

Changing Japanese Labor and Employment System

By Iwase Takashi

The labor and employment system which Japan built in the half-century after World War II is now being transformed as a result of profound changes in the Japanese socioeconomic structure. This is unavoidable, since the labor and employment system of any country is basically a subsystem of its economic society.

Along with the globalization of national economies after the end of the Cold War, the nature of labor demand in Japan's business community is changing: an age of slow economic growth and slim corporate profits has arrived, unemployment has stabilized at a relatively high level, industry and employment are undergoing structural changes, the job situation appears less favorable, with deregulation, computerization and networking all making

advances.

The labor supply situation too is undergoing a sea change, due to rapid aging of the Japanese population, a decrease in the number of young people, increasing participation of women in public affairs, and an increase in the number of workers who want to change jobs.

As a result, the conventional Japanese labor and employment system based on lifetime employment and seniority, which presupposed such factors as a population composed mainly of young people and high economic growth, is now collapsing as such assumptions lose validity.

Against such a background, companies, in the course of restructuring their operations, are cutting back on recruitment of new school graduates, and new

personnel management practices are gradually spreading through the business community, such as early retirement, and wages and promotion based on individual performance.

Impact of economic globalization

High unemployment becomes chronic, opening/application ratio drops

Since the end of the Cold War, former socialist countries and developing nations have been entering the community of free market economies. This has had a tremendous impact on industrialized countries. A massive inflow of low-cost products and services produced by large numbers of low-wage workers into industrialized countries cannot avoid disrupting prices, wages and job security in those countries. Japan could not remain unaffected: the bubble economy promptly fizzled out.

While the era of slow economic growth and low corporate profits continued, the unemployment rate in Japan edged upward, and the year's average unemployment rate, after rising above the 3% mark in 1995, has stayed there to the present. The number of workers currently unemployed is about 2.2 to 2.4 million. Even during the recession after the oil crisis or the recession in the mid-1980s, caused by the yen's steep appreciation, the yearly average unemployment rate

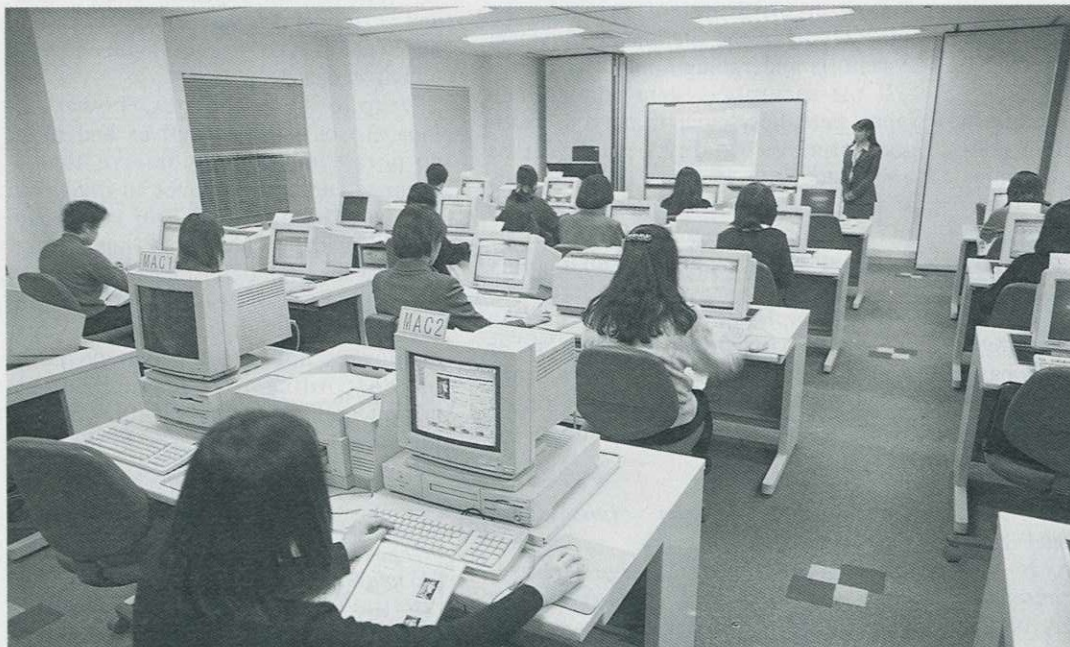


Photo: RECRUIT Co. Ltd

More skills, less accumulation? Training for dispatched workers aims at acquiring specialized jobs instead of positions

stayed below 3%. This time, however, a high unemployment rate has become a chronic phenomenon.

The active opening/application ratio, the ratio of job offers to applicants, declined to below 1.0 in 1993, dropped to 0.63—its worst level—in 1995, and at present is in the area of 0.7. No early improvement is in sight.

If the excess manpower on corporate payrolls is also counted as jobless workers, the unemployment rate roughly doubles, and thus the myth that Japan is a country of full employment evaporates.

The Japanese economy has been recovering since November 1993, but GDP growth during this period has been as low as 0% to 2%. Japan therefore has entered an age of "jobless growth", something a number of Western countries have already experienced.

Employment pattern diversifying

With the software and services sectors occupying an increasing share of the economy, service industries are replacing manufacturing as Japan's core industry. For many years, manufacturing industries employed the largest portion of the work force. In 1994, however, service industries overtook them in their share of the nation's work force. The number of workers in manufacturing industries has further decreased since then. In 1996, manufacturing industries dropped to third position, yielding second position to the wholesale and retail trade and food service. At the same time, demand for workers with new skills and new knowledge increased, and white-collar workers began to represent more than 50% of the total work force in Japan in 1990.

Such changes stimulated labor mobility among industries and between companies, and generated a pattern of employment peculiar to tertiary industries such as service industries.

As a result, non-regular workers, such as part-timers, dispatched employees, contract employees and employees on loan, represented 22.8% of the total work force in 1994. This was an

increase of nearly five percentage points compared with seven years before. Meanwhile, the number of regular workers decreased.

With the increase in the number of non-regular workers, the mode of working has diversified into short-term employment, short working hours, partial working, etc. But non-regular workers are also called unstable employees, the most serious problem being that their working conditions are inferior to those of regular workers.

Hollowing-out of industry and employment

A shifting abroad of companies from Japan, led by manufacturers, is in progress, and manufactured imports to Japan are increasing. The background to these phenomena is the structurally high cost of operating in Japan and the opening of the Japanese market. The ratio of overseas production by Japanese manufacturing industries to total production was 7.9% in 1994. This is lower than the 17.5% for Germany in 1993 and 20.1% for the United States, but the ratio will rise hereafter, as Japanese companies' overseas operations are expanding rapidly.

Evidently, this trend reduces domestic production and jobs, while increasing production and jobs overseas. This is the so-called hollowing-out of industry and reduced employment opportunities. As a result, the government estimates that by the year 2000, the number of employed workers in Japan will decrease by 1.24 million from the 1995 level, though this estimate may be revised depending on the yen's exchange rate. Some of the workers who lose jobs due to the hollowing-out phenomenon may be absorbed in new projects launched by manufacturing companies, in research and development activities, or in public-works projects engaged in by the construction industry, but the number of such lucky workers will be limited.

There is a strong body of opinion, however, that the effect of hollowing-out on employment will be small, because jobs in such tertiary industries as the service industry are

increasing, growth of the economy hereafter will generate new jobs, and the working population will decrease due to a decline in the birthrate.

A more serious problem at present is the lack of people in positions to inherit the technological and vocational skills that have been instrumental in the production of high-quality goods in Japan. Such people are going out of existence as a result of the overseas transfers of production bases by Japanese manufacturers, and their absence is hollowing out regional industries and employment opportunities.

Effect of structural changes in labor supply

Changes in workforce makeup

The population of Japan is aging at approximately double the speed of Western countries. With people aged 65 and over exceeding 15% of the country's total population, Japan has joined the list of countries of the elderly. As a result, the population composition by age has changed from a pyramid form, where there are a great many young people, to a beer barrel shape with a bulge in the middle- and high-age brackets.

Let's see how the work force aged 15 and over will change hereafter. From 1995 to 2000, the number of workers aged 55 and over will increase by 1.93 million, while the number of workers under 55 will decrease by 120,000. Toward 2010, the total work force will take a downturn and decrease by slightly more than 1 million, but whereas the number of workers aged 55 and over will increase as much as 3.15 million, the number of workers under 55 will decrease by 4.16 million. Nearly 90% of the decrease will occur in the group made up of young people up to 29.

This is the combined result of aging of the population and a decline in the birthrate, both of which are occurring simultaneously in Japan. The total fertility rate (the average number of babies that a woman bears in her lifetime) is now 1.43, the lowest ever. The era has come when the life-span of the

average Japanese is 80 years, and there is less need to depend on children as a work force than in the past. These facts indicate the maturation of the Japanese economy.

As Japanese economic progress has reduced the burden of household chores, participation of women in public affairs has expanded, and the number of female workers has topped 20 million. This is an increase of as much as 5 million over 10 years ago.

The breakdown of working women by age forms an M-shaped curve, with its peaks in the twenties and forties and its trough in the thirties. By job type, there is a large female presence in small and medium-size companies, in service industries, and in banking and insurance. By employment category, such non-regular workers as part-timers, dispatched workers and contract employees constitute the

largest portion.

In Japan, there has been a conspicuous increase in the number of workers in their middle age and older, as well as in the number of female workers.

Changes in attitude toward work and employment

Another trend that should not be ignored in this transitional age is the diversification of perception and sense of values among workers along with the maturation of the economy.

Comparing the results of the latest government survey (in 1995) of Japanese people's attitude toward work with the results of a similar survey of eight years before, it is notable that the number of respondents who said the lifetime employment system and seniority-based wages were "good" for both employers and workers decreased, while the number of respondents who

said these were "not good" had increased. Regarding change of job, the number of respondents who said it was "good" to work at the same company or the same job as long as possible decreased, while the number of respondents who had said it was "good" to change employment if by doing so one could better display one's ability or aptitude increased. Among people aged 20 to 29 in particular, the percentage of respondents who attach importance to the opportunity to display one's ability was high.

Reflecting the change in attitude toward work, the number of people who want to change employment is tending upward, particularly among young people. A government survey in 1996 showed that there were 7.35 million workers who wanted to change employment. This was 11.7% of all employed workers, but 2.37 million of



Second marriage: From marrying a company to marrying a job at the "Suitable Job Fair" in Tokyo



them were actually engaged in job-seeking activities. The number of such workers was particularly high among workers aged 15 to 24.

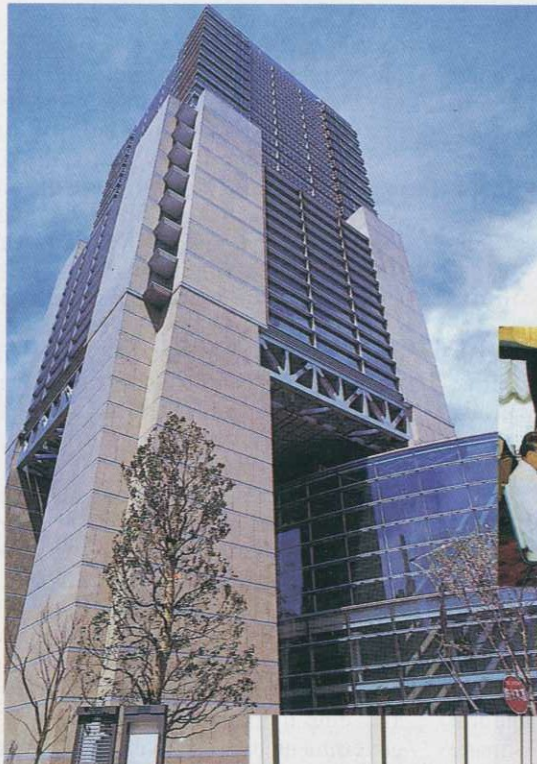
The diversification of mental attitude toward work and the increase in the number of people who want to change employment are gutting the traditional Japanese labor and employment system.

Changes in employment system and personnel management

Reexamining labor and employment system

The lifetime employment system is breaking down as a result of the diversification of patterns of employment. The average period of employment is shifting from long-term to medium-term and further to short-term, and non-regular employment is replacing regular employment. Thus, diverse patterns of employment and working are coming into being. The seniority system, which guarantees a raise in wages and promotion to higher positions based on length of service, is giving way to a system that attaches priority to ability and performance. The wage curve which in the past took an upward course with length of service is becoming flat.

Older employees are therefore being exposed to a new, harsh workplace reality. Within the company, they are considered superfluous and are contemptuously called *madogiwazoku* (the window-side couch) because at most companies, older employees who have outlived their usefulness are given desks near the window. They are advised by management to retire before the mandatory retirement age, as many companies want to get rid of such employees as quickly as possible in order to restructure. Thus, the comfortable old age they dreamed of fades away. Moreover, since from 2001 the government will be gradually raising the age at which retirees begin receiving pensions, from the present 60 to 65, uneasiness about how to make a living during the five years from the



*Retirement without retiring:
Classroom scenes from Tokyo
Metropolitan Technical College
for Senior Citizens (above and
middle) in the Senior Work
Tokyo building (below)*



mandatory retirement age of 60 until the start of pensions at 65 is spreading among older workers, since the internal labor market consisting of a company and its group firms is limited in its capacity to accept retirees. There is a way to settle the problem, however. Because of an expected dearth of workers in the near future, a wise course of action for corporate management would be to make positive use of older workers by setting up systems where they can make use of their highly specialized abilities and their excellent powers of

judgment, which are older workers' assets.

Reshaping the labor and employment system into one that can cope effectively with the increase in the number of working women is not progressing smoothly. Two out of every five working women are of unstable status, such as part-timer. The middle-aged, male-oriented labor and employment practices, which have lasted for years, do not give way easily. New systems under which work and home life can be made mutually compatible for both sexes,

such as a child care leave system, should be established quickly.

Because of increasing labor mobility in Japan, there is a growing need to restructure the Japanese labor market into a more open one. As the system of wages and promotions based on employee performance spreads, the practice of rating each employee individually is replacing the seniority-based system of wages and promotions. Moreover, there is an urgent need to establish a work system that transcends age and sex, one that makes positive use of people of superior abilities, regardless of whether they are old or women.

Personnel management as business strategy

The personnel management paradigm currently used by companies is going to change drastically. In order to be winners in keen inter-company competition, companies will have to practice personnel management as an integral part of their business strategy, hiring people who will be assets from the first day of hiring and appointing the right person to the right post. Using such a policy, many companies are minimizing the number of regular employees and increasingly hiring mid-career experts and dispatched workers, and auxiliary workers such as part-timers. As for new school graduates, companies are switching from recruiting in April-only to hiring all-year-round.

I call this personnel management system, which hires people of necessary abilities in necessary numbers and at the necessary time only, "the just-in-time system of personnel management." The just-in-time system was originally an efficient system of purchasing parts and components only when needed, adopted by a Japanese automaker.

Government's new employment policy

The new employment policy of the Japanese Government for fiscal 1997 has four objectives: ensuring labor mobility without causing a rise in unemployment, assistance to the business community in creating jobs, inten-

sified adjustment of labor supply and demand and fostering vocational skills.

The present high unemployment rate in Japan has its main cause in the mismatch between labor supply and demand in regard to vocational skill, age, region and working conditions. Aware of this, the government is making increased endeavors to ensure smooth labor mobility without causing temporary joblessness. Specifically, the government is extending subsidies to cover part of the cost of loaning out and training employees for certain specified industries where workers have to move to another industry or to another company.

To help create new industries and new jobs, the government is extending financial assistance to cover part of the cost of recruitment and part of the wages to small and medium-size companies that are launching new projects or starting up new ventures in regions where the hollowing-out of industry and employment is in progress. The government expects that such projects will serve as a safety net for workers discharged from existing companies.

In order to help the growing number of people who want to change employment, the government is equipping public employment security offices throughout Japan to better enable them to provide information about job offers and is expanding employment agencies' ability to supply information about job offers for white-collar workers. It has relaxed government regulations on the supply-demand regulating systems in the private sector and in April 1997 liberalized in principle the white-collar employment agency business.

To meet the challenges of the new age of personnel management based on ability and performance, the government is taking measures to foster the growth of vocational skills. It is scheduled to open a Lifetime Human Resources Development Center as a vocational training and counseling center for white-collar workers in the summer of 1997. It is also taking measures to subsidize business corporations to help them provide their employees with vocational training and enable

them to develop highly sophisticated abilities.

Conclusion: structuring a new labor and employment system

Workers now find themselves besieged by problems that make them uneasy both at work and at home, such as slow economic growth, high unemployment, employment diversification and aging of the population. There is not a single thing at present that would give them a sense of security. But the fact is that the employment system up to present has been too secure and enabled workers to immerse themselves, even their private hours, in work for companies. It is undeniable that for this reason, Japan has been a country where the majority of its people belong to the middle class.

Japan has become unable, however, to remain a closed country any longer. Because its economic society is changing into one open to the rest of the world, its labor and employment system, too, must be open.

To put it another way, we may say that an age has come when, by improving their abilities and vocational skills, workers can find a workplace where they are duly appraised and receive salaries commensurate with their abilities and skills. By making a positive investment in their own abilities and enhancing their market value, workers can put themselves in an advantageous position vis-a-vis employers. Thus, the changes in the labor and employment system present Japanese workers with both challenges and opportunities. ■

Iwase Takashi is a journalist, a deputy representative of the Japan Labor Pen Club, a special counsellor to the Japan Institute of Labor, a member of the Japan Industrial Relations Research Association, a member representing the public interest in such councils as the Employment Council and others, and has a busy schedule writing and lecturing.