

Changing
Japanese
Business,
Economy
and Society

Globalization of Post-Bubble Japan

Edited by
Masao Nakamura



Changing Japanese Business, Economy and Society

Also by Masao Nakamura

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Edited by

Masao Nakamura

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Softcover reprint of the hardcover 1st edition 2004 978-1-4039-4134-3

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First published 2004 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010
Companies and representatives throughout the world

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ISBN 978-1-349-52074-9 ISBN 978-0-230-52404-0 (eBook)
DOI 10.1057/9780230524040

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Changing Japanese business, economy, and society : globalization
of post-bubble Japan / edited by Masao Nakamura.

p. cm.
Includes bibliographical references and index.

1. Organizational change. 2. Globalization. 3. Social change—Japan.
4. Japan—Economic conditions—1989— I. Nakamura, Masao, Ph. D.
HD58.8.C4626 2004
306.3'0952—dc22 2004041582

10 9 8 7 6 5 4 3 2 1
13 12 11 10 09 08 07 06 05 04

Transferred to Digital Printing 2005

ISBN 978-1-349-52074-9 ISBN 978-0-230-52404-0 (eBook)
DOI 10.1057/9780230524040

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Aging, Female and Foreign Workers, and Japanese Labor Markets: An International Perspective

Alice Nakamura, Masao Nakamura and Atsushi Seike

The Japanese economy has been in a prolonged recession since the bursting of the financial bubble in 1990, and at the time of writing unemployment rates have reached historical highs even for men in their prime. The causes of the recession are long-term imbalances and fundamental changes in the environment and the structure of the Japanese economy. In the late 1980s, when this financial bubble was forming, firms, households and all levels of government made massive amounts of inefficient investments, both real and financial. (Real investments such as firms' investments in plant and equipment are often distinguished from financial investments such as investments in stocks, bonds and other financial securities.) In the aftermath of the bursting bubble, Japan has been suffering from non-performing loans of all kinds and has been unable to direct new capital into productive areas of the economy. Globalization has also contributed to the country's unemployment woes.

Japan has been struggling to recover from its financial troubles in the context of a globalizing world economy that has been relentlessly forcing Japanese manufacturers to cut their costs. This has led many manufacturers to move large portions of their operations overseas, particularly to China and other countries in Asia. It is believed that at least 2 million jobs were moved out of Japan to overseas locations in the 1990s. This massive exodus of jobs came at the same time as Japanese companies were restructuring and reducing their workforces to cope with the economic downturn. In the post-Second World War Japanese way of thinking, employment security has been a priority issue for both government and private-sector decision-makers. Unemployment was viewed as depriving workers of their dignity, and unemployed workers were feared as a potential source of political and social instability. Post-Second World War employment

practices virtually guaranteed permanent employment for regular full-time workers. These practices were possible because, from the end of the war until the 1980s, Japan's growing economy generated enough private- and public-sector permanent employment opportunities to meet the needs of at least the traditional male Japanese workers. The recent serious threat of unemployment has now hit even the two types of workers for whom employment used to be guaranteed – male workers in their prime, and new graduates. Because of this, the new wave of less than full employment has the potential to undermine the cohesion of Japanese society and has generated serious policy concerns.

To make matters more complicated, Japan also has a rapidly aging population. This aging of the population will reduce the number of potential labor force participants and hence, of itself, should reduce the number of the unemployed. However, the aging of the population will also reduce the number of tax-paying workers, and the number of retired people each worker must support in terms of public expenditure is already increasing.¹ This trend is expected to put pressure on the public purse, and to make it harder to find funds for retraining and income assistance for unemployed workers. By now there is serious public concern that the promised levels of social security for Japan's growing retired population will not be sustainable.

The past successes of the Japanese economy were intricately tied in with tailored risk-sharing arrangements that spread employment, income and other business risks across all sectors of industry and all households. For example, the lifetime (or long-term) employment arrangements that many male workers have enjoyed historically in Japan meant that firms absorbed some of the risks from downturns in demand by continuing to employ a large core of workers, even though what they were paid would decrease through a contraction of bonus payments. At the same time, reductions in bonus payments and annual contract wage adjustments, as well as reductions in overtime and the use of casual labor, allowed employers to contract their labour expenditure in response to business downturns without laying off any of their regular workers. In return for this job security, workers in Japan have tended to cooperate to help hold down firms' costs of adjusting to new technologies by not resisting these innovations or the resulting changes in working practices. In Japan, business risks caused by macro-economic fluctuations (including foreign exchange risks and the uncertainty involved in new product development) have also typically been shared between the assembler firms (the core) and the suppliers within vertical *keiretsu* groups.

However, many Japanese business practices do not conform to the standard practices of the country's main international competitors. Japanese firms have provided large portions of their workforces with long-term employment stability and have also relied heavily on Japanese in-house (often expensive) *keiretsu* suppliers. How can firms operating in this way compete against US counterparts that use layoffs on an ongoing basis to minimize labour costs, and that are taking advantage increasingly of new information technologies and trade liberalization to procure materials globally from the lowest-cost suppliers? With many Japanese firms now struggling rather than growing, and facing intense competitive pressures to reduce costs, it is proving increasingly difficult for Japanese employers to continue to guarantee employment security for a large core of workers, or the traditional tenure-based wage arrangements. In this chapter, we discuss below public policy problems associated with these issues seen from an international perspective. Special attention is devoted to issues connected with female and foreign labor since Canadian, US and European policies toward these groups of workers is helping to counteract the effects of an aging workforce, but this has not been the case in Japan.

Japanese industrial relations and employment practices

Japan was not always blessed with cooperative labor-management relations. In the pre-Second World War period, even though the rights of organized labor were not fully guaranteed, there were many large-scale labour disputes.² The military government responded in the 1930s by trying to suppress labor demands and unrest. During the war the unions were reorganized into the Sangyo Hokoku Kai (The Wartime Association of Industry). In the years immediately following the war, there were many labour disputes, including strike action against Toyota, Nissan and other major corporations. The primary reason for these disputes was the poverty of the vast numbers of Japanese workers, especially in the postwar reconstruction period. Radical union leadership gained support in these conditions.

However, by the early 1960s the Japanese economy had recovered fully, and workers began to reap the benefits of, and take pride in, the competitiveness of Japanese firms in world markets. During this period, workers were willing to cooperate with their employers to improve productivity. The labour unions in Japanese steel, shipbuilding, automobile and certain other major industries shifted their focus from militant confrontation to more business-orientated and pragmatic approaches.

Employers reciprocated by becoming more generous in raising worker wages. There is scholarly disagreement regarding precisely when the shift to more harmonious labour relations took place in Japan. Nevertheless, we can safely say that harmonious relations were firmly established, in the private sector at least, sometime during the high growth era of the 1960s. Japan's achievement of a relatively stable and harmonious industrial and labour relations system during this period was unusual by international standards. This Japanese system involved some unusual features too, including complex coordination of the incentives of various participants in labour markets and innovative risk-sharing arrangements.

Japanese industrial relations

Three key features characterize modern-day Japanese industrial relations: lifetime (or long-term) employment, the *nenko* (seniority-based) wage system, and enterprise-based unionism. It should be noted that these three features are far more typical of the sorts of jobs that have traditionally been filled by younger men. Many older workers and most female and foreign workers are in jobs that lack one or more of these features. It has been found too that the degree to which these practices have been followed is related inversely to firm size.³ Certain benefits are commonly associated with each of the three distinguishing features of Japanese industrial relations practices. These are summarized below.

Lifetime employment

- (i) Because firms and employees can count on long-term employment relationships, both sides are willing to invest in employees' human capital. More is spent in Japan on on-the-job training and on formal job-related education programs than in North America.
- (ii) Long-term employment allows firms to use job rotation to develop workers' multi-task skills and to expose workers to different aspects of business and production operations. There are few job classifications. Firms can deploy personnel flexibly and effectively in times when technologies and market conditions are in flux.
- (iii) New productivity enhancing technologies can be introduced with minimal worker concern about job losses.

Nenko (seniority-based) reward wage system

- (i) Workers are assessed on their achievements over substantial periods of time. Hence workers are more motivated to keep the long-run consequences in mind when carrying out their jobs.

- (ii) Workers are assessed by many supervisors. This, combined with the lengthy time-frames for career assessments, leaves less room for erroneous judgments in employer personnel policies, including the allocation of employer-sponsored training opportunities and promotion decisions.

Enterprise-based unionism

- (i) Because of the long-term commitments employees have to the firms they work for, their unions are in a better position to demand a fair share of firm profits. This may also be part of the explanation why enterprise unions have become so important in Japan.
- (ii) Firms are able to share information on firm performance, problems and opportunities with enterprise unions. Indeed, full-time positions in enterprise unions are sometimes part of the career track for potential future managers of firms in Japan.
- (iii) Because of the trust and sharing of information, and the common objectives fostered by enterprise unions, workers and managers alike accept rollbacks of bonus payments in difficult times without making threats to leave or suffering a deterioration in morale of the sort that endangers production efficiency and product quality in many Canadian and US firms.

Mechanisms for adjusting the wages bill

Of course, Japanese firms, like the firms of other nations, must deal with business cycle fluctuations. In downturns, Japanese firms have needed to find ways of adjusting the total wage bill, but the lifetime employment practices in Japan have meant that this total wage bill flexibility had to be accomplished without layoffs. The methods adopted included wage adjustments, flexible deployment of the core workforce, adjustments of hours through changes in overtime work, and adjustments in the hours and employment of workers not treated as part of the core workforce.

Wage adjustments

Japanese workers are paid regular monthly (fixed contract) earnings as well as bonus payments. Thus workers have an assured level of monthly earnings, plus a bonus that fluctuates with the business fortunes of their employer. The amounts of the bonuses are not specified in advance, and fluctuate with economic conditions, but in normal economic times they generally range between four to six months' worth of regular contract earnings. The amounts of both the regular wages and the bonus

payments are decided in negotiations between firms and labor unions. The Japanese labor code prohibits labor contracts from extending beyond one year, and the annual wage adjustments in Japan reflect this labor law. (In contrast, union wage contracts in Canada and the USA are often for considerably longer than one year.) Regular wages are settled in the spring labour negotiations. Bonus payments are negotiated somewhat later, but before the summer. At the firm level, both regular wages and bonus pay settlements reflect general economic conditions as well as the firm's performance over the previous twelve months. Because of this, a firm's total wage bill adjusts in a timely manner to changing economic fortunes.

In North America, bonuses are mostly paid to managers and executives. In contrast, in Japan, bonuses are part of the compensation package for most workers, regardless of their rank. However, the proportion of total annual pay a worker receives in the form of bonus payments tends to rise as qualifications rise. This pattern is consistent with the hypothesis that the bonus fractions reflect the amounts of managerial and other hard-to-observe tasks involved in workers' jobs (Nakamura and Hübler, 1998). Year-to-year changes are much greater for bonuses than for regular wages. This provides a mechanism other than employment layoffs to share between firms and workers risk caused by business fluctuations. (Nakamura and Nakamura (1991) discuss the risk sharing aspects of bonus payments.) Firms also use bonuses as short-run incentive schemes for individuals and groups of workers. Other incentive mechanisms in common use in Japan include regular salary raises, promotion, and better job assignments. Japanese employers typically have much more latitude than their North American counterparts when it comes to job assignments.

Adjustments of overtime hours and non-regular worker employment

More so than in North American firms, overtime hours for regular workers are used as a means of meeting changes in demand conditions. This may be partly because the legal overtime wage premiums in Japan are about 25 per cent: half of the North American rate. Though regular workers' employment is protected to a large extent, in difficult times it has been considered acceptable for firms to reduce their wage bills through layoffs of non-regular workers, including part-timers. Moreover, when demand conditions improve, firms in Japan have first tended to use more overtime and part-time worker hours to meet the increased demand. Usually, new regular workers have only been hired when additional increases in overtime and part-time hours were not feasible or were not deemed to be in accordance with longer-run strategic plans.

Flexible deployment of the workforce

When facing business downturns, Japanese firms deploy workers in the areas where they are needed most, sometimes involving geographical relocation and changes in work tasks. The deployment of a firm's workers across production and sales jobs, and even in other related (or sometimes unrelated) firms, is not unusual during serious business downturns.

One enabling factor for the flexible deployment of the Japanese workforce is that wages are usually assigned to individual workers rather than being job-specific. This explains why wage differentials by job task at the time of initial appointment are small in Japan compared to the USA (Shimada, 1981). However, wages rise steeply in Japan with increasing tenure.

Assessing Japan's post-Second World War industrial relations practices

Good things

There is considerable evidence⁴ that post-Second World War Japanese industrial relations practices served Japanese manufacturers well until the 1980s. These practices, together with the production *keiretsu* groups, are often credited with allowing Japanese manufacturers in areas such as electronics, auto, precision and general machinery industries to achieve their global competitiveness goals with high standards of quality control and efficient just-in-time operations.⁵ These characteristics of the Japanese industrial relations practices continue to enable high quality standards and operational efficiency.⁶

Problems

The main problems associated with these practices include: (i) the high cost of maintaining them, especially when the returns are measured by short-term financial criteria; and (ii) the growing disparities between these practices and the economic competitiveness practices and individualism of liberal democracy, which has been gaining a hold as the global ideal.⁷

Indeed, the short-run expense of Japanese business practices, and ongoing global cost-cutting pressures, have forced many Japanese firms to reconsider their systems. For example, many firms have been forced to reduce the amount of internal training they provide for their workers, and many also have scaled down their once-generous seniority-based salary increases. Now, the globally popular notion that a competitive market mechanism and individual rights are the appropriate basis for

a national economic system, as in the USA, has come to permeate the thinking of Japanese firm managers, politicians and bureaucrats alike. Some of the changes that have taken place, or are being contemplated, in Japanese business and education practices reflect these influences. This includes reforms of Japan's corporate governance system, the introduction of US-style law schools, and the significant increases that have taken place in the number of practicing lawyers in Japan.

Japanese private and public policy-makers, however, have been slow to set up US-style market mechanisms and protection for individual rights. One area where this is evident is in the employers' treatment of female and foreign workers, the topic of the next section.

Globalization, the bubble and the Japanese labor market: policy issues

Since the late 1980s, and especially since the bursting of the bubble in 1990, Japanese post-Second World War industrial relations and employment practices have been under pressure to change.

Globalization

Rapid liberalization of foreign trade and deregulation took place in the late 1980s in the economies of North America and Europe. There seems to be no doubt that the Canada-US Free Trade Agreement, the North American Free Trade Agreement and the massive deregulation of the US economy prompted economic growth in North America in the 1990s. Similar economic integration and deregulation also took place in Europe.

These changes to the business environment allowed corporations in both North America and Europe to cut the costs of both production and other business activities significantly. Businesses gained the ability to procure from the globally lowest-cost suppliers, and this enabled large cost reductions. This global procurement has been facilitated by the growth of low-cost electronic communications. Many Japanese companies lagged behind their global competitors in their competitiveness during the bubble era of the late 1980s and the deep recession of the 1990s, and the continuing high value of Japanese yen did not help the global competitiveness of Japanese corporations. Facing these realities, Japanese firms have been forced to look at their postwar industrial relations practices and explore ways to respond to the new realities by revising these practices. One possible way for Japanese firms to gain competitiveness is to shift more of their production overseas, to countries where wages are lower than in Japan. This exporting of employment is already well

under way. What remains to be discovered is how serious its long-run impact will be on the Japanese economy.

Hollowing out

The postwar Japanese industrial relations and employment practices described above evolved over a long period of time, and served Japan well in its high growth period up to the 1980s. However, rapid globalization since then has been accompanied by large shifts in the geographical distribution of manufacturing capacity. Japanese manufacturing technologies such as the just-in-time production system and its underlying quality management methods were transferred out successfully, albeit in modified forms, to foreign competitors, so the Japanese comparative advantage in manufacturing, which relied heavily on special industrial relations, employment and *keiretsu* practices, was eroded.

The continuing high value of the Japanese yen further damaged the Japanese competitive position. Many Japanese firms had to invest heavily in overseas facilities. This foreign direct investment (FDI) helped to reduce the Japanese firms' production costs, but led to the export of large numbers of production jobs. There has been a hollowing out of employment in Japan, with losses of well-paid manufacturing jobs but increases in demand for administrative functions including management and R&D,⁸ while other societal changes have also created an increasing demand for some sorts of low-wage service sector jobs. The long-run net effects of this hollowing out of Japanese employment are not yet known, but it is already clear that this has led to increased unemployment and to significant losses of corporate and household income tax revenues. Also, the hollowing out has triggered other major changes in the industrial structure of the Japanese economy,⁹ including changes in how the rights of individuals as workers, and as consumers and customers of social services, are dealt with in Japan. It is from this perspective that we now turn our attention to the situation and potential of female workers.

Female workers

Japan's postwar industrial relations practices emphasize the hiring of new graduates and life-long in-house training and career development. Table 6.1 shows that many Japanese firms do not even consider hiring mid-career workers who seek employment in secondary labour markets.

The absence of active secondary labor markets is a particularly serious problem for Japanese women who leave regular career positions to have children (see Table 6.2). When they feel ready to reenter the work force, these women have great difficulty in finding new jobs with pay

Table 6.1 Reasons for mid-career hiring: Japanese firms, 1998 (percentages)

Type of position	Firms hiring mid-career workers	Replacement for vacancies	Not enough new graduates	Securing experts	Revitalizing firm by diversified hiring	Expanding business	Other	No reply
Managerial	12.7	26.3	0.4	47.0	26.7	20.6	5.5	3.7
Clerical	31.8	71.3	3.8	13.5	9.1	13.3	3.8	3.5
Technical, R&D	18.2	41.8	8.0	54.0	14.3	23.9	3.6	2.3
Production (blue collar)	58.9	73.5	7.7	10.4	10.0	23.3	4.5	1.6

Source: Personnel Management Survey, Ministry of Labor, 1998.

Table 6.2 Obstacles to resuming work after having children, 1995 (percentages)

Low opinions of women's ability/work	Work positions scarce	Work environment difficult for combining home and work	Information on employment scarce	Little employment help	Few facilities for day care and nurseries	Little desire for work for pay on women's part	Other
26.5	50.2	77.3	28.2	28.4	62.3	19.7	1.9

Source: Survey of Help for Resuming Employment by Career-oriented Women, Nissei Research Institute, 1995.

and responsibilities commensurate with their qualifications. Moreover, even female graduates seeking their first jobs are believed to face serious discrimination. That is, these women do not have such job opportunities as otherwise similar male graduates, and this is believed to be partly because the life-cycle labour supply patterns that employers in Japan view as typical for women lead many employers to decide against investing in training and other career opportunities for their female workers even though some will turn out to be very committed to their jobs (see, for example, Nakamura and Nakamura, 1985; Jacobsen, 1998).

Compared with North America, in Japan there has been little improvement over time in the workplace situation of women. In response to the Japanese Equal Employment Opportunity Law enacted in 1986, some large Japanese firms did open their general managerial career paths to female university graduates. The workers on these career paths are typically required to organize their lives to suit their employers' business demands, including relocation and liberal overtime work. Prior to 1986, with rare exceptions, these career paths were open only to men. At the time of writing, however, few women have chosen to follow up the new opportunities for embarking on managerial career paths. They continue to choose career paths that do not require geographic relocation and that lead to positions as lower-ranking managers or specialists.¹⁰ Table 6.3 shows Japanese women's choices among a number of alternatives.¹¹ Japanese firms' general managerial career paths are compatible with plan (A) and, to a lesser degree, with plan (B). However, most women do not choose either (A) or (B).

If this status quo is perpetuated, most of the upper level managerial positions in Japanese firms will continue to be filled by men, and the gap between male and female wages will not shrink, contrary to the stated objectives of supporters who helped to push through the Equal Employment Opportunity Law. Table 6.4 shows that the wage differential between men and women for Japan is quite large by international standards.¹² The Japanese Equal Employment Law has no enforcement provisions. The absence of equal employment enforcement provisions may explain why, in implementing major hiring cutbacks during the economic slowdown in 1992 and 1993, firms were very open about their decisions to offer reduced proportions of the available positions to women, in comparison with previous years. The cutbacks in the positions open to women were particularly severe for general managerial career paths. Many view this as evidence of the continuing marginal position of women in the Japanese workforce. Table 6.5 further demonstrates that few women occupy managerial and other administrative positions in Japan.

Table 6.3 Life-cycle plans: Japanese Single Women, 1987, 1992, 1997 (%)

	Ideal life-cycle plans			Planned life-cycle arrangements			Reality for married women
	1987	1992	1997	1987	1992	1997	
(A) No marriage, lifetime work	3.7	3.3	4.4	7.1	9.5	9.3	-
(B) Marriage, no children, lifetime work	2.5	4.1	4.4	1.4	2.6	3.0	2.3
(C) Marriage, children, lifetime work	18.5	19.3	27.2	15.3	14.7	15.5	21.9
(D) Marriage, work, children, give up work, resume work after rearing	31.3	29.7	34.3	42.2	45.8	42.9	38.8
(E) Marriage, work, children, give up work, housewife afterwards	33.6	32.5	20.6	23.9	19.2	17.7	27.7
(F) Other	10.7	11.1	9.2	10.1	8.2	11.6	9.2
Sample	2605 (100%)	3647 (100)	3612 (100)	2605 (100)	3647 (100)	3612 (100)	7354 (100)

Source: National Survey of Marriages and Births (Survey of Singles), National Institute of Social Security and Population, 1998a; 11th Survey of Births (Couples Married for 15-19 years), National Institute of Social Security and Population, 1998b.

Table 6.4 Male-female wage differential (female wages as a fraction of male wages; percentages)

<i>Japan, 1998</i>	<i>USA, 1995</i>	<i>France, 1993</i>	<i>Germany, 1995</i>	<i>The Netherlands 1995</i>	<i>UK, 1996</i>	<i>Australia, 1995</i>
63.1	74.0	80.8	74.2	79.3	79.4	90.0

Notes: Japanese wages used include regular contracted pay and do not include overtime or bonus pay. US wages are those for year-round, full-time workers.

Source: *Wage Structure Basic Survey*, 1998a, Ministry of Labor (Japan); *Year Book of Labor Statistics*, 1996, International Labor Organization (other countries).

The Japanese Equal Employment Laws are only applicable to men and women in the same job categories. Taking advantage of the lack of enforcement provisions in these laws, many employers proceeded to hire women as part-time workers, though their work requirements were often the same as regular full-time workers (Table 6.6). As Table 6.7 shows, part-time workers are paid significantly less per hour than full-time workers; therefore keeping women in the part-time categories allows employers to pay them less and give them fewer rights while remaining within the letter, if not the intent, of the equal employment laws. What has happened is that the proportion of women in part-time categories has increased, and the proportion of women in the full-time category has declined, in Japan since the enactment of the Japanese Equal Employment Laws in 1986.¹³ One reality at the root of the disadvantages faced by working women in Japan is that the existing industrial relations system makes it costly for employers to accommodate periods of absence or reduced work effort for child-bearing and rearing, and many Japanese couples would like to have children. This is despite the fact that Japanese laws on maternity leave were enacted in both 1992 and 1995: laws that allowed both women and men to take maternity leave, and prohibiting the dismissal of employees who take such leave. In general, however, Japanese workers rarely make full use of even the paid vacations to which they are entitled (Table 6.8).¹⁴ For many Western firms that have had more experience in dealing with women's issues and are set up to accommodate the needs of female workers, this problem area for Japanese firms and society is a potential window of opportunity.¹⁵

In Japan, little serious attention has been paid to the efficient use of female labor. Unlike the situation in North American, the Japanese Equal Employment Law, in both its original and revised forms, has

Table 6.5 Workers by type of occupation (percentages)

	Japan, 1998		Canada, 1996		USA, 1996		Germany, 1996		Sweden, 1995	
	Women	Men	Women	Men	Women	Men	Women	Men	Women	Men
Technical	15.3	12.1	37.2	29.1	20.6	15.6	36.5	27.9	47.3	24.7
Administrative	1.0	6.1	—	—	13.3	14.6	3.6	7.2	—	—
Clerical	34.1	15.0	25.0	5.3	24.8	5.6	20.5	7.0	20.8	12.7
Sales	12.1	14.9	10.2	9.9	13.0	11.4	19.5	5.1	9.3	9.6
Service	12.6	7.0	17.5	10.9	17.5	10.2	—	—	11.8	7.1
Farming, forestry, fishing, hunting	0.6	0.8	2.1	6.5	1.2	4.2	1.7	2.5	1.6	4.7
Production, transportation, laborer	24.1	37.3	7.9	38.3	9.7	38.3	7.3	41.1	9.2	41.1
Military, other	—	—	—	—	—	—	11.6	9.3	0.1	0.0
Total workers (10,000)	2127	3264	620	748	5850	6821	1528	2071	193	206

Notes: Workers 15 years of age or older for Canada and Germany; workers 16 years of age or older for the USA; workers in the age bracket 16–64 for Sweden.

Source: Labor Force Survey, 2000, Cabinet Statistical Agency; Year Book of Labor Statistics, 1996, International Labor Organization.

Table 6.6 Japanese workers by type of employment (as at February 2002)
(Sample 10,000 workers)

	<i>Total</i>	<i>Women</i>	<i>Men</i>
Employed (excl. company directors)	4999 (100%)	2076 (100%)	2923 (100%)
regular employees	3640 (72.8%)	1083 (52.2%)	2557 (87.5%)
part-time workers	1152 (23.0%)	891 (42.9%)	261 (8.9%)
Workers on temp. contracts	208 (4.2%)	103 (5.0%)	105 (3.6%)

Source: *Special Labor Force Survey*, Ministry of Health, Labor and Welfare, February 2002.

Table 6.7 Wages per hour: full-time and part-time workers (¥)

	<i>Female workers</i>		<i>Male workers</i>	
	<i>Full-time</i>	<i>Part-time</i>	<i>Full-time</i>	<i>Part-time</i>
1990	989	712	1632	944
1992	1127	809	1812	1053
1994	1201	848	1915	1037
1996	1255	870	1976	1071
1998	1295	886	2002	1040
2000	1329	889	2005	1026

Source: *Wage Structure Basic Survey*, Ministry of Health, Labor and Welfare, 2001.

Table 6.8 Annual paid vacations (in days per year)

	<i>Days of annual paid vacation per worker^a</i>	<i>Days of annual paid vacation taken (%)</i>
1996	17.4	9.4 (54.1)
1997	17.4	9.4 (53.8)
1998	17.5	9.1 (51.8)
1999	17.8	9.0 (50.5)
2000	18.0	8.9 (49.5)

Note: (a) Vacation days carried over from previous years not included.

Source: *Unified Survey of Working Conditions*, Ministry of Health, Labor and Welfare, 2001.

delivered relatively little to female workers in terms of helping them to secure real employment and promotion opportunities. This is seen, for example, in the difference between Japan versus Canada and the USA in female workers' probabilities of achieving successful private-sector professional careers. At the time of writing, it is inconceivable that a woman would be appointed as the CEO of a Japanese publicly held company as large as, say, Hewlett-Packard. In contrast, in the USA, prospects for female executives continue to improve.

Globalization has forced Japanese firms operating overseas to face the social reality of the host countries. These host country realities include equal opportunities for employment, and the protection of pay equity for females and disabled workers, plus the protection of a variety of other individual rights. Unlike the rapid and massive transfer to the West of Japanese production technologies that took place in the 1980s and 1990s, there is little evidence of rapid or massive transfer from the West to Japanese corporations of managerial practices to enable them to conform with the emerging global standards on aspects such as the safeguarding of basic individual rights for women and other groups of workers, as well as for consumers. This gap in the level of understanding between Japanese firms and other societies has caused serious management problems and subsequent financial losses for the foreign direct investment (FDI) operations of many Japanese firms.

For example, the US Equal Employment Opportunity Commission (EEOC) filed a lawsuit on 9 April 1996, on behalf of a group of current and former employees of Mitsubishi Motor Manufacturing of America (MMMA), who claimed to have been subjected to systematic sexual harassment since 1990 in MMMA's manufacturing plant at Normal, Illinois. MMMA subsequently had to settle the case with the EEOC by agreeing to pay a sum of \$34 million. Lawsuits such as this are unlikely to be initiated or supported by Japanese government agencies even in the face of clear evidence of discrimination in private-sector firms in Japan, and there is little in the way of any other sort of enforcement mechanisms.

In contrast to the situation in Canada and the USA, where discrimination against female and minority workers (including those who are disabled or older) became a social issue challenging the cohesion of society,¹⁶ there is little evidence of this sort of social concern in Japan, at least up to the time of writing. Viewed from the perspective of economic efficiency, however, more forceful laws to help realize a fuller utilization of Japan's female labor force seems justified.

Foreign labor

Although Japanese labor markets have been slow to develop for mid-career job seekers and female workers, and unemployment rates have been rising, nevertheless many jobs remain vacant. The vacant positions range from menial jobs that few Japanese want, to highly-paid scientific, technical, managerial and professional positions. Especially at the lowly-paid end of the spectrum, openings are often filled by foreign workers, including some who are working legally, and others illegally. Many agree that this need for foreign labour will increase as Japan's population begins to both shrink and age. We consider policy issues related to foreign workers and immigration below, and aging will be discussed after that.

Foreign workers in Japan

Official Japanese government policy towards foreign workers is that Japan has no compelling reasons to have them. The Japanese Cabinet endorsed this policy for the first time in March 1967, again in January 1973 and then again in June 1976. Post-Second World War immigration laws reflected official policy statements on foreign workers; foreigners have been prohibited from working in Japan since the war, with the exception of small numbers who are needed to perform special tasks, such as teaching English. This policy was adopted when Japan was able to recruit the required number of new workers for modernizing and expanding its manufacturing industries from its own growing population, and from relocations of workers from agricultural to the growing industrial areas. However, the era of abundant labor has now come to an end. At the same time, globalization of the Japanese economy has forced many Japanese firms to search outside the country for skills in short supply among Japanese workers. The Japanese public began to recognize the changing nature of the demand for labour. In 1981, the Seibu Group of companies asked for (and were granted) government permits to hire foreign workers on a long-term basis to fill certain positions for which insufficient numbers of Japanese workers had the necessary skills. Seibu Group of companies were the first in the Japanese corporate sector to seek this sort of permission (from the Minister of Justice) to hire foreign workers. The number of foreigners working for various Japanese firms increased to 3,004 by 1984 and increased further to 6,242 by 1986.

It was also in the early 1980s that the number of illegal aliens in Japan began to increase massively. These foreigners typically entered on tourist visas and then remained after their visas expired and took paid work. Though the figures are very uncertain, the Japanese government

estimates the number of illegal foreign workers in the 1980s was approximately 50,000 as of December 1987, and 70,000 by July 1988, while private-sector estimates are higher, ranging from 100,000 to 200,000. A variety of factors contributed to the rapid increase of illegal foreign workers during the 1980s. These are believed to include Japan's continuing strong economy and currency; the demand for workers willing to undertake tasks many Japanese workers were unwilling to accept for the going wages; the deteriorating economic situations in some of the Middle Eastern oil-producing countries which used to employ many workers from Asia; and the deteriorating economic conditions in some of the Asian countries.¹⁷ Certainly, it has been reported widely that the demand for illegal foreign workers who are willing to do 'dirty, dangerous and demanding' tasks for low wages has been increasing among Japanese medium-sized and small firms. It is believed that the wages of illegal workers are generally in the range of 50–80 per cent of the those of Japanese workers performing similar tasks, and illegal aliens in Japan are not eligible for Japan's national health insurance. Hypothetically, through their employers these workers could be eligible for company medical insurance, and the workers' compensation public disability insurance. Nevertheless, it is viewed as unlikely that employers would be extending these benefits to their illegal alien workers because of the fear on the part of the employers that they would be prosecuted if the Japanese government discovered their employment of illegal aliens. Thus the disparity between what the Japanese and the foreign workers receive is believed to be greater than just the wage disparity in the case of the illegal workers.

At the time of writing, foreign workers, including those employed illegally, are believed to comprise about 1 per cent of the Japanese workforce, and this percentage is expected to increase as the size of the Japanese workforce begins to decline as a result of a combination of low birth rates and aging (Table 6.9).

Foreign workers: the Canadian experience

Unfortunately, Japan lacks reliable data on the behavior of immigrants, since there are very few legal immigrants in Japan. This shortcoming severely limits the scope of economic analysis regarding the economic contributions of immigrants. Below we show briefly how the legal immigrants in Canada fare in an economic sense versus their indigenous Canada-born counterparts. We explain briefly the current status of immigration in Canada, and then discuss how immigrants perform in the Canadian economy.¹⁸

Table 6.9 Foreign workers in Japan, 1990–8 (Sample 10,000 workers)

	1990	1992	1993	1994	1995	1996	1997	1998
(1) Foreign workers (all included)	26	58	61	62	61	63	66	67
(1x) Illegal workers (estimated lower bound)	10.6	29.2	29.7	28.8	28.5	28.3	27.7	27.1
(2) All workers	6384	6578	6615	6645	6666	6711	6787	6793
(2x) Employed workers	4835	5119	5202	5236	5263	5322	5391	5368
(3) Foreign workers ratio: (1)/(2)	0.4%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%

Notes: Figures for illegal workers (1x) are figures estimated by the Japanese government. It is generally agreed that the actual numbers are much higher than those given here.

Source: Cabinet Statistical Agency (2000).

Immigration has been an important source of population and labour force growth for Canada. Beaujot (2000) finds that, over the period 1901–96,¹⁹ the total immigration of some 12 million persons and the estimated emigration of some 6 million produced a net population gain of 6 million. This represents a fifth of Canada's population growth over that period. By historical standards, immigration levels have been especially high in more recent years. For the 1951–91 period, net migration accounted for about a quarter of population growth, and this proportion rose to 51 per cent for the years 1991–6.

In many respects, Canadians seem to prefer immigrants who mirror their own behavior patterns. Certainly, some past immigration policies reflected this preference.²⁰ Table 6.10 shows that immigrants from the UK and other European countries, the traditional source countries for most of the incumbent Canadian population, made up the overwhelming majority of immigrants to Canada before 1971. As Canadian policies on immigration relaxed during the 1970s, the rules and policies that had constrained immigration from other parts of the world were revised and the primary source countries for immigration to Canada shifted dramatically: from that time, the majority of immigrants came from Asia and Africa. By the 1990s, the UK and other European countries provided only a quarter of immigrants to Canada. One policy concern resulting from the drastic change in the composition of immigrants to Canada was how these new types of immigrants, mainly from developing and often extremely poor countries, might contribute to economic activities in Canada.

Table 6.10 Percentage distribution of foreign-born individuals by country of birth for three periods of immigration

Country of birth	Period of immigration		
	Before 1971	1971–80	1981–91
United States (USA)	5.4	6.7	4.3
Europe			
United Kingdom (UK)	24.2	13.3	5.5
Federal Republic of Germany	7.2	1.6	1.3
Italy	15.3	2.8	0.7
Portugal	3.0	6.2	2.7
Poland	4.6	1.1	6.3
USSR	3.9	0.8	0.9
Other Europe	23.8	9.9	7.1
Asia			
Middle East and Western Asia	0.9	3.0	8.1
Southern Asia	1.6	8.4	9.1
Hong Kong	0.6	4.0	7.8
Peoples' Republic of China	1.9	4.0	5.8
Philippines	0.5	4.6	5.4
Vietnam	0.0	4.5	5.5
Other East/South East Asia	0.8	4.9	6.3
Africa	1.6	5.9	6.1
Central and South America, Caribbean and Bermuda	4.0	16.8	16.2
Other	0.6	1.4	1.0
Total	100.0	100.0	100.0

Source: Nakamura *et al.* (2003). Based on the 1991 Census Public Use Sample data for individuals available from Statistics Canada.

Earlier waves of immigrants to Canada achieved higher average earnings than those born in Canada. It is widely believed in Canada that this is because they contributed skills and knowledge in scarce supply at that time, and were unusually hard-working. Many Canadians would like this immigration program to continue to make a similar contribution to Canadian economic development.

Table 6.11 compares the annual earnings and level of education (years of schooling) for male and female individuals in Canada who were working in 1990. We are particularly interested in comparisons among those who were Canadian-born, those who immigrated from the traditional source countries (proxied here by birth in the USA and the UK), and those

Table 6.11 All Industries mean values: men and women, 25–64 who were working in 1990

	USA/UK born			Born elsewhere	
	Native born	Came before 1981	Came in 1981–90	Came before 1981	Came in 1981–90
Annual earnings (1990\$), Men					
1 Non-minority	35 287	47 566	43 624	36 056	28 041
2 Minority	34 266	41 741	30 597	35 752	23 105
Years of schooling, Men					
3 Non-minority	12.7	14.6	15.2	11.0	13.6
4 Minority	14.1	14.7	14.8	13.8	13.6
Sample size, Men					
5 Non-minority	133 321	4 074	595	9 700	1 937
6 Minority	1 543	79	44	6 402	4 802
Annual earnings (1990\$), Women					
7 Non-minority	20 978	23 786	20 100	20 265	16 223
8 Minority	23 566	25 361	20 459	22 696	15 663
Years of schooling, Women					
9 Non-minority	13.0	13.9	14.5	10.7	13.7
10 Minority	13.8	14.7	14.1	13.1	13.2
Sample size, Women					
11 Non-minority	110 351	3 755	698	6 201	1 516
12 Minority	1 413	77	34	5 799	4 156

Source: Nakamura *et al.* (2003). Based on the 1991 Census Public Use Sample data for individuals available from Statistics Canada.

from other countries, including developing countries in Asia and Africa. We see from Table 6.11 that male and female immigrants who came from the USA and the UK prior to 1981 clearly have higher levels of education and earn more than their Canadian-born counterparts. The same patterns are observed for immigrants from countries other than the USA and the UK, except that their levels of earnings are considerably lower than for the corresponding immigrants who came from the USA and the UK prior to 1981. In fact, the immigrants from countries other than the USA and the UK have generally lower levels of education and earn less than their counterparts born in Canada.

We can see that more recent immigrants from the USA and UK have continued to enjoy relatively high earnings compared with the those born in Canada. However, more recent immigrants born outside the

USA and UK seem not to have done as well on average. Moreover, the proportion of immigrants born outside the USA and UK has risen over time, so their experiences have come to dominate the overall immigrant results.²¹ Some Canadians fear that the lower earnings of more recent immigrants mean that they are less welcomed by employers because their skills or work habits are less well suited to Canada.²²

Policy implications for Japan

We have seen above that, as globalization has an impact on Canadian immigration policies, more immigrants are beginning to be accepted from countries other than the traditional source countries such as the USA and Europe. Perhaps because of a less good match of workers to the skill needs of employers, immigrants' economic contributions seem to have declined over time. It is possible that a similar situation will develop in Japan.

The primary source countries for foreign workers in Japan (both legal and illegal) include Asian countries and a few South American countries (for example, Brazil); indeed, the latter countries provide legal foreign workers who are of Japanese origin. How to assess these foreign workers' economic contributions to the Japanese economy relative to indigenous Japanese workers is a difficult problem so long as so many of the foreign workers continue to be illegal. Analysis prospects are also complicated by claims that many foreign workers are performing tasks that Japanese workers are unwilling to perform for the wages offered; that is, it is claimed that many foreign workers are segregated into occupational sub-categories where there are few, if any, Japanese workers, thereby limiting the possibilities of making meaningful wage comparisons.

However, it is becoming increasingly important to know more about the situation of immigrant workers in Japan, particularly regarding illegal aliens. It seems clear that if Japan continues its current immigration policies and illegal foreign workers continue to increase in number as predicted by many as a result of the expected labour shortages in Japan, this could lead to the formation of a permanent low-status group. Developments of this kind could threaten Japan's social stability.

Aging of the Japanese population: related policy issues

Japanese demographic development is characterized by two factors. The first is prolonged longevity and the second a substantially reduced birth rate. Both of these are found, to varying degrees, in most developed countries in the West. Japan is distinguishable from other developed

countries in that the aging of the population is taking place more rapidly and there is little immigration. The issues associated with the rapidly aging Japanese population will be discussed in this section.

The aging population and labor market supply and demand

Aging

In the year 2000, 17.4 per cent of the Japanese population was over 65 years of age. It is estimated that this figure will increase to 25 per cent by 2015, and further to 35.7 per cent by 2050. At the same time, the number of people in their twenties will decline, not only in proportionate terms but also in absolute number, from 19 million in the year 2000 to 12.5 million by 2015.²³

Industrial structure

Japanese firms have been forced to internationalize their operations significantly since the early 1980s, and this has had a serious impact on the types of employment available in Japan. The numbers of workers in primary industries such as agriculture, forestry and fishing have been declining since the late 1970s. Also, the manufacturing sector, which traditionally had provided the largest share of Japanese employment, had begun to shrink by the mid-1990s. At the time of writing, professionals, technical specialists and clerical workers represent the bulk of domestic employment. In fact, the largest increase in employment has been for professional and technical workers, who are generally highly educated and trained.

Unemployment

Inadequate employment has traditionally been thought to cause social problems in Japan, perhaps more so than in the West because of the way the labour market, employment practices and employment insurance (called unemployment insurance in Japan) function. As we have argued above, the labour market associated with the post-Second World War employment practices has focused on new graduates and is not well suited to meet the job-matching needs of mid-career workers who quit work by choice or who try to reenter the workforce after absences caused by child-bearing, illness, disability or job loss. (See Figure 6.1.)

The bursting of the financial bubble in 1990 and the ensuing recession forced many Japanese firms to lay off workers in unprecedented numbers, and seriously challenged and tested the ability of the Japanese labour market to match the unemployed workers with appropriate employers.

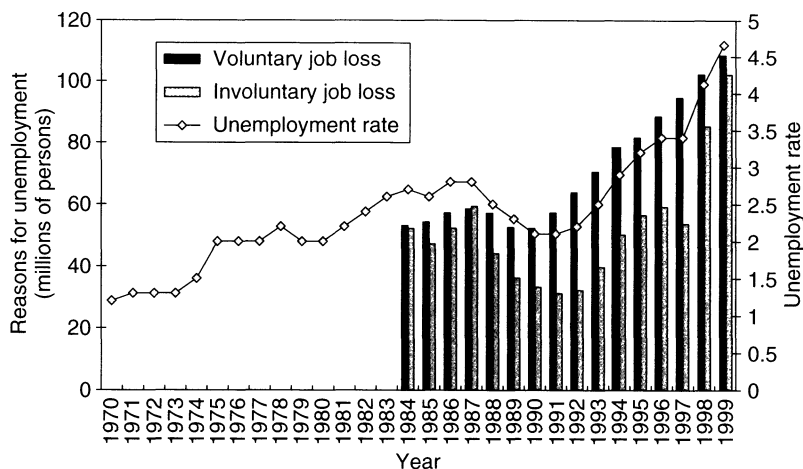


Figure 6.1 Reasons for unemployment

Source: Management and Coordination Agency, *Annual Report on the Labor Force Survey*, Tokyo: 1970-99.

Despite certain government measures aimed at encouraging the reemployment of these workers, Japanese firms so far have not been able to absorb many of them, and this is especially so for those who are older (that is, those above fifty years of age).

Necessary changes in the Japanese labor market for securing employment

Given the aging of the Japanese workforce and anticipated high levels of unemployment, Japan must make changes in its institutions, and public and corporate labour policies, in order to regain its higher employment rates. We discuss these suggested changes in this section.

The current demographic estimates suggest that, by 2013 or so, the Japanese workforce will have significantly more older workers than ever before relative to the size of the younger cohort of workers. The accounting identity for life-cycle calculations of income and expenditure for the population as a whole implies that older workers must work longer and retire later than what is now the standard retirement age. Even now, many older workers opt to work after their first retirement at the age of sixty to sixty-three. Can firms change their current mandatory age of first retirement from sixty-three to, say, sixty-five?

We have already argued above that many Japanese firms face keen global competition. This may mean that these firms will decide they cannot afford to extend their mandatory retirement age, fearing this would make their operations more inflexible and costly. Rather, the trend in contemporary employment practices in Japan is that firms are hiring more workers on employment contracts for limited periods of time. It is likely that the Japanese firms, while maintaining secure employment for a core of regular workers, will employ increasing proportions of workers on short-term appointments; that is, it is likely that they will expand 'non-regular' employment. Short-term appointments may have certain desirable characteristics for professional workers and technical specialists who are in strong demand.

As more firms become reluctant (or unable) to provide life-long (long-term) employment for large numbers of their employees, many workers will be motivated, or indeed forced, to look for new jobs in the labor market in mid-career. Thus it has become essential for Japan to develop effective labour market mechanisms that can help unemployed workers locate new employment commensurate with their qualifications.

In the past, reallocation of labour from declining to new industries in the Japanese economy was typically accomplished through the means of the growing industries absorbing increasing proportions of young graduates as new employees. Given that fewer young workers are expected to enter the labor market in the future, this system of reallocation of workers is not expected to work as well in the years to come. Japan needs labor market mechanisms that can help experienced workers and professionals move from declining to new industries. The current Japanese labor market does not function efficiently in this regard.

Necessary changes in Japanese employment practices

We have described the post-Second World War employment practices that still reign in Japan. In order to accommodate the types of changes required to improve employment prospects for many Japanese, some of these practices must change.

First, seniority-based (*nenko*) wages cannot continue. The rationale underlying the *nenko* wage system is best illustrated in Figure 6.2. For carefully selected regular workers under the traditional Japanese life-time employment system, a simple wage determination system where wage rates increase with the age of a worker (*EFGH* in Figure 6.2) makes economic sense for both the employers and the workers. A newly employed worker with low marginal productivity gets paid more than the productivity warrants (*EF* versus *ABF*), but the situation reverses as

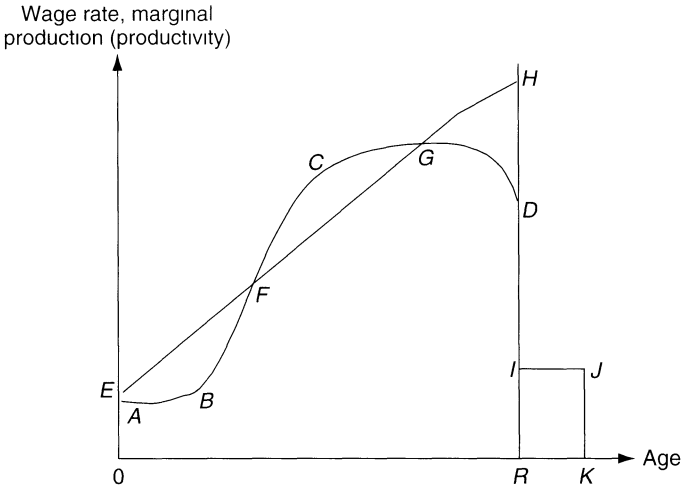


Figure 6.2 Workers' productivity and wage rates

Notes: A, B, F, C, G and D represent workers' productivity levels at different points in time over their life cycles (between age 0 and age R); E, F, G and H represent the wages firms pay to the workers; the workers retire at age R and receive retirement pay *IJ* until age K.

the worker's skill level increases (*FCG* versus *FG*). The situation reverses again as the worker's productivity declines with age (*GD* versus *GH*). Under this kind of wage system, mandatory retirement (at age R) is a necessity. At age R the worker retires and begins receiving his/her company pension (*IJ*) that ends at age K. The parameters of this wage system, including the slope of the wage rate, the mandatory retirement age and the amount and the pay period of the pension, are set for each type of worker to try to ensure that worker contributions to the firm over the worker's total years of services are at least as great as the total wages the worker receives. There are two basic assumptions that underlie this argument. One is that workers' productivity increases with age up to a point, stays at that point for some years, and then begins to decline as retirement age approaches. There is some evidence that seems to backup this assumption. Figure 6.3 shows Japanese firms' views about worker productivity versus wages for workers over the ages of 25–55. These survey results are consistent with Figure 6.2. The second basic assumption is the long-term employment practice itself that was the norm for the large majority of male workers for many years in post-Second World War Japan. However, it now seems almost certain that there will be far fewer workers who have long-term job security in Japan

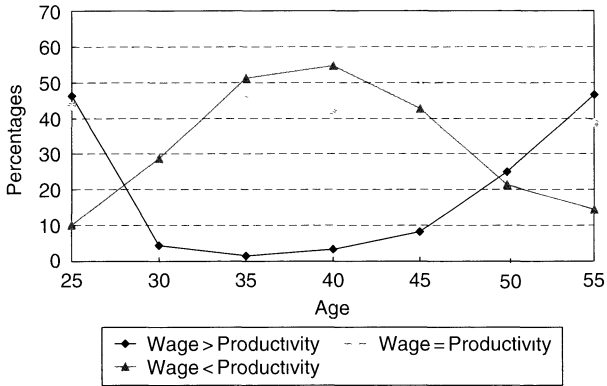


Figure 6.3 Employers' perception of the relationship between workers' wages and productivity as a function of workers' ages

Source: Association of Employment Development for Senior Citizens (1995).

in the years to come. This proportion has already been falling for some time now.

With the new reality of term employment arrangements for large numbers of workers, a more realistic wage system would be the one that attempts to gear current levels of worker pay to workers' current contributions to the employer. This is the type of wage system we commonly observe, for example, in North America. It is our view that a wage system similar to the North American one will become dominant for professionals and specialists, while a relatively small proportion of company personnel, including senior management and a small core of regular workers, will continue to enjoy the benefits of the traditional Japanese postwar long-term employment and pay practices.

A second change required in Japanese employment practices is to abolish the promotion system by which most, if not all, of the regular employees gain promotion to higher managerial positions. This has been an expectation shared by both employers and employees. As Figure 6.4 (a) shows, this promotion practice presumes an ever-growing workforce, which is not a reasonable assumption any more. The reality has been that many firms have had to carry older workers with quasi-management titles and no work responsibilities. Many of these redundant managerial workers are likely now to end up being restructured out. Given that the present low (to no) growth employment situation is likely to persist for some years to come, it is more realistic for firms to eliminate any

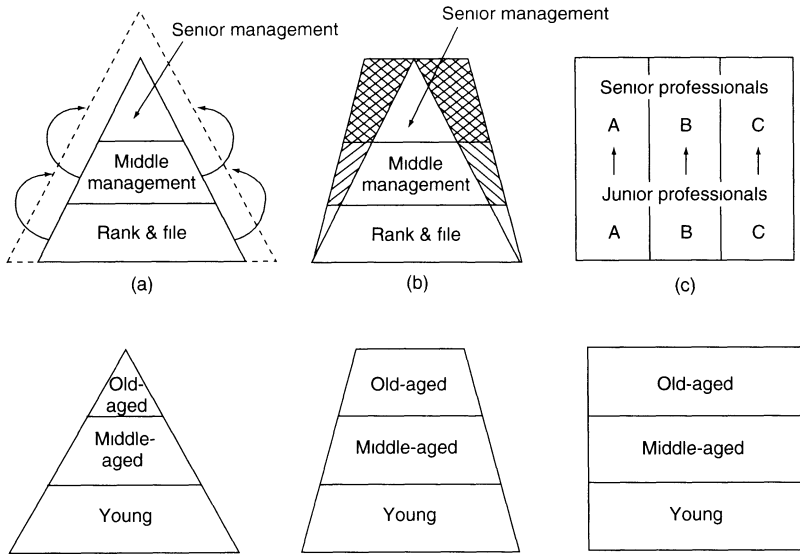


Figure 6.4 Changing forms of the personnel management system
 Source: Seike (1993).

promise of promotion to a managerial position for workers as they get older and accumulate more seniority. In this new system, as workers develop specialized skills over time, they would come to be treated as specialists in their own fields.

The third change required is to abolish mandatory retirement at Japanese firms. We should note that many Japanese workers continue doing paid work following their first mandatory retirements. Nevertheless, mandatory retirements tend to encourage workers to withdraw from the labor market, with this being especially so for those who have been more successful and hence can better afford to retire. Figure 6.5 shows that older workers who have withdrawn from the workforce following mandatory retirements tend to enjoy higher wages (and hence, presumably, were higher productivity workers). This is an adverse selection problem. Retaining older workers like these who might otherwise have stayed on in the labor market seems to be an effective way to deal with the shrinking Japanese workforce. As Table 6.12 shows, some Japanese firms did, in fact, begin to modify their industrial relations practices along these lines in the 1990s.

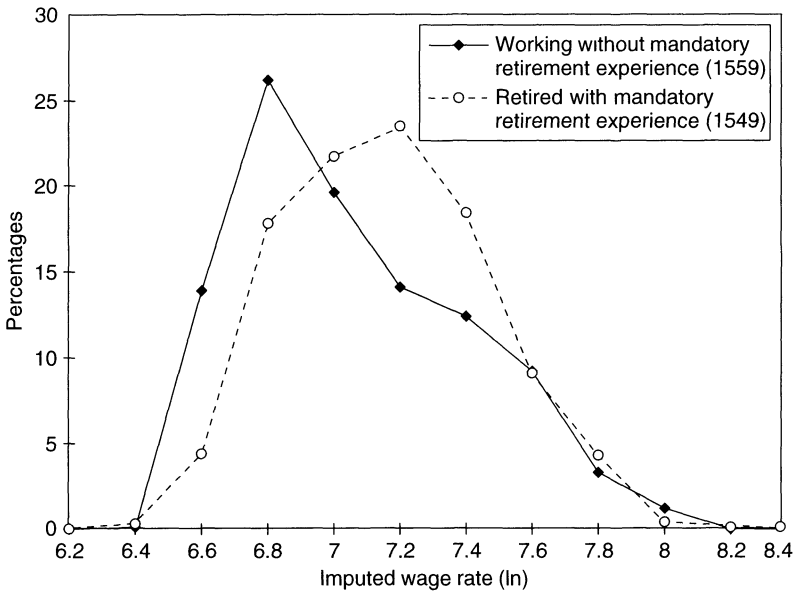


Figure 6.5 The distribution of wages for older workers with and without mandatory retirement experience: men, aged 60–69

Table 6.12 Changing labor management policies: Japanese firms, 1996 and 1993 (percentages)

<i>Permanent employment policy</i>				
Important	Unimportant	Neither	No reply	
18.9 (31.8)	50.5 (41.5)	29.0 (22.1)	1.5 (4.5)	
<i>Promotion policy: which is more important, seniority or merit?</i>				
Seniority	Merit	Both	Neither	No reply
3.6 (11.0)	48.4 (37.8)	41.7 (30.3)	5.5 (18.2)	0.8 (2.7)

Note: Numbers in parentheses are for 1993.

Source: Personnel Management Survey, Ministry of Labor, 1996.

Necessary changes in the relationship between employers and workers

The types of changes required for the development of a more suitable employment system cannot be implemented unless the relationship between the employer and the union (or its proxy) is also changed.

Equating wages with each worker's contribution to the firm at every point in time inevitably encourages worker-specific determination of working conditions. Some Japanese firms have already begun paying wages that reflect individual worker performance more than before. This is happening to some workers who are union members.

Given that employers usually have much more information than the workers about emerging business conditions, and an overwhelming amount of bargaining power over workers in wage negotiations, particularly on a one-to-one basis, it seems quite appropriate for labour unions to continue to play an active role in work negotiations. At least the union should negotiate with the employer for a reasonable framework of rules for merit-based wage determination. This would be beneficial to the employer as well, since the cost to the employer of dealing directly with matters such as wage-related worker grievances would be substantial.

Japanese labor unions in their post-Second World War practices have refused explicitly to accept policies that treat workers differently depending on their ability, and yet have been successful in securing employment for their members. Union efforts to achieve numerical target wage increases for model workers have also been successful. However, this union behavior must now change. It is especially critical for unions to recognize individual differences in ability and capacity to learn on the job. In this context, the most important role labor unions can play in the new system of industrial relations is to ensure that all workers are given the opportunities to undertake training, and opportunities to do tasks that suit their abilities and experience. Japanese labor unions have an important role to play in formulating rules for an individual-specific, merit-based wage determination process, and processes for ensuring equal opportunities for training and productive task assignment for all workers.

Necessary changes in the annual wage round (*shunto*)

The Japanese annual round of wage determination in the postwar era has allowed firms from many industries to adjust their wages regularly, thus providing opportunities for both firms and workers to bring wages into line with the performance of workers in aggregate. As Japanese wages become more individual-specific, and the slow-growing Japanese economy no longer serves to justify significant wage increases, the role of the annual wage round may be called into question. Two of the roles the annual wage round has played in postwar practices will still continue to be important. The first of these is a role of information provision. The information content of the wage-setting processes in large corporations

takes place every spring, and is especially significant for medium-sized and small firms. The information provided by negotiations at major corporations is placed in the public domain and provides a positive framework for negotiations to follow at medium-sized and, especially, smaller firms. This sharing of information seems useful in many ways and is believed to result in faster resolution of the wage-setting processes.

Second, the annual wage round has often played an important role in the determination of surplus-sharing rules (as a result of increased productivity) between the firms and their workers. For example, the primary reason that the Japanese economy was able to recover as fast as it did from the hyper-inflation caused by the oil crises (particularly the second of these) in the 1970s, was that the workers agreed to restrain their demands for wage increases in the annual wage round. There will certainly be situations in the very near future in Japan's aging society where issues of how to allocate surpluses generated by increased productivity are pressing, particularly given the likely problems to be faced in meeting the expected levels of support for older people, and the likelihood of emerging conflict between older and younger people concerning benefits, plus premium levels for public and private pensions. The annual wage round in some revised form may be an appropriate place where policy issues such as these can be debated and dealt with.

Government policy measures that would facilitate the above changes

In order to facilitate the types of changes discussed above in the Japanese labor market, employment practices and industrial relations, many Japanese government policies must also change. The primary policy objective must be to ensure the employment security of workers in the labor market as a whole, including the development of mechanisms to help workers change jobs, and compensation practices that produce a greater alignment between the current wages and workers' contributions to the profits of their employers. Lifetime employment security traditionally provided by a single employer is no longer possible for many workers. We consider two policy initiatives that we feel would contribute to the realization of a different labor market.

First, mechanisms are needed to increase the availability of information about the labour market itself. In particular, workers should be able to access information about available jobs conveniently on an ongoing basis. Even employers would benefit from having access to information about job

openings at other firms. Deregulation of the operations of private-sector employment agencies seems to be essential; these agencies help to match professionals and specialists seeking employment to suitable available jobs.²⁴ Facilitating placements of mid-career professionals and specialists, which usually take a long time to complete, is one of the most urgent challenges facing the Japanese labor market.

Second, a policy is needed to develop a more comprehensive social safety-net for unemployed workers. For example, extending the period of employment insurance for redundant middle-aged workers seems to be appropriate. On the other hand, employment credits (subsidies) which encourage declining industries to continue to operate should be eliminated.

It also seems essential for the government to promote new responsibilities on the part of individuals and households that are more in line with the new realities of the labour market and business conditions. For example, elimination of the seniority-based wage system may imply that workers themselves must save from the higher income they earn in their thirties for their future expenditure in their fifties and later years. Life-cycle savings considerations must also be reflected in policies for company and private pension plans.

Another important policy issue concerns how to encourage workers to develop skills during their life. Traditionally, this task has been one of the main responsibilities of Japanese firms. However, as workers' wages begin to reflect primarily their contemporary contributions to firms' profits, it is likely that employers will be less motivated to train their workers. To the extent that public and private (including household) investment in the human capital of workers is thought to be profitable for society, efforts to increase this kind of investment may also be necessary. For example, long-term government loans for skill development should be encouraged. For practical reasons, these loans would need to have long repayment periods. (Mandatory retirement or age discrimination may be obstacles to the implementation of measures of this kind.)

Government policies toward employer-labor relations must also change. We speculate that there will be many wage dispute cases as more employers start to implement person-specific, merit-based wages. In addition to a substantial revision of the labor offices of the Japanese and prefectural governments, we need to consider expanding the authority of the management-labor committees at the company level so that they can deal more effectively with the resolution of wage disputes in their own companies.

Conclusion

In this chapter we have argued that an aging population combined with the impacts of globalization, the after-effects of the bursting of the financial bubble in 1990 and changing work preferences, are likely to keep unemployment levels high in Japan well into the twenty-first century. To enable the reinstatement of lower unemployment rates, the Japanese labor market must change in fundamental ways. Such changes would require all market participants, including workers, employers and governments, to change their postwar employment practices drastically. New industrial relations practices and government policies must encourage appropriate matching between all types of job applicants (including females and other mid-career job seekers, as well as foreign workers) and available job opportunities. This matching needs to be compatible with the incentives of workers and employers. In so doing, the role of foreign workers in the Japanese labor market, together with possible changes in the immigration laws, must be addressed. Without these fundamental changes in the functioning of Japanese labor markets, employment security for most workers, which has been the cornerstone of the Japanese government's labor policy since the end of the Second World War, may be jeopardized and serious social instability might arise.

Notes

- 1 This is seen by the ratio between the number of people above 65 years of age and the number between 15 and 64 years of age. This ratio for Japan was 0.26 in 2002 (that is, 3.9 workers support one retired person) but is expected to increase to the 0.50 range by 2030 (2 workers to support one retired person) and further to about 0.67 by 2050 (1.5 workers to support one retired person).
- 2 These include the famous Kikkoman dispute that Fruin (1983) has written about.
- 3 See, for example, Nakamura (1993) and Nakamura and Vertinsky (1994).
- 4 See Chapter 11 and the references cited there.
- 5 See, for example, the publications by Krafcik (1988) and the US General Accounting Office (1988). Toyota developed a special production system (often termed the Toyota production system) in the 1960s and shared it with other Japanese firms in the auto as well as other manufacturing industries.
- 6 Japanese cars still enjoy quality advantages compared to cars sold by the firms of other nations in the US market.
- 7 See, for example, Fukuyama (1992).
- 8 See, for example, Head and Ries (2001).
- 9 What has been happening could be consistent with the notion that hollowing out assists a national economy in moving towards higher value-added industries and away from older, lower value-added ones. This process succeeds if the workers and capital that get structured out of the declining industries are smoothly channeled into the higher value-added ones.

- 10 According to a survey conducted in February 2000 by The Japan Institute of Workers' Evolution, only 54 per cent of women who were offered regular career positions as new graduates in 1986 were still working in 2000. The figure was 44 per cent for those who started work in 1991.
- 11 Although divorce does not play any prominent role in these scenarios, the probability of divorce has been increasing for Japanese couples.
- 12 Many factors contribute to observed male–female wage differentials in Japan. One factor is that women in Japan work outside the home much less than women in North America and Europe during their child-bearing and rearing years, and hence accumulate much less human capital than men, which partially explains their lower wages in comparison with men. See, for example, Jacobsen (1998).
- 13 Another likely reason is the scarcity of full-time positions relative to part-time positions for women, which fits in with employer preferences to move female workers to part-time categories.
- 14 Workers are often reluctant to ask for, or take, maternity and holiday leave to which they are contractually entitled because of feared adverse effects on their career advancement, or on the business operations of their employers. Moreover, many employers are, in fact, reluctant to allow their employees to take the full amount of personal leave to which they are contractually entitled.
- 15 For example, IBM Japan often uses the excellent promotion opportunities they provide for their female employees to promote their public image and attract capable workers.
- 16 For example, Nakamura and Nakamura (1989).
- 17 The primary sourcing countries of Japan's legal and illegal foreign workers include China, South Korea, Thailand and the Philippines.
- 18 For further details see Nakamura *et al.* (2003).
- 19 Information on the immigrant population and the Canadian immigration program can be found in Citizenship and Immigration Canada (1994, 2000, 2001) and in Informetrica (2000).
- 20 See Green (1995).
- 21 Other studies include Nakamura and Nakamura (1992), Baker and Benjamin (1994), Beach and Worswick (1994), Grant (1999), Nakamura *et al.* (1999), and Li (2001).
- 22 See Nakamura *et al.* (2003) for the implications of empirical facts and alternative measures of labor input and productivity growth that are relevant to assessing these concerns.
- 23 Japan's birth rate (the expected number of children a woman will have over her lifetime) was relatively constant at around 2.1 until the early 1970s, and then began to decline persistently, falling to about 1.35 in the late 1990s. At the time of writing, Japan's population replacement birth rate is 2.08. The current birth rate is considerably below its replacement level but by no means unique, given the birth rates for the following European countries: Germany (1.36 in 1999), Italy (1.19 in 1999) and Spain (1.16 in 1996). Relatively few developed countries have birth rates above 2.0. Another country that is experiencing rapidly declining birth rates is South Korea, where the birth rate declined from 4.54 in 1970 to 1.17 in 2002. Exceptions are: the USA (2.13 in 2000) and Iceland (2.04 in 1997).

24 Economy-wide electronic job matching information systems such as the Career Owl system (2003) facilitate this matching process.

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