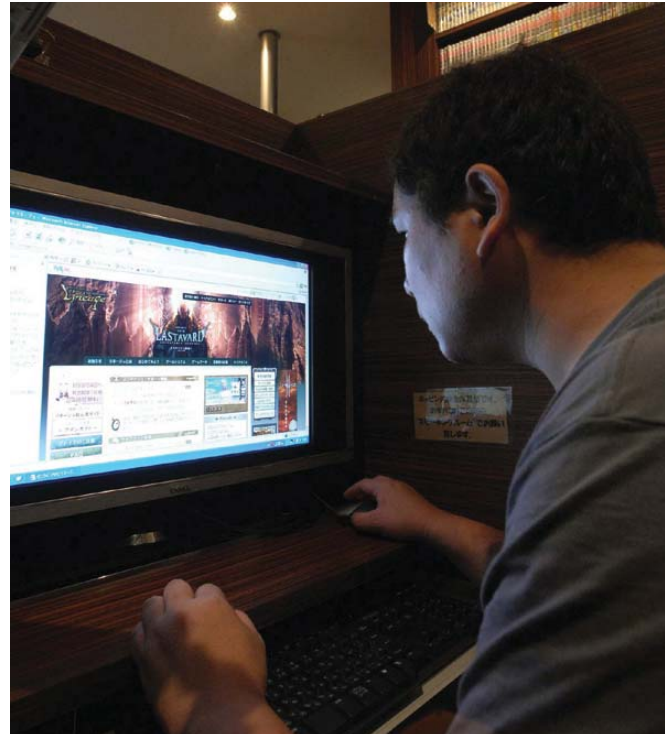
At first, temps were allowed only in special fields of employment, such as cleaning of buildings and programming. However, after repeated amendments to the relevant law, the scope of temp employment was widened to all types of jobs in 1999, and temp hiring has spread in all spheres of work ever since. This has contributed greatly to the expansion of employment, but is also mainly to blame for the sustained downtrend in wages since the latter half of the 1990s. As a result, the living conditions of bottom-level workers have deteriorated as symbolized by the spread of such newly coined words as "working poor" and "Net cafe refugees."

Parliamentary Deliberations in 2007

In 2007, the government submitted six bills – five for revisions of the Employment Measures Law, the Part-Time Work Law, the Employment Insurance Law, the Minimum Wages Law and the Labor Standards Law and one for the creation of a Labor Contracts Law. Of these bills, the first three obtained Diet approval by summer, but the three controversial others were shelved for debate at a subsequent Diet session. Main points at issue, which emerged in the course of Diet deliberations, are outlined below.

As for the revision of the Minimum Wages Law, a key point at issue was the proposed insertion of a clause to the effect that "consideration shall be given to coordination with welfare payments" to poor families. At present, the lowest legal wage varies from prefecture to prefecture, ranging from ¥610 to ¥719 per hour. This means a monthly take-home income of ¥100,000 or so, failing to reach the level of welfare payments in many cases.

Photo: PANA



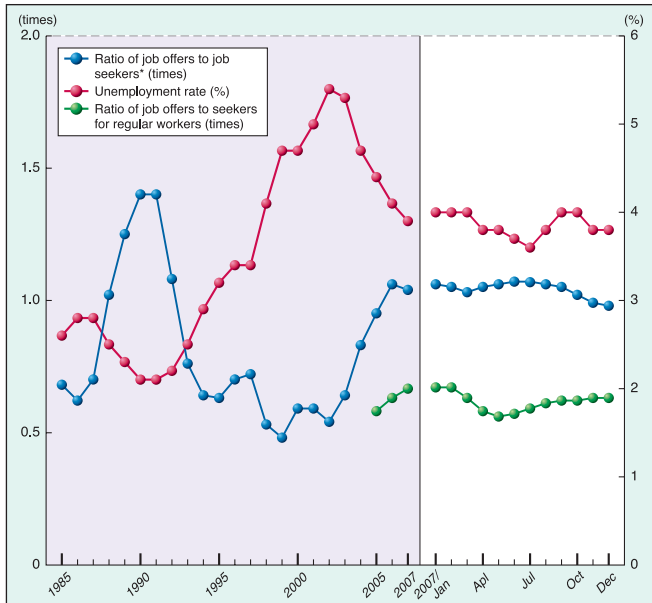
Symbol of societal gap: A man who cannot get out of poverty even though toiling spends the night at an Internet cafe opening for 24 hours – a new breed of the underclass known as "Net cafe refugees."

The insertion of the clause referring to "coordination with welfare payments" was proposed because it was considered institutionally unreasonable that working people earn less than what they would receive if they were on welfare without work. However, the addition of the clause would make it necessary to raise the lowest legal wage. This would have a serious impact on those regions that have numerous workers barely earning the lowest legal pay at many financially weak medium- and small-sized enterprises. There is even the possibility that some of these businesses may be forced into bankruptcy. In particular, such low-wage earners are mostly women, part-timers and non-regular employees. By job type, wages are low in service trades, such as taxi and laundry services.

Opposition parties for their part criticized the proposed clause as rather ambiguous and asserted that minimum wages uniformly applicable throughout the country should be determined by law in more clear-cut terms. As a result, the proposed bill failed to get parliamentary approval at the ordinary Diet session. Nevertheless, subsequent negotiations between the ruling and opposition parties produced a compromise calling for the insertion of a modified clause to the effect that "consideration shall be given to ensuring the minimum standard of wholesome and cultured living." As a result, the revised bill was passed by the Diet late in 2007.

The amendment to the Labor Standards Law focused on how much overtime pay should be increased. At present, overtime pay is 25% above the regular wage scale. Because prolonged overtime work tends to be taken for granted in Japan, the proposed

Chart Ratio of job offers to job seekers and unemployment rate



Note: * includes temp staff and contract workers.

Source: "Statistics of Employment Security Operations," Ministry of Health, Labor & Welfare; "Labor Force Survey," Ministry of Internal Affairs & Communications

amendment was aimed to increase overtime payments on the part of employers by raising the additional percentage for overtime, thus discourage overtime work and thereby reduce overtime hours. The government's bill envisaged raising the additional overtime pay percentage to 50% only for overtime in excess of 80 hours a month in consideration of management's stiff resistance to increased overtime payments. Nonetheless, opposition parties and organized labor demanded an increase to a uniform 50%, the same as in Europe and the United States, on the ground that the proposed amendment would be meaningless because overtime rarely exceeds 80 hours a month. As a consequence, Diet action on the bill has been carried over to the next session.

As for the creation of the Labor Contracts Law, whether or not dismissal of workers is easy constitutes a decisive factor in the functional enhancement of the labor market. As the industrial structure and technology undergo a drastic change, accompanied by the frequent collapse and birth of businesses, employers find it desirable to be able to quickly dismiss workers who are no longer needed. If dismissal is difficult, they have to exercise caution when hiring new regular workers, leaving them with no alternative but to depend on temps and part-timers.

However, such a labor-management relationship is unstable, making it difficult to have workers smoothly acquire skills and techniques. When viewed from labor's side, it is really embarrassing if workers can be fired at any time. Hence, the need to set easy-to-understand rules regarding dismissal of workers. However, there are no such rules in Japan, with only old judi-

cial precedents serving as references. In fact, it is considered that dismissal is as difficult in Japan as in European countries, which in turn tends to obstruct the hiring of new regular workers. A recommendation, based on a similar notion, was made to Japan by the Organization for Economic Cooperation and Development (OECD) in March 2007.

Accordingly, the government proposed the enactment of the Labor Contracts Law with a view to making it easier to dismiss workers and at the same time preventing arbitrary dismissal by setting clear-cut conditions for dismissal. A bill to that end also failed to get Diet approval as of last summer in the absence of labor's consent and debate on the bill was carried over to the next Diet session. Later, however, negotiations between the ruling and opposition camps produced agreement that the proposed new law would clearly guarantee "a balance mirroring the actual state of work" and "harmony of work and life."

Five of these six bills for revising labor-related regulations passed the Diet in 2007. Whether or not the revised labor laws will prove to be truly effective will hinge on how they will be implemented hereafter.

Another labor-related topic that drew attention in 2007 was the so-called "white-collar exemption" – a system of no overtime pay for those in managerial posts. This system stems from the basic notion that since these people are in a position to determine the procedure of their work on their own, they can finish work within regular hours if they so desire, and that if they want to work after that at their own discretion, there is no need whatever to pay them for that. The system is also practiced in other countries. The fact is, however, that many people in managerial posts have no subordinates under them. Besides, they cannot freely choose the volume and procedure of their work, except for those close to the top level of the corporate hierarchy. After all, the proposal for the establishment of "white-collar exemption" was dropped without going to the Diet in the face of strong opposition, especially from labor, which asserted that such a system would only result in withholding overtime pay from young people in managerial posts.

Adjusting to 21st Century

During the 15 "lost years" from 1990, Japan pushed ahead with various institutional reforms in an effort to adapt itself to diverse changes that confronted the country with the approach of the 21st century. Various systems that form the very basis of corporate activities, such as financing, corporate governance, competition and intellectual property, have undergone drastic changes. The reform of the employment system will come as the last of these changes. The quarters concerned are still divided on the issue. But at a time when the aging of population and globalization are making rapid headway, efforts will continue to design the most efficient and well-balanced employment system. At long last, Japanese corporations are beginning to prepare for a fight on an even more global scale. **JS**

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