

What is Happening in Japan's Labor Market?

By Inoki Takenori

CHANGES in the Japanese-style employment system have long been debated. It is natural for a country to reflect on itself and move to re-examine its established practices and systems when its economy and corporate management come to a standstill. This is because no country can survive severe economic and business competition unless it adjusts its systems accordingly in response to changes in the external environment and conditions.

There is an important step which must be taken before examining reform of systems and practices. In Japan's case, this is to accurately recognize the actual facts: what the so-called Japanese-style employment system is, to what extent the system is prevalent and whether the system is really peculiar to the country. If such reflection on the existing system is based on a firm grasp of the current situation, then it is all right. But if the reflection is merely an effort to criticize what in fact doesn't exist and to introduce a still uncertain system, it could amount to a move in a dangerous direction. Mountain climbers could lose their way and find themselves in a worse situation if they recklessly change their route when the weather suddenly worsens. Under such conditions, the climbers would be wise to sit and wait for the skies to clear.

In a similar vein, mere imitation of what is praised, without precise appreciation of the existing system and realities, would hardly solve the problems in examining slumps in the economy or business management. What is needed above all is a firm grasp of the current situation and an accurate understanding of changes in the external environment. We should guard against wholesale adoption of fashionable arguments for reform. In particular, we must argue, based on firm data, what kinds of changes and interactions are taking place between the corporate personnel management system in Japanese companies

and the surrounding external labor market. In making the argument, we should focus on the following points in regard to the labor market: 1) the characteristics of jobless people, 2) the realities of their job-search activities and their reemployment, 3) what is happening particularly to young workers, 4) whether the career formation system in companies is collapsing in the so-called "IT era" and 5) whether labor power is appropriately distributed between the public sector and the private sector in Japan as a whole.

One important point at issue is the extent of utilization of the outside labor market (employment of workers or loss of employment) rather than in-house adjustments (such as shorter working hours and transfers of workers). This is an issue over which economics textbook and historical experience always differ. Economics textbooks state that a labor market with high liquidity accelerated the adjustment of demand and supply. In practice, and historically, however, increases in the liquidity of the labor market have produced various problems.

A bill revising the Manpower Dispatching Business Law was passed by the House of Representatives in late June 1999 and was enacted the following month. The restrictions on the types of businesses to which workers can be dispatched have been lifted in principle. It goes without saying that those arguing for an overhaul of labor-related legislation welcomed the revision. The basis of their argument is that the facilitation of worker transfers would constantly prompt the flow of the labor force to sectors where marginal productivity is high and thus raise the productivity of the entire economy. Their argument is theoretically convincing but raises doubts.

Temporary workers dispatched to a company from placement agencies sometimes engage in the same type of work as

regular staff. In most Japanese companies, however, there is a wide gap between the treatment of regular and temporary workers. The situation is reminiscent of problems related to regular and temporary workers during the high-growth era half a century ago. Following the outbreak of the Korean War in 1950, a large number of temporary workers were hastily introduced to companies to engage in the same type of work as regular workers. Some temporary workers engaged in supplementary or auxiliary jobs such as construction, packing or delivery. But, in increasing numbers, they were assigned to the same type of work as regular workers in accordance with the corporate logic of cost reductions.

Since temporary workers were employed for a fixed period of time, their employment was, as a matter of course, unstable. More serious was the fact that temporary workers received lower wages than regular workers. Still worse, family and severance allowances were not available to them. They were in fact placed under a different wage system. The gap was eliminated before it became a serious social problem thanks to an increase in demand for labor amid phenomenal high growth and as a result of struggles demanding the employment of temporary workers as regular workers. However, an increase in the number of temporary workers dispatched from placement agencies turned out to be a more complicated and delicate problem. The dispatch of temporary workers from placement agencies was introduced by the Japanese shipbuilding, iron-steel and chemical industries during the high-growth period. The corporate logic seeking the introduction of such a system during the high-growth period was in many respects similar to the current pattern of introducing temporary workers hired by placement agencies.

The Public Employment Security Law, introduced in Japan after World

War II, banned in principle vocational placement or supply of labor by the private sector. On the back of the diversification of the employment pattern resulting from changes in the industrial structure since the late 1970s, companies specializing in the placement of workers, known as *"jinzai haken"* (dispatch of manpower), emerged one after another mainly in the building management, information processing and party planning sectors. The enactment of the Manpower Dispatching Business Law in 1985 was in line with such a corporate trend. At that time, it was already anticipated that temporary workers engaging in supplementary or auxiliary work would sooner or later be hired by and dispatched from placement agencies in accordance with the corporate logic of using "disposable" workers.

Lower labor cost is not the only reason companies preferred to use such workers. Temporary workers hired by and dispatched from placement agencies are not members of labor unions because they are not employed by the companies where they work. Since they hardly meet their colleagues at work, they cannot organize themselves, and thus companies using them do not have to hold collective bargaining with them.

Those arguing for the revised Manpower Dispatching Business Law now constitute the mainstream of opinion leaders. But such an argument is not without problems for several reasons. One thing is how to view the placement period, which is currently limited to one year. The original purpose of this restriction was to prevent temporary workers from replacing regular workers. In Europe, such temporary workers are less likely to replace regular workers because the former in principle receive treatment equal to regular workers, or because placement agencies charge high commission fees. In other words, the differences in labor costs in Europe for temporary and regular workers are not so

great as in Japan.

The average daily dispatch fee per temporary worker (for an eight-hour workday) charged by placement agencies in Europe and Japan, as well as changes in the fee from the previous year can be compared in Japanese surveys. But the difference in monthly salary between regular workers and temporary workers (in some cases, temporary workers receive a higher salary than regular workers), social insurance contributions, welfare costs, education and training costs and expenses necessary for recruiting regular workers, particularly mid-career hiring, must be compared against European data. In addition, how the use of temporary workers affects the nurturing of human resources must also be examined. It is quite dangerous to argue for labor liquidity just by swallowing the abstract theories taught in economics textbooks, and support the promotion of the use of temporary workers without firmly grasping the realities of the labor market.

The revised Manpower Dispatching Business Law is said to play a part in the drastic reform of the labor market aimed at promoting liquidity. But the administrative authorities and researchers are required to fully grasp what I have already mentioned. The intention and effect of a policy are always at cross-purposes, and so it is necessary to examine them separately on the basis of the available data.

DOES Japan have an adequate social network that minimizes the costs for the unemployed to find new jobs after being dismissed or voluntarily quitting? Analysis of data regarding to the relationships between the corporate "internal market" and the "external market" of the entire economy will reveal various problems. People thrown out of work may find new jobs with good wages and other benefits if they are young. However, as we have witnessed over the past decade, the employment situation is

very severe for middle-aged and senior workers, particularly those in their 50s. Even if they managed to find jobs, they would find themselves in much worse working conditions. For example, middle-aged persons are in many cases reemployed as non-regular staff. It can be said that those reemployed as non-regular workers are potential job seekers, because they wish to change jobs as soon as they find better ones.

The key factor in finding a good job is work experience as well as internal and external personal networks. Generally speaking, few Japanese companies expect the job seekers' qualifications and educational background to serve them in good stead. Indeed, the accumulation of practical business experience, which widen and deepen vocational capabilities and the building of wide social relationships, are considered more important when job hunting. Many job losers suffer psychologically while experiencing an unstable livelihood. In this regard, the need for providing counseling for such people is said to be important. However, it is pointed out that Japan lags behind Western countries in taking such measures. The main reason may be that there was no such need in this country in the past.

In an era of rapid technological innovation, many people argue that liquidity is picking up momentum even in the labor market. But things are not so simple. Currently, mid-career workers and long-serving workers in the same company are being forced to share responsibilities in a complicated way, because differences in the type of work between them are becoming wider depending on the demand-supply situation in the labor market. Also, the function and structure of this problem are different depending on the corporate scale.

For example, long-serving workers receive higher salaries than mid-career workers in any company regardless of age and the type of work. Major com-

panies, which attach importance to the recruitment of new university graduates hire mid-career workers only occasionally and through strict selection from a large number of applicants. Capable mid-career workers employed by large companies receive almost the same salary as long-serving workers. On the other hand, small and medium-sized companies have no adequate personnel selection mechanism and thus employ mid-career workers with different qualities. Accordingly, there is a wide gap between annual incomes for long-serving workers and mid-career workers in those companies. Most companies need capable mid-career workers who can immediately become corporate assets when they establish new sectors. In launching such new sectors, companies employ even inexperienced mid-career workers or new graduates if they are found to have high learning capabilities. Companies also reinforce their staff all the time in various ways, such as ability redevelopment, position transfers and the hiring of contract workers or temporary workers which have high professional skills.

By analyzing various factors involved and studying whether there are differences in the degree of job satisfaction between mid-career workers and workers without the experience of job transfer, we can surmise why mid-career workers changed jobs, how they found their current jobs and why they were employed by the company where they currently work. Generally speaking, workers in the 25-30 age bracket who have changed jobs once are more satisfied with their work than those who have never changed their workplace. Most of these workers quit their previous jobs in pursuit of the type of work and working conditions fitting them. In other words, they changed jobs at their own convenience, and found new jobs through their personal networks. They were usually employed as their work experience was highly evaluated. Judging from these facts, an intermediate labor market based on personnel networks is necessary to increase the rate of successful job transfers.

SOME experts point out, importantly, that there are not enough public officials in Japan, in sharp contrast to the general opinion in Japan that there are too many public employees and that their number should be reduced. Yet, there has been no reliable study on whether the ratio of public employees to Japan's population is high relative to other countries and from historical viewpoints. A recent statistical report, which shows the ratio of public officials against the total working population, released by the Organization for Economic Cooperation and Development (OECD) roughly estimated that Japan's public sector is the smallest among the industrialized countries. It is not easy to define "public employees" in international comparisons. Some may ask whether officials of government-affiliated corporations as well as public utility corporations and licensed corporations are counted as public employees. But, no matter how "public employees" are defined, the ratio of public employees to the total working population in Japan is regarded as the lowest in the world. According to a 1997 World Bank report and a 1999 OECD report on the ratio of public employees (excluding military personnel) to the total number of workers, Sweden had the highest ratio at 33.3%, followed by Switzerland and Belgium at 20%. The ratio of public employees is generally high in Scandinavian countries. We can easily assume that the ratio of public employees to the total population and the total number of employees is generally high in small countries.

Among the major industrialized countries, France had the highest ratio at 17.8%, followed by Britain at 16.7% and Italy at 15%. The U.S. ratio of 13.8% is neither high nor low. It is worth noting that the ratio in Germany, at 9.5%, is under 10%. Japan's ratio of 6.5% is way below the levels of other OECD member countries. The Japanese ratio per 1,000 population unit is still the lowest among OECD members, standing at 39 against Germany's 77, even widening the gap between the two countries.

The number of police officers per capita in Japan is outstandingly low among the OECD member countries. There have recently been news reports of staff maltreating inmates in a Japanese prison. Though the actions are inhumane and impermissible, we must pay attention to why such an incident occurred. For the past 10 years, the number of public employees working in prisons and other correctional institutions has been declining due to the government's personnel reduction measures. On the other hand, the number of prison inmates has been steadily on the rise due to a sharp increase in burglaries and thefts (murder cases are not increasing), and all correctional institutions are overfilled. While it is true that the number of public employees should be reduced in some sectors, the government should promptly take measures to deal with the understaffing in such sectors as the judiciary, police, immigration control and tax administration.

The scale and effect of public administration is governed by the budget. Accordingly, we can hardly discuss the costs and benefits of economic and public utility policies unless we grasp in quantitative terms the budget scale and personnel resources (particularly the number of public employees). No researchers would take the simplistic view that the purpose and ideal, which serve as the basis of a policy, would automatically become the effect of the policy. It would become increasingly important to grasp in quantitative terms the scope of a policy which is reflected in the budget, as well as the scale of resources infused in the policy. These quantitative data should then be compared internationally and historically, at least from the postwar period.

We can hardly accept uniform reductions in the regular number of public employees unless these points are clarified. We can easily see that the number of public employees is insufficient in some sectors but excessive in some others. The point is how to implement the reapportionment of the prescribed number of public employees.

LASTLY, I must refer to the issue of unemployment among young people in connection with the protection of the jobs of the elderly. The Japanese government's strategy for the employment of older people after the late 1980s was to extend the period of employment to the age of 65, although the retirement age was basically set at the age of 60. Specific government measures taken in line with this strategy were aimed at obligating companies to extend the retirement age to 60, promote the continuation of employment of retired workers until the age of 65, and create a fund for those reemployed senior workers in accordance with the raising of the pension eligibility age. The primary purpose of these measures is supplementing the income of those in the 60-65 age bracket. These measures have been shown to contribute to the expansion of employment opportunities for senior workers. However, employment opportunities for those in the 60-65 age bracket have not expanded greatly in contrast to the steady expansion of employment opportunities for those in the 55-60 age bracket. The major reason for this was the collapse of the bubble economy.

If we look at the substitutive and complementary relations between the young and the elder generations, we will find that there are strong substitutive relations between them. It suggests the possibility that the expansion of employment for elderly people would lead to a decrease in the number of jobs for younger people.

As the Japanese population ages, calls have escalated for securing the employment of middle-aged white-collar workers, but concerns over the current situation of the younger generation are seldom expressed. Youth unemployment is not viewed as a serious problem because young jobless people are considered to have quit their job voluntarily. It is said that young people in an affluent Japanese society have simply lost their motivation to work.

Some oppose such a generalization, arguing that those young people known as "freeters" for avoiding employment as regular workers and "parasite singles" for



Illustration: Iwasawa Akio

continuing to live with their parents into their late 20s and 30s have by no means lost their will to work, but are in fact being unwillingly forced to choose low-grade and unstable types of employment.

The deterioration of the employment situation facing young people is attributed to the fact that many companies are holding back the hiring of new graduates in order to keep middle-aged and senior employees on the payroll. There is no denying that as a result, young people have been deprived of opportunities to enhance their skills and knowledge as regular company employees, and are being forced to take up temporary, low-grade jobs.

At present, the government is taking various measures to support the employment of seniors but is slow to give young people employment and training opportunities. Adjustment of employment is passed on to young people in the form of a hiring freeze on new graduates. This is because it is legally difficult for Japanese companies to dismiss workers and implement restructuring measures. It can be

said that the vested interests of middle-aged and senior workers have been protected at the expense of young people, who are losing jobs or being forced to work under undesirable conditions.

In any period in history, old people complained of what they regarded as the lack of enthusiasm on the part of young people. Such a complaint should be accepted as a reality if directed against young people's lack of will to shatter the wall of "gerontocracy." But if young people are not given sufficient opportunities to break down this wall, then it is a serious problem for Japanese society. The future will never be bright for a society that forces its young people to face uncertainty over their future. **JS**

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