



**Centre of Full Employment and Equity**

**WORKSHOP**

**Understanding Unemployment in Australia, Japan and the USA**

**A Cross Country Analysis**

**10 and 11 December 2001**

**Review of Japanese Data, Policies and Outcomes on Unemployment –  
Why has Japan been shifting from "Low Unemployment Society" to "  
High Unemployment Society"?**

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## **Review of Japanese Data, Policies and Outcomes on Unemployment - Why has Japan been shifting from "Low Unemployment Society" to " High Unemployment Society"?**

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### **Abstract**

The employment and unemployment conditions in our country began to worsen in the early 1990s after the collapse of bubble economy. And now, Japan has been facing more difficult phase due to the delay in full-scale economic recovery, in particular, the bankruptcies of major companies such as security firms and financial institutions from 1997, and the development of full-blown restructuring accompanied by large-scale reduction or adjustment of employment. While involuntary departure from the employment by the middle-aged white-collar workers, among others, are getting more and more serious, there is a heightened pressure on the supply of the other family members including the spouses to the labor market, which reached the point where the insecurity toward employment or unemployment is no longer limited to the heads of the households but has been outreaching all the hierarchy.

This makes today's employment and unemployment issues in our nation further severer.

Many advanced countries began to fall into the structural recession since the mid-1970s and came to experience structuralized unemployment and "high unemployment society". But Japan was the only "low unemployment country" that had been able to maintain relatively low unemployment rate.

Why could only Japan among other advanced countries to maintain relative low unemployment rate both historically and international comparison until the "recession in 1990s"?

Our first issue in this workshop is to explain some features of employment and unemployment problems in contemporary Japan, and secondly, is to answer the difficult questions as mentioned above, and finally is to discuss about the meaning of the transformations or collapses of the structure and mechanism to maintain low unemployment rate.

**Our conclusion is as follows:**

1. The low unemployment structure in Japan since the mid-1970s in particular was made possible by the well-established "broad-based lifetime employment system", in which even when over-employment was created by recession or technology innovation, it could be still hoarded under employment within the whole group of enterprises through various means of employment adjustment such as "haichi tenkan"(an ordinary job change or transfer), "shukko"(temporary transfer to a subsidiary or related company), "tenseki"(transfer to another company , or change of permanent employment place on record) , "haken"(dispatch of temporary workers) , and "o-en"(aid to temporary labor shortage)..

2. The development of the employment and labor market policies to hoard employment even when over-employment was created by recession.

3. The existence of a number of peripheral workers such as part-timer,"ringi-kou" (casual laborer or temporary workers), "shagai-kou" (sub-contract worker), and the dispatched employees as a new type of sub-contract workers, has played an important role in keeping low unemployment rate, and in hoarding employment of the male householder as a safety valve for employment adjustment.

4. "The Japanese-style corporate society" or "the Japanese-style welfare society" that has been shaped on the ground of the gender-based role division, where, presupposing the stable income and the life security of family provided by "lifetime

employment" of the male head of the household.

Today, however, since the collapse of the bubble economy the "broad-based lifetime employment system," which functioned as a mechanism of Japan's low unemployment structure, is meeting an upheaval as the employment management and employment adjustment mechanism in the companies change along with the structural fluctuations of environmental factors surrounding our country's economy such as globalization of economy, advancement of information processing, relaxation of regulations, and orientation to the service economy.

This is the biggest direct factor causing the current employment insecurity. The "broad-based lifetime employment system" under the "Japanese-style management" characterized by pyramid-shape industry structure topped by the parent company, the multi-tier supplier structure, corporate capitalism, and main-bank system, has played an important role in fostering the regular employee's sense of unity with and loyalty to the company by securing them stable seniority-based wage, employment security, and post-retirement life with a retirement allowance and/or a pension. Although Japan's "lifetime employment" has had quite a number of restrictions in actuality, it has so far been a goal "as the norm" for the workers in the country to aim for, which has had a significant meaning for Japan's economic growth.

However, today, the "Japanese lifetime employment" has become shaky not only "in actuality" but also "as the norm". This will affect most importantly "the Japanese-style labor-management relationship" which has been established around the male regular employees, because it means that "the Japanese-style corporate society" or "the Japanese-style welfare society " that has been shaped on the ground of the gender-based role division, where, presupposing the stable income and the life security of family provided by "lifetime employment" of the male head of the household, a wife, being his spouse, has chosen, to work in the form of a part-time to supplement the household income while taking all the household responsibilities ranging from domestic chores, child-rearing, and nursing care, to community activities.

## 1. Heightened sense of insecurity toward unemployment

*Figure 1* shows the transition of Japan's unemployment rate and ratio of job offers to job seekers from 1965 through the recent years. During the full-blown high-growth period from the mid-1960s, the unemployment rate moved at around above 1%, and the number of unemployed workers stayed extremely low at around 600,000. After the first oil crisis in 1973, however, the unemployment rate reached the level of 2% with the number of unemployed workers exceeding one million. After that, from the mid-1980s when the economy moved to high-yen period through the early 1990s when the bubble economy collapsed, the unemployment rate was above 3% with more than 2 million unemployed workers. From 1997 when the financial system was at risk, the unemployment rate began to show a sharp increase to reach an average of 4.7% in 1999, at which point the number of unemployed workers finally exceeded the three million mark. [The Labor Force Survey defines “totally unemployed persons” as “persons who did not work at all during the survey week, but were available for work and actively seeking a job or were waiting for the results of past job search activity.”]

On the other hand, the ratio of job offers to job seekers [active opening ratio] continued declining under the prolonged sluggish economy. The average ratio now stands below 0.5%. Whereas the ratio of job offers to job seekers has always been consistently low for the [advanced-age](#) group, it has recently been getting low for the both groups of the [younger](#) people in their twenties and the [middle-aged](#) people in their late forties as well, showing the increased level of job insecurity. According to the “National Survey on Lifestyle Preferences” conducted every three years since fiscal 1978 by National Economic Planning Agency [[currently Cabinet Office](#)], after the bubble economy's collapse not only has there been a surge in the number of people who answered “not satisfied” with “the working condition without insecurity of possible unemployment” but also shown was the employment insecurity extending to all the generations (see the *Figure 2*).

Behind the recent rise of the employment insecurity was the bankruptcy of major enterprises and the company restructuring with the full-scale employment adjustment and reduction, triggered by the financial system breakdown in Japan from

1997. The survey by Tokyo Shoko Research revealed the number of employees of the companies listed on the Tokyo Stock Exchange was 4,594,674 in the first half of 1999, down 6.6% or 320,000 from the same period of 1998, or decreased by about 810,000 over the five years from 1994. When intensified global competitions called mega competitions and large-sized mergers on a global scale are in progress, notable is the employment adjustment accompanied by large-scale **personnel** reduction in the major firms such as reduction of about 143,000 employees at NTT where the majority of the employees were transferred to the subsidiary upon its change to holding company. Other examples were Daiwa **Syoken**, Toshiba, Hitachi, Nissan Motors, Sony, NEC, and Daiichi-Kangyo Bank.

In addition, behind the increase of employment insecurity are such structural changes in the business environment surrounding Japanese companies as globalization of the economy, innovation of the company management thanks to the development of the information networking, change of the industrial structure and employment status, change in the mindset of young generation toward working, and feminization and aging of labor force.

In this paper, I will keep such changes of macro factors in my view as I uncover the increased employment insecurity in relation to the method and mechanism of employment adjustment in companies and discuss the impacts and the issues it has to the Japanese-style management.

## **2. Change of the employment/unemployment structure**

### 2-1. Characteristics of today's unemployment issues

Let us take a look at the characteristics of today's unemployment issues.

The first characteristic is, as shown in the **Figure 3**, in the aspect that, following bankruptcy or discontinuance of business, outsourcing of unprofitable or indirect departments, and restructuring such as **personnel** reduction, the number of “involuntarily separated workers” is showing a sharp increase. The majority of these “involuntarily separated workers” used to be the middle-aged blue-collar workers in their fifties or

sixties engaged in manufacturing work; it is now shifting toward the middle-aged white-collar workers in their forties or fifties working in the administrative office. In general, under the seniority-based wage/promotion system, once a white-collar worker in Japan who has developed his/her career as a generalist within the firm has lost the job, it is likely to have a great mismatch in all aspects of conditions such as job contents, skills, age, and wage, between himself/herself and the company offering a position, usually making the reemployment rather difficult and also showing a tendency to protract the unemployment period. Many of such workers are, on the other hand, in a position of the head of the household; i.e. breadwinners to support the whole family. Therefore, the prolonged unemployment period for the middle-age generation, who are at the peak in their lifecycle of their household expenditure for housing, education, and so on, will have to give a serious impact on the lives of their spouses or families.

The second characteristic is the upward trend of the unemployment rates for the women or the spouses of the household heads, for whom by contrast unemployment and wage raises are being controlled (See *Figure 1*). To be noted is the higher unemployment rate for the late twenties to early thirties when women become non-labor force due to marriage or child-bearing/rearing, and later again in the late thirties to early fifties when they go back to work as part-timers. Traditionally, the spouses in such generations, when laid off due to recession, typically engaged in job-seeking activities rather sporadically only to transform to non-labor force, given the husbands' stable employment and the wage. The existence of such peripheral labor force has played an important role in keeping the unemployment rate from going up during the time of the economic recession (Nomura, 1998). After the bubble economy collapsed, however, the heads of the household, or the husbands, have been facing increased employment insecurity, allowing the spouses or family members to be under pressure to seek a job, which has become an important factor for the increased unemployment rate.

The third characteristic is, as in *Figure 1*, the surge in unemployment rate of the younger generation centering around 15 to 24 years of age. Young people lose their job for voluntary causes more often than the middle-age generation. The causes identified are the change in the attitude of the youth toward work or their value in "lifetime employment," e.g., people got a job only to find the actual job contents or the atmosphere

at work very much different from what they had expected, or more and more people are becoming short-term-work-oriented with no desire of working long period of time from the beginning. On the other hand, even among the young generation shown is a trend of increased cases of job loss with “involuntary” causes such as fresh graduates from school not being able to find suitable employment, namely, “the not-yet-employed college graduates,” and the issue of over-employment of young workers that were massively recruited during the bubble economy becoming evident.

The fourth characteristic is the increase of the industry reserve army as the prospective jobless force or superfluous labor force although yet to become apparent as unemployed workers. The “over-employment,” which hires excessively beyond what the companies consider proper size of **labour force**, is estimated as 2.28 million people as of March 1999 according to the “Economic White Paper 1999.” The “discouraged worker” although classified as “non-labor force” for the purpose of statistics - those who have lost motivation to actively seek employment due to absence of appropriate jobs on the market despite their intention of getting employed - outnumber other advanced countries, and besides, it is known that the majority of them are women (Nomura, 1994, 22-23). In addition, the tendency is such that an increased number of workers are under sporadic and unstable employment (underemployment or precarious employment) or wishing to change the jobs or wishing to have additional jobs due to low wage and/or inferior working conditions.

## 2-2. Changing employment structure and status

Today, Japan’s employment structure and status is not only changing due to structural change in environment surrounding Japanese economy such as globalization of economy, advancement of information processing, relaxation of regulation (deregulation), and orientation to the service economy, but also giving serious impact on employment and unemployment issues.

First, there is a decrease or stagnation in the number of workers or employers along with the change in employment structure or relocation of production function to

overseas. According to the “Labour Force Survey” by Management and Coordination Agency, the number of workers declined in 1998 and 1999, sharp drop by about 900,000 in the number up to July from the same month of previous year. The largest drop is found in “the self-employed and family worker.” For example, according to the “Labour Force Survey,” while the ratio of “the self-employed and family worker” to the employed total was 23.3% in 1989, that of 1999 was 17.2%, down as much as 6.1 percentage points over the 10 years. The plunge in the number of the self-employed is largely attributed to the effect of **deregulations** in “Large-Scale Retail Stores Law,” the self-employed persons getting older, and the difficulty in finding their successors. Such decrease in self-employed businesses contracted its role as a receiver of unemployed workers it had been playing, and, as a result, has become an important factor to raise the unemployment rate.

On the other hand, the number of the employed has increased relatively, as the number of the self-employed workers and the family workers decreased, but remains almost unchanged due to influence of the prolonged recession or the promoted transfer of production function to overseas along with the yen overvaluation since mid-1980s.

Secondly, the employment structure has largely shifted from the manufacturing industry to the service industry. If you see the employed persons by industry, while there is a remarkable decrease in agriculture/forestry/fishery industry and manufacturing industry, an increasing trend in the third industry including service industry is notable, showing the on-going shift to the service economy in the employment status. However, since the mid-1990s, shown is another trend in which the tertiary industry such as finance/insurance, transport/communication, and distribution that had been a major contributor to the employment creation, began losing the power to absorb the employment, affecting greatly to the increase of unemployment. In contrast, the service industry, contributing greatly to the generation of employment, is largely different in type of employment, work contents, work hours, and so on from what had been seen in the conventional manufacturing industry. Therefore, there have occurred many mismatched factors in the transition of labor between these industries. This has become an important factor in causing frictional or structural unemployment.

Thirdly, if you look at the transition of the number of the employed by occupation, the trend shows that whereas blue-collar workers such as skilled workers are decreasing, white-collar employees such as managerial/clerical workers including workers of professional occupations are increasing. However, after mid-1990s with seemingly excessive managerial/clerical positions, the target of employment adjustment shifted from blue-collar to white-collar workers, promoting the increase of the unemployment rate of middle-age white-collar workers in particular. *Figure 4* shows the change the number of the persons employed by occupation. In the blue-collar occupations such as skilled workers, manufacturing and construction workers, the number decreased by 800,000 over the two years in 1998 and 1999; in the white-collar occupations, the number of the persons employed in managerial occupations decreased by 250,000 over the three years from 1997 to 1999, and the clerical occupations marked a decrease of 150,000 in 1999 for the first time; accounting for the total decrease of 600,000 in two years of 1998 and 1999. The decrease in middle managers or clerical occupations in particular is particularly contributed by the ongoing reorganization from the hierarchical organization into flat-type organization and the development of the information technology in the companies and the efforts of outsourcing in such indirect departments as general affairs and human resources.

Fourthly, looking at the composition of employees by company size, not only the number of employees of the large companies of more than 500 employees is decreasing, but also the number of employees in smaller companies with less employees are showing decrease, indicating declined power of employment absorption in small firms.

Fifthly, while the permanent employment including regular employment is on the decline, the number of the non-regular labor force such as part-timers, dispatched workers, employees on the fixterm contract, and “freeter” are on the rise with the on-going diversification in the type of employment. The number of part-time workers or part-timers shows an increasing trend since the “reduced weight management” during the recession of 1970s: In 1970, 2.16 million; 3.53 million in '75; 3.90 million in '80; 4.71 million in '85; 7.22 million in '90; 8.96 million in '95; and 11.13 million in '98, showing a sharp increase. Whereas the ratio of the part-timers to the total employees in 1970 was

6.7%, that to the female employees total was 12.2%; both figures increased to 21.2% and 36.5% respectively in 1998, meaning nowadays one in three workers is working as a part-timer. According to the recent survey by [Ministry of Finance](#), as companies continue to undergo the restructuring processes, still leaving the sense of over-employment in the companies, more and more companies are replacing their permanent workers with part-timers.

Although the number of temporary workers of our country (sum total of the enrollment in [general workers dispatching enterprises](#), the number of regularly employed workers, and the number of [temporary workers](#) in [special workers dispatching enterprise](#)) was only about 150,000 persons in the fiscal 1986 when the Worker Dispatch Law was enforced, it had increased quickly to about 900,000 persons in the fiscal 1998. And lately the usage of the [temporary workers](#) is changing from the traditional "employment control-valve factor" to the "employees-in-direct-employment replacement factor," indicating replacement of the regular employees with temporary workers is progressing (compiled by [Sumitomo Life Insurance Research Institute](#), 1999: p. 212). Especially with the 1999 revision of the Worker Dispatch Law in which the business area requiring permission was basically deregulated, there is a high possibility that the number of [temporary workers](#) will increase in all the occupational areas including sales positions in addition to the traditionally prevailing professional positions. Moreover, thanks to the removal of the ban of "job search type dispatch (temp to perm)" with occupational guidance as its objective scheduled to be introduced at the end of this year, it is expected that the worker dispatch system will be increasingly utilized as a means of employment in trial period for new college graduates, and it is considered this, combined with diversified recruiting methods in recent years, will make it more difficult for those graduates to be hired as regular employees immediately after graduation.

As mentioned above, the fact that not only the number of the employed is on the fall or stagnation by the prolonged depression or the increasingly common overseas transfer of the production capacity, but also the employment structure has been undergoing qualitative change in the aspects of sex, age, company scale, status in the employment, type of employment, etc. is giving a serious impact on today's unemployment and employment insecurity.

Now, let us look at the change in employment adjustment mechanism and employment management in the company, which give direct influence on the increase in today's unemployment and unemployment insecurity.

### **3. Japanese-style employment adjustment mechanisms and "broad-based lifetime employment"**

#### 3-1. Methods of employment adjustment and the characteristics unique to Japan

Employment adjustment is various measures a company takes to control the amount of employment or the amount of labor placement to deal with the fluctuation of the production quantity brought by business cycles or change in geographical organization of the production function, fall of profitability due to depression, and quantitative and qualitative change of the labor force demand resulting from technological innovation and business management innovation.

Employment adjustment methods take a variety of different forms: Adjustment of working hours by means of overtime work restriction, "ichiji kikyū" (temporary release from work), and/or increased days off; termination of non-regular employees including part-timers, temporary employees, and employees on contract system; control or discontinuance of new and mid-career recruitment; "haichitenkan" (an ordinary job change or transfer), "shukko" (temporary transfer to a subsidiary or related company), "tenseki" (transfer to another company, or change of permanent employment place on record); invitation to voluntary resignation; and discharge of specified individuals.

Compared with the layoff typically seen in the employment adjustment of blue-collar workers in the U.S., the typical employment adjustment in Japan begins with the softest employment adjustment by means of working hours, then takes next steps such as non-replacement for the resigned employees; restriction of hiring by controlling or discontinuing new and mid-career recruitment; reduction of non-regular employment; "haichtenkan"; "shukko"; "tenseki". Finally, if additional employment adjustment is still

needed, the most drastic methods such as calling for voluntary resignation and discharge of specified individuals are introduced.

The feature of employment adjustment in our country in particular is in the point that not only a company can easily carry out an ordinary job change or transfer within the company because the configuration of job responsibility assigned to each employee is extremely flexible, but also its labor force can be mobilized more flexibly between the group (keiretsu) companies as well as within the company by taking advantage of such means as "shukko" and "tenseki", beyond the framework of the company, to its related companies, subsidiaries, or lower-tier group companies.

### 3-2. Formation and its conditions of "broad-based lifetime employment"

Behind the fact that such diverse, flexible employment adjustments have been carried out in an attempt to avoid dismissal of regular employees as much as possible are "Japanese practice of lifetime employment," "Japanese seniority system", and "cooperative labor-management relation", which is unique to our country.

"Lifetime employment" (exactly speaking, it is more appropriate to call it as "practice of long-term employment") can be defined as a practice of intending to be employed in a company upon graduation from a school and continue to work for the company till retirement age unless there occurs something completely unexpected, or for the company to try to secure a long-term employment.

It is the middle of the 1960s when cooperative labor-management relation was built around the company-based labor unions after experiencing the abolition of management social status system performed as part of labor democratization after the WWII and a series of labor disputes of the 1950s to the 1960s when dismissal by designation, etc. were performed frequently that such kind of employment practice began spreading widely around the regular employees of the company in our country. Since around that time, the economy of our country went into a phase of full-fledged high economic growth, and while shortage of the young labor force in particular was getting serious, the number of employees to whom "lifetime employment" was applied began

increasing rapidly in the big companies by, for example, promoting into regular employees temporary laborers who had traditionally been utilized as a safety valve for employment adjustment.

However, in the end of 1973 as the economy of our country began shifting from high growth to low-growth due to emergence of the first oil crisis triggered by outbreak of the fourth Middle East War, and problems of surplus equipment and the over-employment became apparent in many companies. Because of this, many companies carried out "reduced weight in management" mainly for the so-called laborforce, material, and money; for example, making the production process more efficient and laborsaving with introduction of micro-electronic equipment, curtailing the fixed cost including labor and depreciation expense, and reducing the labor (volume of employment x working hours) to be invested. As far as the employment adjustment, among others, is concerned, whereas most methods of adjustment in the past focused on ways to directly reduce the invested labor, the employment adjustment since 1976 has shifted toward something more indirect that mobilizes the labor force within (or outside) the company, such as the ordinaly job transfer and temporary transfer (Ogata, 1980: 230-231). In that time, most common was the "shukko (or temporary transfer)," in which workers were sent on loan to the related companies and the subsidiaries while maintaining their employment status with the original employer, and its main subjects were the middle or advanced age blue-collar workers.

To mark the second feature, there appeared a new tendency in which while controlling regular employees by not replacing the retired employees, the shortage was alternatively filled with women or part-time workers.

Thus, after the mid-1970s, "broad-based lifetime employment system," which on one hand actively takes advantage of the use of part-timers to control regular employees, on the other hand maintains the employment within the whole company group while controlling regular employment in a parent company by moving regular labor force that has become superfluous into its related companies or subsidiaries through "shukko" and "tenseki" was established.

Then, it began taking a firm hold as an employment adjustment mechanism of the major enterprises of our country.

As the background and the conditions on which such a Japanese employment adjustment mechanism was formed, it is important to point out the following:

First, the fact that the employment relationship that stood on the long-term viewpoint could be easily maintained thanks to the continuing economic growth and the expansion of company scales. Furthermore, the fact that raising fund was relatively easy under the main bank system or the corporation capitalism, and the idea of Japanese management whose goal is to gain management stable for a long period of time with internal reserve rather than the stockholder-oriented view which requires higher dividends be furnished for stockholders in a short period of time enabled a kind of management standing on a long-term viewpoint, and at the same time became an important condition for securing "lifetime employment."

Secondly, flexible structure of the job configuration which makes the ordinal job transfer and job conversion in a company easy, existence of related group company (keiretsu), subsidiaries, and subcontract companies, to which a parent company can discharge its superfluous labor force comparatively easily through "shukko" and "tenseki", and a pyramid-type industrial structure.

Thirdly, existence of the peripheral labor force consisting mostly of the housewife part-timers, which has been taking an important role as a safety valve for employment adjustment.

Fourthly, in making employment adjustment prompted by an economic recession, note the existence of cooperative labor-management relations, which attach greater importance to employment security of regular employees than to anything else.

Fifthly, the regulations and restrictions by labor law and the precedents by court have been prevented employer from firing their employees easily. According to the provisions of Article 20 in Labor Standard Law, an employer is able to dismiss their employees if an employer shall provide at least 30 days advance notice, but in fact abuse

of dismissal's right by employer has been controlled virtually by some restrictions. Among them, it is very important in particular that four conditions such as fulfill requirements to dismiss employees, nothing room to evade dismissal, objectivity and rationality to select the object of dismissal, reasonable procedure through industrial relations system such as collective bargaining and labor-management joint consultation, given by Tokyo High Court in 1979.

Sixthly, the unemployment and labor market policies having been introduced by government since mid-1970s has played an very important role to hoard over-employment resulting from rationalization and workforce reduction by corporation, as we shall mention bellow in detail.

However, after the collapse of the bubble economy in the 1990s because of protraction of depression and structural change of environmental factors surrounding the economy of our country, the Japanese employment adjustment mechanism or "the broad-based lifetime employment system," which had somehow suppressed actualization of unemployment thus far, is beginning to collapse, and the function as employment hoarder is beginning to deteriorate. The direct factor behind this lies in the great transformation of the traditional employment management in the companies of our country after the mid-1990s.

#### **4. Flexibility of employment and transformation of employment adjustment mechanisms**

##### **4-1. New employment management strategies of Japanese corporations after the mid-1990s**

"Shinjidai no 'Nihon-teki Keiei' ['Japanese management' of new era]" released in May 1995 by Japan Federation of Employers' Associations is the primary strategy of employment management hammered out to conquer "high-cost structure," which is said to be the source of the recession in the 1990s, and to win straight victories in great, worldwide competition called mega-competition.

The fundamental feature is, as shown in Figure 7, classification into such three groups as a "type of group utilizing expertise built over long-term" to which lifetime employment is applied as before, a "type of group utilizing advanced specialized professional capability" and a "type of group on flexible employment," which consists of non-regular employees such as workers on terminable contract, temporary workers, and part-timers, with its goal at formation of a more flexible employment system corresponding to environmental change such as technological innovation and business management innovation. As a company is drastically changing its employment management policies as seen above, current employment adjustment mechanisms are also due for serious reexamination.

First, by optimally combining the workers of various types of employment as mentioned above, improvement in operation efficiency together with full-scale reduction of "gross personnel expenses" (a concept inclusive of all labor costs, such as welfare benefits expenses besides wages/bonuses and retirement allowance/pension which a company pays to an employee directly) is pursued in an attempt to end the "high cost structure." Wage adjustment as part of employment adjustment has so far been performed by, for example, restricting overtime work, restraining regular pay raise or across-the-board wage increase, and reducing the number of months on which the amount of bonus is based. Recently introduced are merit- or performance- based pay which reflects more of the work results and further annual-salary system through which the seniority-based wage system to be reexamined in drastic fashion.

Secondly, in addition to the drastic reexamination of the wage structure, an employment adjustment mechanism that can respond immediately and flexibly to the rapidly changing environmental factors is being structured, while streamlining regular employment by optimizing placement of non-regular employees, which can allow exemption from employment liability and reduction of user burdens of social and labor insurances. *Figure 8* shows how companies that have gone through reduction of the regular employees within the past one year dealt with it by department. Although reduction and rationalization of business operation is the highest in all the departments, it is clear that, depending on the departments, there are more cases of utilizing various external employment adjustment mechanisms, such as practical use of part-timers,

contracted employees, temporary employees, and outsourcing.

Thirdly, although the conventional employment adjustment has typically taken the form of "syukko", in which employment is secured in the whole group of companies, what marks the latest feature is not only that more companies are using "syukko" on condition of possible switch to "tenseki", but that the tendency that companies are transferring employees increasingly to the companies outside its group.

Fourthly, seeing *Figure 9* showing the method of personnel reduction of regular employees performed within the past year, increasingly "the adoption/expansion of an early-retirement incentive plan" - harder form of employment adjustment than "syukko" and "tenseki" - has been carried out.

Fifthly, utilizing retirement allowances with premium, a leave-of-absence plan, temporary transfer to reemployment assisting companies, the job-change support system have begun to apply to regular employees in all age groups without respect to age or seniority, and more companies have been promoting mobilization of employment even in the younger age group from massive recruitment at the time of bubble economy besides the group of the middle-aged and the elderly.

As mentioned above the method of the employment adjustment after the mid-1990s is shifting from former "the broad-based lifetime employment system," which hoarded employment collectively through "haichi-tenkan", or "syukko" to a group company, toward outward mobilization of labor force such as "tenseki", application of an early-retirement incentive plan, and utilization of various external employment adjustment mechanisms.

#### 4-2. The Development and Transformation of Employment and Labor Market Policy

How has the employment and labor market policy developed in connection with transformation of employment management. We can classify the five period the

employment and labor market policy since after World War II.

(1) 1950s~ The " Emergency Unemployment Countermeasures Law (1949) and the " Temporary Law for Dealing with the Redundant Coal Miners (1959)

(2) 1960s~ " The Employment Measures Law " (1966): The full employment policy in the high economic growth in the mid-1960s

(3) 1970s~ The revision of the " Employment Insurance Law " (1975): Transition of the "active labor market policy to prevent unemployment" since the mid-1970s

(4) 1980s~ The maintenance of " intermediate labor market ": The enactment of the " Worker Dispatching Law " (1985)

(5) 1990s~ the drastic reforms of Japanese labor Market Regulations: The contradiction of the flexibility of employment policy and the "active labor market policy to prevent unemployment"

## **5. The effects and issues brought to the Japanese-style management by the changed employment adjustment mechanisms**

### 5-1. Sharply rising unemployment rate under the employment adjustment mechanism

As seen above, it was after the oil crisis of the 1970s that the methods of the employment adjustment by move of labor force outside the company, namely, "syukko" and "tenseki," started to commonly spread, and they have been utilized till today, although accompanied by certain change, as ways to adjust the employment which is unique to the companies in Japan.

The important function was hoarding employment in and by the whole group including also related companies and subsidiaries when it is becoming difficult to maintain lifetime employment in and by the parent company alone. This "broad-area lifetime employment system" is the direct factor in which an unemployment rate did not

rise abruptly in the stage of business stagnation after the mid-1970s. Moreover, various bailouts for the structurally depressed industries and introduction of "government subsidies for employment adjustment" plan and upon revision of the Employment Insurance Law in 1975 played an important part in politically supporting employment hoarding of a company.

However, while the environmental factors that have a substantial influence on the international competitiveness of the companies in Japan have been changing structurally since the mid-90s after the collapse of the 'bubble' economy, "the broad-based lifetime employment system," having played an important role thus far in employment hoarding of regular employees, is virtually getting ruined. Unlike the "syukko", which allows the employees to maintain their affiliation with the parent company when sent out, "tenseki", which is becoming more common in recent years, is different in that the employment agreement with a parent company is discontinued, meaning virtually a discharge. And if the company to which the employees have been transferred goes bankrupt in depression, they will manifest themselves as jobless workers. As a "syukko" on condition of possible "tenseki", to a related company or subsidiary tends to occur more frequently lately, the risk of getting unemployed is becoming higher with the never-decreasing bankruptcy or discontinuance of businesses. Moreover, a series of system reforms including equipment of business reorganization law, the industrial reproduction law, shift toward the consolidated statements based on international accounting standards, legislation of company split-up law by revision of commercial law, is being performed now; they do influence significantly the employment hoarding mechanism which has somehow been maintained until now by "haich-tenkan" and "syukko".

There is a high possibility, especially after the accounting system reform with special emphasis on the consolidated statements, which has been carried out in the current fiscal year, making it difficult to maintain the traditional mechanism of making the group company a cover for the over-employment, that the over-employment will become more apparent taking the form of a massive amount of the unemployed workers when discharged from the parent company following the shrink of the companies to accept employees under temporary transfer. As a result, the unemployment rate will continue to

rise structurally, having downward rigidity. Furthermore, while large-scale personnel reductions and employment adjustments are proceeding, companies are undergoing full-scale reexamination of the seniority-based wage system in order to cut back the gross personnel cost; the declined income resulting from the wage cutback combined with unemployment insecurity will further stagnate personal consumption and slow down the full-scale economic recovery. The lag in economic recovery is likely to invite further employment reduction/adjustment and to cause danger of falling into a so-called "unemployment spiral." Besides, there appears no sign of Japan's major businesses easing up on the reins on the restructuring even when the economy registers tones of recovery. If that is the case, Japan's future economy has a high possibility of showing "growth without employment," which has been experienced by the United States after the mid-1980.

Then, what has been the significance of the "lifetime employment" ("broad-based lifetime employment" in actuality) in the Japanese-style management? And, if it is being considerably shaky now, what influences will it impose on the principle of Japanese management and the Japanese-style corporate society?

## 5-2. What has been the "lifetime employment"?

If we define the "lifetime employment" as completion of working for a company of the first employment after finishing school throughout the time until the compulsory retirement age, a survey reports the "standard laborers," who are qualified under the definition, account for about 30% of a group of workers with college degree in their late fifties. (Nomura, 1994: 39) In other words, even in a group of regular male employees in major companies to whom "lifetime employment" is applied, only a small number of workers are literally on "lifetime employment"; in actual terms it is rather "broad-based lifetime employment," which hoards employment in and by the whole group of companies. Nevertheless, it was something that secures employees' continuous employment and life after retirement, and played an important role in fostering their sense of unity with the company. In addition, it has significance as "norm" in developing sense of unity and concentric centripetalism for Japan's laborers in the aggregate with their companies while incorporating logic of competition and selection among the laborers

(Kameyama, 1987: 7). In the research project on new Japanese-style management systems (1995), while Japan Federation of Employers' Associations emphasizes introduction of the flexible employment system and employment portfolio with presumed dynamic mobilization of the labor force, it also shows strong concern particularly for maintenance of the Japanese-style management, with principles of "respect for humans" and "management based on the long-term viewpoint." Yet, it denies "company-first people" who are totally dependent on one certain company as seen in the past. It then stresses that from now on workers should make their own decisions with their own responsibility aiming at "independent individuals" who can act with their own initiatives, by which employers are trying to build dry relationship with the employees on the other hand. Moreover, if we understand "respect for humans" to be a kind of employment security for the employees by the employer, or employment hoarding, the view of such a "respect for humans" principle is not necessarily a common recognition among the employers in our country when performance gaps between companies are becoming more distinctive. This is also inferred from the fact that more companies in general are not necessarily adhering to lifetime employment as *Figure 10* shows. On the contrary, an argument by the employers that priority should be given to employment security for employees is recently receiving even negative evaluations in stock ranking from the investors when the U.S.-style management of attaching importance to stockholders is becoming more common.

On the other hand, the value over lifetime employment is greatly changing around the younger generation as shown in *Figure 11*. A reality of early separation, in which about 1/3 of new employees of a company leave their job within three years of employment, differs considerably from the workers' traditional view of work; i.e. continue to work patiently even when faced with somewhat painful events. Although one view may be to attribute the change of their mentality to lack of patience in today's young people, I would rather like to consider it as a result of rational actions by young people responding to the change of employers' view.

As seen above, it can be confirmed that, since the mid-1990s, in accordance with more and more streamlined regular employees to whom the lifetime employment in actual terms is applied, the "lifetime employment as norm" view has been considerably

reviewed from both the management and the labour.

### 5-3. Shaking "Japanese-style Corporation Society "

When the "type of group utilizing expertise built over long-term," to which lifetime employment is applied, is getting smaller, and the "type of group utilizing advanced specialized professional capability" and the "type of group on flexible employment" consisting of non-regular employees such as part-timers, workers on contract, and temporary workers, are getting bigger in ratio, the Japanese-style labor-management relation, mainly composed of unions based on individual companies with their ground on union shop system, will wind up having its foundation weakened (Nagai, 1997).

Moreover, a spread of the discretionary labor system and the annual-salary scheme spoil collective negotiations on and commitments to improvements of labor conditions, such as wages, working hours, and vacations. Reexamination of the spring labor offensive ["shunto"], which had been playing an important role since 1955 as a unified collective bargaining for wage increase and labor-conditions improvement, and also the improvement of life security, have already been addressed.

The Japanese-style gender-based role division, where, presupposing the stable income and the life security of family provided by "lifetime employment" of the male head of the household, a wife, being his spouse, has chosen, to work in the form of a part-time worker to supplement the household income while taking all the household responsibilities ranging from domestic chores, child-rearing, and nursing care, to community activities, and further the Japanese-style corporate society or the Japanese-style welfare society that has been shaped on the ground of the gender-based role division, will have to be shaken considerably. (Nomura, 1998). While the social structure is so shaky, in order for Japan not to turn into a high unemployment nation, it is imperative to reexamine the Japanese-style corporate society or the Japanese-style welfare society as well as to re-review the Japanese-style employment practices.

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