

Present Japanese Labor System and Problems for the Future

By Narikawa Hideaki

Establishing an employment system that enables workers to enjoy life and find work stimulating

Is the lifetime employment system doomed?

For four years since the bubble's collapse in the autumn of 1991, the Japanese economy remained stagnant, and its growth rate was less than 1% in real terms. The unemployment rate rose from 2.1% (1.36 million) 1991 to 3.4% (2.25 million) in 1996. While the job picture was worsening, manpower adjustment by industry spread, particularly at large corporations. A considerable number of white-collar workers were dismissed in this adjustment process. Thus, there is a growing view that Japan's lifetime employment system is collapsing as a result of the globalization of the economy and com-

pany operations, a rise in the average age of workers due to the decline of the birthrate and the aging of Japan's population, as well as an increase in the number of part-time workers.

This is not the first time that Japan's lifetime employment system was said to be collapsing. Around 1965, when the economy was said to be in the grip of a structural recession, and during the protracted recession after the first oil crisis of 1974, it was said that the lifetime employment system was disintegrating. Therefore, some people say that this argument, once again, is only doomsday talk in days of hardship. But the situation this time differs from those during the past recessions. Against the backdrop of the globalization and maturation of the Japanese economy, an association of employers is proposing the introduction of a new employment system to replace the lifetime employment system. The new system, proposed by the Japan Federation

of Employers' Associations (Nikkeiren) in a report titled "New Japanese-style Management Systems" in June 1995, is the combination of long-term employment, employment of specialists, and flexible employment. The Economic Council of the Government also proposed a reform of the employment system. In a report titled "a structural reform in six areas" of December 1996, the council proposed a reform of the employment system into one that makes the best possible selection of people for given jobs and posts by utilizing an external labor market. The opinion that the Japanese employment system is faced with a new change is stronger than ever.

We members of a labor organization believe that the long-term stable employment system, which guarantees job security for employed workers until their retirement, should be preserved in order to stabilize and improve the workers' living standards and create a



Security and loyalty: A training session paves the way for the lifetime employment system

job site where workers can find work stimulating. The lifetime employment system in Japan is not backed by law or contract, though it is commonly called "a system." It is a practice based on the management's verbal commitment. Labor unions have been strongly demanding job security. More often than not, however, there is no way to guarantee job security when the company faces a bankruptcy or the need to retrench operations. In such a case, labor-management negotiations have to shift to find laid-off workers new jobs at other companies or to discuss conditions for voluntary retirement. In this sense, the lifetime employment system (a system under which a new graduate hired at a company can remain at the same company until reaching the mandatory retirement age) is a practice observed by the management as a matter of faith. At present, the lifetime employment system is interpreted in a broader sense, that is, as a system under which not only new graduates but workers in their twenties hired at a company can enjoy a stable status at the same company almost until reaching the mandatory retirement age.

The majority of top business executives have been accepting this long-term stable employment practice as a desirable one. There is a growing body of opinion, however, that this practice can no longer be maintained under the recent prolonged recession. The Ministry of Labor conducted "the employment management survey" in 1996, addressing a questionnaire to companies with 5,000 or more employees about their employment policies. Answering the questionnaire, 29% of the respondents said they attach importance to the lifetime employment system, but 32% said they do not stick to the lifetime employment system and 39% said it depends on circumstances. Thus, it may be said that about 50% of major corporations intend to continue with the lifetime employment system.

Problems in the fluidizing of employment

People who assert that the lifetime employment system is collapsing advo-

cate the fluidizing of employment and say that the employment system hereafter should positively use an external labor market by ensuring smooth moves of workers from stagnant industries to new growth industries, improving corporate pension schemes to make it possible for individuals to change employment, and privatizing public employment security offices. One factor behind this view is the assertion that Japan should learn a lesson from the revival of high-tech industries and the fluidizing of employment in the United States, introduce the U.S.' practice of restructuring white-collar work force and correct the high-cost structure of wages and employment in Japan.

Three major defects, however, can be pointed out in the "employment fluidizing proposal." Firstly, it completely ignores the internal labor market's mechanism to maintain and improve the quality of manpower and vocational abilities. Secondly, workers in Japan work with the information about the corporate organization they belong to and under close cooperation with each other within the organization, but the people who advocate the fluidizing of employment belittle the productivity improvement through working within the organization. Thirdly, they ignore the social support system that encourages the growth of new vocations and the improvement of job levels.

Regarding the first point, major corporations in Japan maintain and upgrade the vocational abilities within the organizations by conducting ability development and employee training projects. First, beginning with the training of new recruits, they give their employees in-house vocational training of the level that matches their vocational qualifications at given milestones in their careers. In addition, senior employees give younger employees on-the-job training as a routine practice. Through such training, specialist skills within the corporate organization are handed down from generation to generation, and are upgraded in the process of inheritance. Therefore, even if a company wants to hire a person from the external labor market who can

be a useful member of the organization from the first day of hiring, it is very difficult in Japan to find a person with the necessary vocational ability or skill in the external labor market.

As regards the second point, Japanese employed workers display their abilities or skills through the exchange of information and collective human relations within the corporate organization. Not only vocations and jobs but also the way to work is closely related to the corporate ethos, and workers who work within such collective human relations develop a high morale and find their work stimulating.

With regard to the third point, it is very difficult in Japan at present for workers to upgrade their vocational abilities or skills on the external labor market. Vocational training and education at external institutions, such as vocational schools, cannot produce people who can be useful members of a corporation as soon as they join the organization.

Based on such Japanese labor and employment conditions, it is evident that the argument for fluidizing employment totally ignores the Japanese business community's system of fostering the growth of vocational abilities and skills and improving them within each corporate organization. It is a short-sighted argument aimed only at the reduction of such short-term costs as the labor cost, and fails to recognize the dynamism of industrial progress that will take place hereafter.

Upgrading employee quality and vocational skills at small and medium-size companies and second-tier firms

The lifetime employment system, however, is a system mainly practiced at large corporations and is not shared by all small and medium-size companies. Quite a few second-tier companies are endeavoring to follow the examples of large corporations in patterning their employment practices. At small and medium-size companies, however, with few exceptions, "the fluidizing of employment" is an everyday phenomenon. About 10 million employees of large corporations and 4 million

employees in the public sector enjoy the long-term job security under the lifetime employment system as an almost established practice. On the other hand, for the employees of small and medium-size companies, who number more than 30 million, long-term job security is a privilege of the lucky few. Only less than half of about 10 million employees of second-tier companies enjoy the lifetime employment system, according to an estimate.

In Japan, 70 to 80% of employed workers are working at small and medium-size companies with less than 300 employees. Many of them have been hired in the middle of their careers, and job security until the mandatory retirement age is not always guaranteed. The foundations for job security are fragile at small and medium-size companies. Regarding the development of vocational skills, second-tier companies and small and medium-size ones that have medium-term training schemes are rare. On-the-job training from a near-term viewpoint is the main training at such companies.

Moreover, one out of every five employees of small and medium-size companies is a part-timer. Even at second-tier companies, the ratio of part-timers to the total manpower on the payroll has increased to the same level as at small and medium-size companies in recent years. At large companies, however, the ratio of part-timers is slightly lower, about 16% according to a survey of part-timers by the Ministry of Labor in 1995. Compared with regular employees, part-timers are discriminated against and are victimized first in manpower cuts. Moreover, there is gross discrimination also in wages, opportunities for receiving training for ability development, and social insurance benefits.

In discussing the labor and employment system in Japan, one must fully consider the difference between small and medium-size companies and large companies, and measures for improvement should be taken with full recognition of that. For small and medium-size companies, how to ensure employment security is a vital issue,



Cooperative antagonism: Labor-management relations toward common goals

and it is a very important task to establish a prior consultation system for the attainment of this objective. Unless a prior consultation system and an ability development system are established, it will be difficult for small and medium-size companies to elevate the quality of employees and improve labor productivity.

In Japan, there is a wide gap between large corporations and small and medium-size ones in both working conditions and employment conditions. Labor unions are endeavoring to eliminate the gap, but unionized workers represent only a fraction of small and medium-size companies' employees, so what can be achieved through labor-management negotiations is limited. A public system to ensure social fairness and a yardstick for gauging it should be established to eliminate the gap between companies of different sizes and ensure employment security for underprivileged workers and social fairness in working conditions.

New problems for labor and employment system for the future

The economic climate has changed so much in recent years that even major

corporations' labor and employment systems cannot cope with the changed environment unless labor and management take an entirely new approach. For one thing, the employment structure has begun to be affected by the progress of the globalization of the economy and industry. Further, new employment and vocation problems have arisen as the progress of high technologies has transformed our society into an information-oriented, knowledge-intensive one. In addition, the work force supply is slowing down and a structural change in work force are occurring as a result of the declining birthrate in Japan and the aging population. Lastly, a change in individuals' mentality is affecting corporate behavior.

These changes in the environment are generating the following employment problems:

(1) Overseas advances of Japanese companies and an increase in manufactured imports accompanying the globalization of the Japanese economy are causing a structural change in Japanese industry and increasing the opportunities for changing employment from industry to industry and from company

to company and are generating constant fears of hollowing-out of vocational skills and technologies.

(2) During the period of transition to a knowledge-intensive society, the question arises whether it is possible to train employees within companies, as in the past, to equip them with sophisticated vocational abilities and skills.

(3) Given the present low birthrate and aging of the population, questions are often asked such as how jobs can be secured for low-in-demand older workers, how an environment that encourages women—who may prevent a decline in the work force supply—to work for the public can be created and whether it is necessary to change the method of employment adjustment now that the young population is declining.

(4) Again, given the individual's changing mentality and the industrial adjustment in progress, it is open to question whether Japan's traditional long-term stable employment system can adapt to the rise in the number of workers who change jobs and the need to promote new venture businesses.

To overcome the above problems, first of all, a stable economic society where jobs increase if at a moderate pace should be created. Secondly, a sufficient supply of workers with high professional abilities should be secured through education and training. Thirdly, employment security should be guaranteed for all workers, and an environment created that raises the morale of employed workers.

Long-term employment stability and an employment system based on labor-management consultation raise workers' morale

The prolonged economic slump since the bubble's burst showed signs of ending as an economic recovery stabilized around 1995, and the number of employed workers began to increase on a year-to-year basis in the spring of 1996. With the improvement in the job picture, the ratio of manufacturing companies making manpower adjustment has declined to 25%. There is still a loud body of opinion, however, that the traditional Japanese employ-

ment system should be reformed through fluidizing, etc., to become capable of adapting to such structural changes as the globalization of the economy, the low birthrate and the aging of the population.

Advocates of this view, pointing out the recent revitalization of the U.S. economy, propose a production system that attaches importance to near-term results and an employment system based on individualism. One must not forget, however, that the country's power to adapt to a changed environment is possible only when the good points of traditional systems based on the results accomplished by ingenuity from the past and long-standing labor-management relations are given full play. Evidently, adaptation to the environment cannot be attained through simple introduction of an external models, but is rendered possible only through deliberate reexamination of conventional systems and practices and endeavors by all the people concerned. It should be remembered that the revitalization of the U.S. economy and an increase in employment during the 1990s have spawned a host of social problems, such as a decline in real wages, widening income differentials, in double-income families and an upsurge in social unrest.

I have already pointed out the problems surrounding labor and employment in Japan. Whether it's a large corporation or a second-tier or small and medium-size company, the creation of technologies and skills accepted throughout the world is the basic way for them to meet the globalization of the economy. To this end, companies must bolster their in-house vocational training schemes, and a system to help small and medium-size companies upgrade their levels of technologies and skills should be established. What can be accomplished through isolated endeavors for each individual, however, is limited. Systematic endeavors based on the long-term employment system are indispensable.

The cardinal measure to cope with the low birthrate and the aging of the population is to create workplaces

where the abilities of women and older people can be effectively utilized. The basic measure to be taken in this regard is to create workplaces where women after marriage or childbirth and older workers after reaching mandatory retirement age are retained on the payroll. Moreover, a working schedule and work environment should be created such that employed workers can work in harmony with their home life and community activities and keep healthy.

Therefore, a system that can survive structural changes in the economy is one that gives full play to the ingenuity and creativity of each worker, and measures to create such a system should be studied through labor-management consultation based on "the respect of Man's dignity," which labor and management in Japan have forged through joint endeavors. To best tap the creativity and ingenuity of workers, the necessity of a social structure based principally on long-term stable employment where employment and working conditions are determined through labor-management consultation, and workers can work in cooperation with fellow workers should be fully recognized. I want to point out that simple imitating of practices introduced in foreign countries in an easygoing manner would undermine the foundations for the progress of Japanese society. Frank debate should be held between labor and management and also at the national level to create, at the responsibility of the parties concerned, a new society where there is no unrest arising from unemployment, where a good balance is maintained between the improvement of workers' living standards and industrial progress, and where there is harmony between the environment and industry.

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