

# Employment Strategies Required in an Aging Society with Fewer Children

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## 1. Changes in the Economic Environment and the Relationship between Firms and Workers

Entering the last decade of the 20th century, the economic environment affecting Japanese firms changed substantially. The long-term growth rate had been on a downward trend before then, but accelerated even further in the 1990s. The annual average growth rate, which stood at 10.5 percent in the 1960s, fell to 5.1 percent in the 1970s, 3.9 percent in the 1980s and eventually to around one percent in the 1990s.

Japanese firms can no longer expect constant economic growth, and have come under pressure to take measures such as downsizing or closing branches or factories. Consequently, they are obliged to avoid fixed labor costs and are beginning to outsource. At the same time, they are cutting back on regular employees and increasing the number of part-time, dispatched and other types of workers with fixed-term labor contracts. In addition, as an increasing number of large firms enter into bankruptcy, the employment security of existing employees has been undermined, irrespective of the wishes of employers.

Intensifying competition among firms, both domestically and on an international scale, together with a declining economic growth rate, is having a considerable impact on company employment practices. Japanese firms have been, and remain, fully aware of global competition and the need to enhance their export strength. As a result, it has been noted that, particularly in industries producing

manufactured goods, wages tend to stay low (Higuchi, 1989). However, until the first half of the 1980s, these firms were not active in direct foreign investment and relied on production in domestic factories, concentrating on joint labor-management efforts to heighten competitiveness.

From the latter half of the 1980s, however, an increasing number of Japanese firms began to directly invest in developed countries in North America and Europe. In the 1990s, a growing number of firms shifted production to developing countries in Asia and other regions. Unlike the era of globalization, with its emphasis on trade, the expansion of borderless capital mobility enables firms to select production sites, and wage levels and productivity have become the main determinants in selecting production bases.

While economic globalization intensified inter-corporate and international competition in the manufacturing sector, the shift of government policies toward deregulation in various fields heightened competition among firms in many industries, such as the retail sector, services, transportation, telecommunications and so on, putting pressure on these sectors to cut labor and other costs.

A direct factor that requires Japanese firms to revise their wage system is the aging demography of their employees. During the period of high economic growth, large companies hired large numbers of new graduates, then subsequently reduced recruitment, which contributed to raising the age level of employees. Under the seniority-based wage system, the aging of a company's employees results in an increase in total labor costs. In addition, an increasing number of firms, seeing that the seniority-based wage system created a harmful "equality" among employees, tried to motivate workers by revising their wage systems to greater reflect an individual's achievements and abilities.

The determination of firms to curb labor expenditures and to prevent them from becoming a fixed cost placed greater emphasis on the individual responsibility of workers, in terms of employment security and wage systems. A similar tendency can also be seen in the development of employee potential. Traditionally, many Japanese firms provided training courses designed for all employees. Nowadays, an

increasing number have started to replace this kind of "bottom-up training" with courses that concentrate on a small number of potential leaders, placing emphasis on the importance of self development.

In Japan there has traditionally been a "security" and "bonding" link between companies and their employees. Firms have provided the security of employment and living expenses for employees, while employees have "bound" themselves to the companies and accepted such obligations as overtime and sudden job transfers. However, now that external circumstances affecting firms have changed, they have begun to ask workers to take more responsibility. Undoubtedly, in the future, workers will be required to respond to changes in the economic environment and attempt to take on more responsibility. However, asking workers suddenly to bear all the responsibility is impossible; there will be many aspects that traditional employment practices and government labor policies will not be able to handle.

Traditional labor policies have been designed to achieve employment stability by granting subsidies to existing firms and protecting the jobs of existing workers. But now, and in the future, labor policies will be required to strengthen the mechanism of the external labor market and to directly assist individual workers. It is incorrect to think that a truly laissez-faire policy, which leaves everything to free interaction between companies and individuals, means that the labor market will evolve naturally and begin to function on its own accord, allocating personnel where necessary and, in so doing, achieve efficient use of labor resources. For the labor market to demonstrate its functions within this new relationship between firms and workers, it is necessary to design a market that is different from the conventional one, and various systems and policies will need to be revised. The following sections will describe concrete reforms of systems and policies.

## 2. Employment Strategies Geared Toward Increasing Employment

Traditional Japanese employment measures have largely taken the form of policy packages to boost the economy, with only the faintest

suggestion of policies aimed at establishing fundamental principles for the labor market. For example, when the economy deteriorates and there is the possibility of mass unemployment, the government will implement emergency measures that designate specific industrial sectors as in recession, will seek to maintain employment levels in individual firms and will grant subsidies to train employed workers. The Subsidy Scheme for Employment Adjustment is a good example of this type of precautionary measure against unemployment. Job creation measures resulting from high fiscal expenditure in public works have been, in a wider sense, considered employment policies. A large number of such measures have been undertaken, but most amounted only to economic stimulus packages, with only a small number aimed at structural reform of the labor market (Higuchi, 2001).

In the mid-1980s, however, various laws were enacted, including the Equal Employment Opportunity Law (1986), the Revised Law concerning Stabilization of Employment of Older Persons (1986), and the Revised Law for Employment Promotion of Disabled Persons (1986). In addition, in the 1990s, the Part-time Workers Law (1992), the Worker Dispatching Law (1991), the Child-care Leave Law (1991), the Family-care Leave Law (1992) and the Shorter Working Hours Law (1992) were enacted. Also, the Employment Security Law obligated firms to try and not set an upper age limit when recruiting new employees. By seeking uniformity in the labor market, these laws related to employment policies worked toward structural reform of the market. Where further training was concerned, the Vocational Training Law enacted in 1978 was revised and renamed the Human Resources Development Law in 1985. Through this, the government embarked on active labor market policies by directly committing itself to developing the abilities of individuals as a means of achieving full employment (Higuchi, 2003).

Most of these measures aimed at structural reforms in the labor market fall within the confines of policies set forth by the former Ministry of Labour. For example, in various related areas — such as the taxation system, the social security system and industrial policies — structural reform of the labor market was not taken into account,

nor posited as a basic government policy set forth by all ministries. In the mid-1980s, in fact, although the Equal Employment Opportunity Law had been enacted to facilitate the participation of women in the labor market, the income tax system was revised so that a special exemption scheme was established to favor housewives, and a new type of pension scheme — the so called Type-3 — was established to allow spouses of employees who were included in the Employees' Pension Funds (a major corporate pension scheme) to be covered without additional pension premiums. In other words, inconsistent measures were taken simultaneously. On the one hand, policies were implemented to encourage and facilitate the employment of women, while other measures held women back from entering the labor market.

If firms want workers to become more independent, it will be necessary to draw up and execute a package of coherent employment strategies, not only in the areas of tax and social security systems, but also in various related fields, including macroeconomic policies and industrial policies affecting trade, construction, transportation, telecommunications, agriculture and pharmaceuticals. The areas of education and child-care should also be tackled. Employment strategies differ from conventional employment policies in the sense that the former have a wider coverage and establish numerical targets, with different measures designed to achieve these targets, regularly monitor progress toward the target, and, if the target is not achieved, investigate and remedy the problem. Such employment strategies are distinct from conventional policy measures, particularly in that the evaluation of policies plays a vital role.

Taking into account the fact that Japan is set to become a society with a declining population due to a sharp increase in the number of elderly and few children, it might be appropriate, as a target for tax policies, to raise the employment rate by establishing a work environment where everyone can acquire skills and demonstrate their commitment regardless of gender or age. It is frequently said that the policy target should be the lowering of the unemployment rate. However, lowering the unemployment rate may, in certain cases, be realized by

the large number of people who give up looking for work due to reduced employment opportunities. If an increasing number of people rely on social security services and live without earning their living, fiscal expenses will expand, which will, in time, undermine social vitality.

On the other hand, the employment rate equals the number of those who work compared to the total population, and the reciprocal rate would indicate the number of non-working dependents per worker within a particular country. Thus, an increase in the employment rate will reduce the number of dependents in society. In an aging society, inevitably the number of dependents is on an upward trend. To keep this trend within certain bounds and avoid a decline in corporate competitiveness and the hollowing out of industries, raising the employment rate will be an urgent task. In line with this, a social security system and labor market must be constructed that emphasize incentives for individuals.

### **3. Specific Employment Policies to Maximize the Market**

#### **3.1 Policies to Create Opportunities for Sustainable Employment**

To place importance on individual incentives and to raise the employment rate, it is necessary to increase employment opportunities by opening up the job market to those who wish to work. But these employment opportunities should not come as a result of fiscal expenditure. Even if job creation requires a temporary fiscal outlay, the level of such opportunities should be sustained even after fiscal expenditure is reduced. Otherwise, without permanent or fairly long-term fiscal spending, there will always be unemployment.

The stable and constant creation of employment opportunities should match market and societal demand. Thus, the government will need to change its current methods whereby it draws up and implements measures on a nationwide scale and grants subsidies to local administrations that agree with its policies, and instead switch to a mechanism that respects and takes advantage of the efforts of public

sectors and local authorities. The government should review unnecessary regulations and seek a new mechanism in which individual local governments draw up and implement their own measures, with the central government assisting them.

Because local governments have no experience in drawing up and putting into effect their own measures, they will naturally make some mistakes at first. But they will be able to learn from this experience and eventually discover the best measures for the future. At the very least, the transfer of authority to firms and local authorities located closer to the needs of consumers and local residents will be appropriate for a future society with a diminishing population.

Since the 1980s, the rate of business start-ups has been declining, eclipsed by the number of business closures, resulting in an overall reduction in the number of firms and business establishments. An increasing number of older firms are reducing their workforce and overwhelm the number of fledgling firms that are, presumably, taking on workers. It is necessary, therefore, for the government to support venture capital businesses, as well as people who are eager to open up new businesses in industries closely related to everyday life. Also, to help such new businesses achieve sustainable growth, the government should provide information on U.S. and European experiences, where education for entrepreneurs on the law, accounting, taxation systems and so on has been effective. It is important to make it easier for new businesses to take on experienced personnel whose input and assistance is invaluable, as well as establishing social fundamentals such as systems that certify occupational ability.

#### **3.2 Tax and Social Security Reform, and Measures to Achieve Equality**

If employment opportunities increase but the general inclination to work does not, the result will simply be additional positions in companies. To raise the employment rate requires reform of the tax and social security systems that are undermining the inclination to work. For example, the income tax special deduction for spouses and the Employees' Pension Plan Type-3 scheme are linked to the salaries of

spouses who work for companies, and have the same effect as subsidies for housewives or those whose income is lower than a certain level. These systems in effect penalize those who earn more than a certain amount. The upper limit of eligible incomes for the pension scheme for the working elderly; payments to older people who continue to work; conditions concerning the income level at which the Employees' Pension Plan can be applied to part-time workers; and the high replacement rate under unemployment insurance all effectively hinder people from working, and need immediate revision.

To build a society where anyone can demonstrate their willingness to work and their abilities regardless of gender or age it is important to ensure equal treatment. Without such security, people will not be encouraged to seek self-improvement. It is vital to strengthen the functions of the Equal Employment Opportunity Law, to do away with indirect discrimination, to balance treatment for those who work shorter hours and for dispatched workers, and to establish a legal basis for dealing with subsidiary contract workers.

In creating a society where anyone can demonstrate their eagerness to work and their abilities, it is important that more people can become "regular employees with shorter working hours," thereby demonstrating their advanced specialities and professional skills even though they work shorter hours. The realization of such a society will make it possible to create job opportunities through work-sharing.

Current legislation requires that firms try not to impose an upper age limit in their recruitment activities. In the future, it will be necessary to strengthen these laws, as well as improve employment management in terms of age, especially in relation to the mandatory retirement system.

### 3.3 Policies that Support Individual Development

If a labor market that can supply the right personnel in the right places is to be formed, many factors in the field of human resource development will need to be reviewed. So far, with firms and workers locked in a "security and binding" relationship, firms have invested a large amount of money on the bottom-up training of all workers. But

as seen in the results of a questionnaire, a majority of firms tend to concentrate their training allocations on specific personnel in order to train leaders for the future, while leaving general and non-regular employees to train themselves.

Governmental support measures for training and education have traditionally been carried out via public organizations that provide various training and educational courses, and have also taken the form of indirect support, such as subsidies to firms that hire the workers in question. In the future, however, if the government requires that workers become more independent, it will have to switch from indirect measures supporting the development of abilities to emphasizing and further strengthening support measures that directly target individual workers.

In an era of substantial changes in technology and social structure, support measures must be adaptable enough to meet such changes. An inflexible system — for example, training and educational courses that cannot easily be altered once they are launched, should be avoided as much as possible. Governments in many countries have predicted the skills and knowledge they will need, and have introduced various measures for education and training — "manpower policies" — most of which, unfortunately, have yet to bear fruit. Taking such experiences into account, it is obviously important for the government to assist individuals in terms of finance and consulting, and then to let these individuals decide, with the advice of experts, what type of training they should take.

In Japan, tax exemptions for further training have not been fully utilized because it is difficult to specify actual expenses. Nor are there many scholarship programs to aid in career formation. In the future, though, such measures of direct support will have to be reinforced and it is worth considering the concept of "career break schemes," where individual workers are allowed to take a leave to improve their skills (Higuchi and Kawade, 2003).

### 3.4 Strengthening the Function of Job Introductions

Many workers are jobless due to the lack of job information or a

mismatch between the conditions requested by job seekers and firms. In order to shorten the length of unemployment and to make it possible to allocate the right worker to the right job, it will be necessary to strengthen employment services and assist in career planning. Currently, fee-charging job introduction agencies are available for most job categories, and in principle there are no restrictions regarding what such job introduction activities entail. In the future, to make it easier for job seekers to have access to good information, it will be necessary to continue to protect workers while relaxing regulations concerning annual salaries and so on in order to create an environment in which job introduction agencies can ask for handling fees, as contingency fees, from successful candidates.

Public job introduction services are necessary to guarantee that people receive information on jobs and ability-development opportunities. These services are best effective when combined with unemployment payments. In line with this, to improve the efficiency of job introduction services, the nature of such services should be adjusted — for example, by locating private consulting services on the premises of public job introduction services in order to reduce the number of visits job seekers must make to such agencies.

To facilitate the re-employment of jobless workers and reduce the number of long-term unemployed, it is necessary to devote more resources to the training of career consultants who give advice on career formation on an individual level, as well as on further training and other issues. Such consultants should be seen as “navigators” for those who are seeking re-employment. The unemployed have also requested advice on the tax and social security systems (sometimes they have to make immediate decisions concerning these systems), together with advice on mortgages, education expenses and so on. To reduce the number of times job seekers visit such service agencies, it may be appropriate to consider an institution that provides comprehensive information, if not directly related to job searching, at least about such job-related issues.

### 3.5 Remodeling Safety Nets to Provide Job Seekers with Additional Opportunities

Unemployment benefits are the last resort for workers in protecting their livelihood, but if their creation or operation is flawed, they may, conversely, work against the interests of job seekers and delay re-employment. Japanese workers, in particular middle-aged and elderly workers, face a substantial reduction in wage levels when they switch jobs. Unemployment benefits under the current system are 50 to 80 percent of the wages a worker received in his/her previous job. In some cases, wages in the new job are less than unemployment payments. In other words, such workers could receive less income after being re-employed than when they were jobless and received benefits.

The Employment Insurance Law was revised last year to take into account such problems, lowering benefits from 60 percent to 50 percent of the previous income for those with a high income before becoming unemployed. However, I believe that in order to protect the livelihood of individuals immediately after losing their jobs and to facilitate re-employment, a somewhat different unemployment benefit system might be effective. Under such a system, the jobless person would, at first, receive 60 to 80 percent of the salary he/she received immediately before losing their job, and the benefit would be reduced in tandem with the duration of unemployment.

Nevertheless, care must be taken in extending the period during which one receives unemployment benefits, as the extension may lead to longer periods of unemployment. To encourage the unemployed to take up a new challenge, it might be more effective to introduce a mechanism where, for example, unemployed job seekers are given three choices after receiving benefits for a certain period: apply to a firm suggested by a career consultant; take a training course while continuing to receive benefits; or give up receiving the benefits.

For society to maintain its vitality at a time when it is aging and has fewer children than before, it is necessary to provide an environment where individuals can demonstrate their enthusiasm and abilities. As Japan’s process of aging is progressing much faster than that of any other advanced country, it is vital that employment strategies

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and solutions are tackled from this perspective to strengthen the functioning of the labor market.

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