

# Japan's Changing Labor Market

By Haruo Shimada



Japan is in the grips of a serious labor shortage. In the spring of 1987, the unemployment rate topped 3%, the highest it has been since the end of the war. Yet that was the peak, and it has since come down to just slightly over 2%. Even though the economy has generally evened out, the natural unemployment rate is now twice what it was during the rapid-growth 1960s, and the labor shortage is now as critical as it has ever been. In fact, there are a number of smaller companies that have been driven to and even over the brink of bankruptcy by their inability to attract and hold the workers they need.

While part of the explanation for this imbalance in the labor market clearly lies with the very prolonged expansion that the Japanese economy has been enjoying for the last four years, it has been aggravated by the fact that many companies, and the big blue-chip companies in particular, have begun to expand their hiring in recent years.

Big companies had long been very cautious about taking on too many people, but the strong outlook for continued growth moved them to sharply expand the number of new graduates they hired. And the brunt of this has been borne by smaller companies, which have found it more difficult to recruit new graduates and feel very much under the gun of labor shortages. As such, many of these companies are doubtless hoping that the slower growth in mid-1991 and beyond will alleviate the labor shortage, at least over the short term.

Yet the current Japanese labor shortage defies explanation as a purely cyclical phenomenon dependent on the economy's ups and downs. Rather, it seems to be driven by fundamental changes within the Japanese social and economic structure. Looking briefly at these changes and their impact on the labor market:

First is the long-term shrinkage of the younger end of the labor force. Looking at 18 as the age at which people enter the labor market, this age group will peak out



at slightly over 2 million in 1992 when the second generation of postwar baby-boomers reach 18. After that, the demographic trends show a steady decline for the rest of the century. Only about 1.2 million Japanese are born each year, and this number is likely to continue to decline with the slippage in the fertility rate. This alone demonstrates the fallacy of seeing today's labor shortage as a purely cyclical phenomenon.

The second structural change is in Japanese values. Born and raised in the lap of affluence, younger Japanese shun repetitive or dirty work. Manufacturing, construction, and even some service industries are out of favor with these highly educated youngsters.

Third is the fact that different industries have made different degrees of progress in introducing labor-saving technologies. Manufacturing has spent considerable sums on and made amazing advances in labor-saving technologies. This is especially true of the bigger companies. Thus manufacturing is not a major absorber of labor any more. Such is not true of the service sector, however.

## Services sector hit

Services are an increasingly important part of Japanese industry, and there is little that can be done to automate these labor-intensive services. As a result, the service sector has been particularly hard-hit by the labor shortage. For example, there is no way for a barber who normally cuts 10 people's hair per day to increase this to 30, no matter how hard he tries to improve his productivity. At the same time, the service sector itself is bound to grow with the need to care for Japan's older population, and this must also be considered in any discussion of the services labor market.

The fourth factor is the geographical skewing of the labor market. With everything and everyone concentrated in Tokyo, companies and branches in outlying areas find that their communities are unable to hold the talented young people they need and that they are truly having to scrape the bottom of the barrel.

In sum, there is both an overall quanti-



Attempting to cope with a severe labor shortage, companies produce a large amount of promotional material in an effort to recruit college graduates.

tative shortage of workers and an unequal distribution that makes the shortage especially acute for some industries, companies and communities. Feeling that the situation can only get worse, companies are frantically scrambling to hire young people as soon as they enter the labor market.

However, economists would argue that there is no such thing as an absolute shortage of workers—that there is only a relative shortage at a given wage level. Companies may find that there are not many applicants at the lower end of the wage curve, but there is much less of a shortage when top wages are paid and pleasant working conditions provided. The fact that so many Japanese companies face labor shortages (especially for jobs usually done by younger people) must therefore mean that their working conditions and employment practices are out of touch with the new labor market climate.

Postwar Japan's rapid economic growth was sustained by the availability of large numbers of young workers who

wanted to work and were willing to work for rather low wages. These were also the conditions that prevailed when today's practice of mass hiring of new graduates was institutionalized. Yet the underlying conditions have changed, and it is only logical that the response must also change. The young labor market is shrinking, and Japanese wages are now among the highest in the world.

Obstinately sticking to long-standing employment practices under these circumstances will only exacerbate the inherent contradictions. Even raising wages is not the answer unless the company also makes a parallel effort to reform the way it uses its people, the composition of its labor force, its employment structure and even corporate strategies. Companies that intend to pay top wages have to use their resources effectively and restructure their management so they can afford to pay these wages. There are eight main points to this restructuring.

First is the need to rethink the present practice of concentrating on new male graduates and having all companies do





Photo: Meitetsu Corp.

Reflecting efforts to attract staff, one engineering company held an orientation for new employees with an overnight trip on a pleasure cruiser.

their hiring at the same time. Unlike earlier days, when companies could have their pick of the best of the graduating class and could hire just the people they needed, the system now forces companies to spend massive amounts in the spring hiring frenzy even though they have no assurance that they will get very much in return. Likewise for the graduates, who are courted with such great fervor and then find that marriage to the company does not live up to the romance's advance billing.

## Premium on youth

The only reason that companies place such a premium on hiring new graduates is that they are desperate for younger people. Yet given the very tight conditions at that end of the labor market, many of these companies should probably rethink their positions and make mid-career people the central focus of their hiring policies.

Mid-career hiring has the advantages that the time factor is less important and that companies have a better idea of what their new employees can and cannot do. For the head-hunted, they have the time to see exactly what kind of a company their new home is and what they are getting themselves into before they jump. And if mid-career hiring spreads, this should also alleviate some of the pressure to hire new graduates and should make the labor market more efficient for everyone concerned.

Second is the need to make better use of current employees. At many companies, there is a considerable waste of human resources on meaningless work and pointless meetings, and there is even a keep-them-busy attitude that seeks to find ways to keep people occupied even if it is at make-work jobs. Having scrambled

to hire these people, the companies think they have to keep them busy—even if that means wasting their time and the company's money.

One of the major reasons why so many companies feel so understaffed in their clerical and service divisions, this practice harks back to the days when labor was in abundant and cheap supply, and it is hardly appropriate now when Japanese wages have soared and people have become harder to find. When a resource seems infinite, people are wasteful with it. Yet when it becomes scarce, conservation is the order of the day. Companies need to create rewarding work through a combination of effective communication, accurate assessments, strong support systems, flexible personnel policies and astute assignments.

Third is the emergence of women as a major social force. Starting around the time the Equal Employment Opportunity Law was passed in 1986, and with a considerable boost from the tighter labor market, there has been a striking improvement in employment conditions for women. Yet despite the progress that has been made, there is still a deplorable gender gap in terms of authority, promotions and pay.

This is particularly troublesome for

those women who have both the abilities and the drive that Japanese business needs. Removing the gender-based restrictions on working hours is just part of the answer, and a major effort needs to be made across the board to ensure that women have the same employment opportunities and prospects as men.

Fourth is making better use of middle-aged and older workers. Although considerable progress was made with raising the retirement age to 60 in the 1980s, there is still entrenched corporate resistance to raising it to 65. At the same time, there are very few new employment opportunities for people aged 50 or older. Companies that refuse to take advantage of the older workers' wealth of experience, know-how and personal contacts have only themselves to blame for the much-ballyhooed labor shortage.

Of course, there will be people who argue that hiring middle-aged people creates promotion frustration for the younger employees or that older people do not have the sheer physical stamina that the job demands, but these are organizational rather than personal problems. If need be, jobs should be restructured, personnel systems revamped, and retraining provided to make use of these invaluable human resources.



Photo: Nihon Keizai Shinbun

In order to meet diversified job requests, many firms provide in-house retraining for their employees.





Photo: Kanda Unso K.K.

Women are now assigned to jobs that until recently were considered as "men's jobs."

Much the same can be said of foreign workers, which brings us to the fifth point. If there are not enough Japanese workers to do the job, it is only natural that companies should turn to foreign workers. The Immigration Control Law as amended in June 1990 provides greatly expanded visa access for skilled foreign workers, and this is a step in the right direction.

Yet the same liberal provisions should not be adopted for foreign workers at the bottom end of the scale, since this would only perpetuate the dual structure of the Japanese labor market. This issue of low-end foreign workers is a very difficult one in light of the very real shortage of Japanese to do these jobs and the vast influx of manual laborers (some legal, some not) from Asia and elsewhere. Mishandled, it could cast a pall over Japan's relations with the other Asian countries, could make Japan scorned no matter how much financial or technological assistance it provides these countries, and could even jeopardize Japan's national security interests.

However, I am not arguing that these people should be kept out. I am saying that they should be given the necessary training and their employment legitimized so that they can come to Japan as legal, productive workers to gain valuable experience before going back to contribute to nation-building at home.

Sixth is overseas expansion. The fact

that Japanese wages are as high as they are means that it costs that much more to manufacture things in Japan. Unless the product embodies some special technology or other features, higher costs mean a less competitive product. Thus it is that Japanese companies trying to compete in the global marketplace have to think globally and have to make the best use of human, financial and other resources wherever they are found.

## Diverse labor force

Seventh is the need for management to concentrate on flow. In the rapid-growth era, Japanese companies were stock-minded as they invested massive amounts of money in capital equipment and other fixed assets and as they created a pyramidal structure that ensured there were vast pools of young workers at the lower levels. Such a mindset would be suicidal today. With the emerging technologies and demand patterns, and with the diversification in the labor force, many companies will find it more efficient to lease the equipment and people they need on a flow basis. The best management will be that which finds the optimal mix of fixed-asset strength and flow-asset flexibility.

Finally, a word is in order about the government's employment policies. The reason that so many of the best people flock to Tokyo is that Tokyo has a vitality

and magnetism about it that no other city can match. Everything exciting seems to be happening in Tokyo, and Tokyo is the ultimate proving ground.

Employment subsidies, job information and other traditional policy measures are not enough to attract these people back out of Tokyo. Rather, every effort needs to be made not only to make other cities equally attractive but also to ensure that people outside of Tokyo have the same access to information and ideas as they would if they were at the nation's center.

While much of this will have to be up to local companies, the government also has a role to play in establishing telecommunications and transportation infrastructure and rate schedules that offset Tokyo's advantages. Government efforts alone cannot turn the tide, but they are essential if private companies outside of Tokyo are to have any hope of attracting the best and the brightest and if other companies are ever going to consider relocating outside of Tokyo.

As mentioned at the outset, the present labor shortages are not simply a cyclical phenomenon but are a manifestation of the changing structure of Japanese society as the economy matures. Accordingly, it is essential that government and business not look for short-term solutions but have the courage to see this as a fundamental sea change and the wisdom to devise strategic responses for the long term.

Japanese industry has met other challenges before. When pollution was the problem, it developed cleaner technology; when the oil crises threatened, it developed energy-saving technology; and when the yen appreciated, it restructured for leaner operations. Now it is labor that is at issue, and the need is for flexible employment policies to make the best use of all available resources. Far from being one of many options, this transformation is a prerequisite to surviving and thriving in the decades ahead.

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