Changes in the Employment System and Future Labor Policies

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For quite a few people, talk of changes in the employment system suggests the end of the lifetime employment system, a fall in the number of those self-employed, an increase in the number of part-time workers and other atypical areas of employment, and increased flexibility of employment patterns and mobility in the labor market. To other people, it might suggest the end of Fordism (Supiot Report, 1998) or the "end of work" (Rifkin, 1994). Depending on how far into the future you are looking and on which industrial sector you are focusing, neither the end of Fordism nor the end of work appears likely, as far as the present situation in Japan is concerned. Moreover, there is no move "from employment to self-employment" and the lifetime employment system is not finished. Let us begin with a brief look at some statistical data.

1. Japanese Trends in the Fourth Quarter of the 20th Century

The employment structure in Japan experienced substantial changes in the fourth quarter of the 20th century (1975-2000).

First, the labor force expanded by 27.1 percent from 53.23 million to 67.66 million. A particular increase was seen among female and elderly workers, whereas there was a substantial drop in the number of young workers.

Second, the number of employees grew at an extremely rapid rate. The figure increased from 36.46 million to 53.56 million during the period, a substantial growth rate of 46.9 percent. This raised the proportion of employees to the workforce as a whole from 69.9 percent to 83.1 percent, an indication of the development of a society of employees rather than a trend toward self-employment.

Third, the number of self-employed and family workers fell considerably. The former fell by 22.1 percent from 9.39 million to 7.31 million, while the number of family workers decreased sharply by 45.9 percent from 6.28 million to 3.4 million.

Fourth, in contrast, the number of part-time employees, i.e., employed workers in sectors other than agriculture and forestry who work less than 35 hours per week, increased dramatically from 3.53 million to 10.53 million. Among these, the number of female workers increased by 3.8 times from 1.98 million to 7.54 million.

Fifth, the unemployment rate increased in the latter half of the 1990s, having previously stayed at a low level over a considerable period of time.

Sixth, regarding changes in industrial structure, the number of employees in the service sector increased from 6.59 million to 14.78 million, while the figure rose from 7.11 million to 11.97 million in the wholesale and retail sectors and food and drink establishments. The Japanese economy has increasingly shifted towards a service economy. But at the same time, the number of employees in the manufacturing sector increased from 11.38 million in 1975 to a peak of 13.82 million in 1992, though it has since fallen and stood at 12.05 million in 2000.

Seventh, concerning the structure of occupation, there was a notable increase in the number of workers engaged in professional or engineering work from 3.61 million to 8.56 million, as well as those engaged in clerical work from 8.15 million to 12.85 million. But at the same time, the number of manual workers (skilled workers, construction workers and laborers) also increased, from 17.11 million to 19.27 million.

Eighth, despite all these changes, the average length of tenure for employees, according to statistics covering all industries and all company sizes, rose from 10.1 years to 13.3 years among males, and 5.8 years to 8.8 years among females. The figure rose from 8.8 years to 12 years among workers as a whole. This indicates that lifetime employment is far from finished.

As the above data indicate, the fourth quarter of the 20th century saw a conspicuous increase in the labor force and the number of employees. In both cases, the numbers of female and elderly workers grew, while the number of young workers shrank. The number of self-employed and family workers also dropped substantially. The industrial structure itself moved toward that of a service economy and the proportion of white-collar workers increased. How long an employee worked for a particular company varied according to industry, company size, gender and age, but as a whole, tenure became longer.

In 2002, according to a *Labour Force Survey* by the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT), the number of workers by category was as follows: out of a total of 63.19 million workers, the number of employees stood at 53.37 million (84.4 percent of the total), while self-employed workers and family workers, as well as other non-employees, accounted for 9.73 million or 15.4 percent. Of the employed workers, regular employees totalled 38.86 million (72.8 percent) and non-regular employees 14.51 million (27.2 percent). The non-regular employees consisted of 7.18 million part-time workers, 3.36 million *arubaito* workers, 430,000 dispatched workers, 2.3 million contract and specially contracted (*shokutaku*) employees and 1.25 million non-regular employees of other types. Altogether, workers on a part-time basis accounted for 72.6 percent of all the non-regular employees. This means that one-quarter of all employed workers in Japan are atypical workers, and this tendency is likely to increase, at least for a while (MHLW, 2003).

More and more companies are increasing their number of atypical workers to cut labor costs and to adjust workforce levels, to respond to fluctuations in workload, and to cope with the increase in casual work and short-term specialized duties. For the workers themselves, maintaining part-time or *arubaito* status enables them to combine housework or studies with some kind of employment, provides supplementary income and also makes it possible to work shorter hours with a shorter commuting time. Although an increasing number of dispatched and contract workers are obliged to accept their status because, for example, they cannot find regular jobs, they also find their status has positive benefits and they are often able to use their professional abilities.

2. Some Experiences of the Post-industrialization Era

In order to understand the significance of many of these facts, it is essential to know the background of the post-industrialization era.

First, a post-industrial society means an aging society. Every society with an advanced economy experiences aging as people live longer and the number of births decrease.[1] A significant question here is whether or not a declining birth rate should be the subject of political measures, and, if so, what kind of measures can halt such a decline. At the same time, taking into account the long-term reduction of the labor force, it is necessary to consider whether or not workers from abroad should be allowed to enter the Japanese labor market. [2]

Second, an aging society means a pension society. Even if quite a few elderly people retain an active work ethic, they will not be able to continue working forever. Some day they will retire. Pensions paid to those who have retired come from the wages of those currently working. The level of pensions to be paid in the future is a matter of great concern in many ways[3] for those currently in work. Elderly Japanese have quite a strong will to continue working by international standards, but it remains a pressing socio-political task in Japan, as in other advanced economies, to address issues concerning the length of time that the elderly can and will continue working, and how pension and medical systems can be reformed to allow retired elderly people to live without worry.

Third, as international competition increases, labor costs rise, and the young generation adopts negative attitudes toward dirty, dangerous and difficult jobs, post-industrialization promotes the international dispersal of industries, in particular manufacturing sectors, on a global level, and accelerates the creation of higher value-added products by domestic industries and the strengthening of their competitiveness in quality and price. Consequently, both industrial and occupational structure change.

Fourth, such changes in industrial and occupational structures result in more diversified employment patterns and lead to an increase in both the number of workers who engage in casual work as well as those of a more professional nature. This process culminates neither in an end to long-term employment contracts[4] nor in the "end of work," but increases the number of atypical workers and at the same time gives office workers and workers in laboratories greater value and a more professional status. In Japan, an increase in the number of people who work casually does not necessarily result in short-term employment contracts. In fact the average length of service among part-time workers has steadily lengthened. An increase in the number of professional workers, therefore, is not incompatible with lifetime employment (Inagami and Whittaker, forthcoming). The proportion of those working on the basis of long-term contracts may well

[1] In Japan, a shift of considerable magnitude in demography occurred: between 1940 and 1950, both the birth rate and the mortality rate were reduced by almost half. Also, there was a baby boom after World War II. The baby-boom generation is now reaching its late 50s. Japan is experiencing, by international standards, an extraordinarily rapid graying of its society. Apart from addressing the issue of falling numbers of younger people, it has to tackle an important task related to labor policies: that is, how to maintain and increase job opportunities for the elderly. Fortunately, the elderly in Japan have a very strong wish to continue working. In fact, the proportion of males in their 60s who work is higher than in any other advanced country. In 2001, 72 percent of those aged 60-64 and 32.9 percent of those aged 65 or above were still part of the labor force.

[2] *The 2003 White Paper on the Economy and Public Finance*, taking into account the situation envisaged up to 2050, estimates that Japan will need to accept an annual average of 640,000 workers from abroad to compensate for the decreased number of those who fall in the productive age category.

[3] In Japan, pensions for retired workers have been drawing attention because of the substantial premiums that have to be paid by the current generation of workers; the introduction of the defined-contribution pension system; the need to take care of parents; the dwindling awareness of social security; and trust in the public pension system.

[4] Cf., Auer and Cazes eds. (2003); Jacoby (1999). Among large Japanese firms, the *shukko* and *tenseki,* a virtual type of lifetime employment, that became common in the 1980s, allowed for employees to continue working until the mandatory retirement age of 60 by transfering them to companies within the same group. Cf., Inagami, 2003.

fall in future, but the practice of such long-term employment in itself will not cease to exist.

Fifth, the simultaneous increase in the numbers of casual workers and professionals or engineers, together with the consequent diversification of employment patterns, will widen the wage gap and reduce the number of "company men" or at least modify their outlook.[5]

In addition, this simultaneous process is likely to hinder structurally the entry to the labor market of people at lower levels. An example of this is the increase in unemployment among young people, which suggests a crucial need for positive structural adjustment between school education and labor demand.

Of course, the magnitude of the seriousness — or otherwise — of the widening wage gap will largely depend on people's preferences between equality and heterogeneity.[6] Also, the nature of changes (not the end) in the outlook of "company men" — brought about by a combination of the reallocation of time in their daily lives and changes in their personal network — and the magnitude of the changes (not the collapse) in the nature of corporate communities are not clear.[7]

Sixth, an increase in the number of workers who view jobs casually and those who follow a profession raises once more the issue of working hours and balancing family and working life. The amount of time spent working as a professional, unlike working hours at, say, factories, is likely to encroach limitlessly on private time.[8] On top of that, some professionals are convinced that working as a professional necessarily involves the sacrifice of their private time. On the other hand, even if you accept that working casually is a strict trade-off of time for wages, if part-time workers devote longer hours to their work, they will become a type of full-time worker. An international comparison shows that part-time workers in Japan have employment contracts with longer working hours from the beginning. According to the *Labour Force Survey* of the MPHPT, part-time workers who worked for 35 hours or longer per week in 2002 accounted for 30.9 percent of all such workers on average.

Seventh, in a post-industrialized society, which follows an "affluent" mass society, people's value orientation is individualized and diversified. Generally speaking, in such a society, the centripetal force towards homogeneous equality weakens as the centrifugal force towards fair differentials and heterogeneity strengthens.

In Japan, on the other hand, in seeking to eliminate sexual, age, racial and ethnic discrimination and pursuing equal treatment for part-time and full-time workers, the social inclination towards equality is not necessarily negligible. Moreover, while working towards the diversification and individualization of values, the understanding that the creation, through industrialization, of an "affluent" mass society involved the destruction of the ecological balance has heightened awareness of the need to preserve the environment in post-industrialized society. In line with this, greater attention to socially responsible investment (SRI), corporate social responsibility and "socially responsible management (SRM)" became evident in the 1990s (Keizaidoyukai, 2003).

Eighth, individuation and diversification generate an impetus for various kinds of individualism.[9] Abolition of discrimination where gender, age, race or handicaps are concerned, together with the

[5] The "company man" is not unique to Japanese society. For this, see Whyte (1956), Kanter (1977) and Heckscher (1995).

[6] In general, raising awareness of heterogeneity reduces problems arising from inequality. For the differences between inequality and heterogeneity — the two basic patterns of social differentiation — see Blau (1977).

[7] The corporate communities that have developed in large firms in Japan are not collapsing but are turning into "corporate communities of professionals". Cf., Inagami and Whittaker, forthcoming.

[8] "Unpaid overtime" still prevails in Japan. This is attributable to the concept of corporate communities and the fact that blue-collar workers are paid on a monthly basis. Other important factors are the amount of work, not enough workers, tight schedules and performance-based management.

[9] In *The Protestant Ethic and the Spirit of Capitalism* (1904-05), Max Weber made the classic observation that the term "individualism" had been used in a considerable number of ways, sometimes even in utterly different and conflicting senses. For a perspective of individualism in the 21st century, see also Dore (1990).

heightening of, and realization of, a preference for resource allocation based on achievement are all signs of individualization. The diminishing role of collective action is surely another form of progressive individualization. Specific examples include the decline in the rate of unionization, an increase in individual labor disputes, the spread of personnel management focused on the performance of the individual worker and intensifying competition among employees.

Ninth, post-industrialization accelerates to some extent the "financialization" of society.[10] As has already been seen, the pension society and pension funds no longer stand on the outside but have their own significance as powerful institutional investors. This trend towards financialization can be observed in a series of developments such as the Employee Retirement Incomes Security Act (ERISA) enacted in the U.S. in 1974, the introduction of Article 401(k) in 1981, a sharp increase in mutual funds, a sudden rise in stock prices from 1982 on, the placing of asset management on a stable long-term basis and rising shareholder activism based on the principal-agent theory. What should be noted here is that the spread of the defined-contribution pension system reflects the emergence of "employee shareholders" (working employees are concurrently shareholders). This embodies one of the most crucial structural trends, which strongly suggests the increased balance between shareholders and employees (Inagami, forthcoming).

Nevertheless, the interests of shareholders are not necessarily compatible with those of employees. In addition, in a society following the Rhein model of capitalism, management that emphasizes the interests of shareholders prompts severe restructuring measures and is likely to generate substantial changes in employment practices.[11]

Tenth, post-industrialization facilitates globalization. It increases conspicuously the borderless and free interaction of people, goods, services, capital and information. While the globalization of people is relatively slow, capital globalization is the swiftest of all due to deregulation, marketization, the financialization of society and the development of digital information technology.

These experiences during the post-industrialization era are observable, more or less, in any advanced economy.

3. From Full-Employment to Fair Employment

It was the Law for Employment Measures of 1966 that formed the classical model for Japan's labor policies. This epoch-making law, which was designed to achieve full employment[12] as a government policy target, stated that a comprehensive adjustment between economic-industrial policies and labor market policy was indispensable. The law marked a turning point, leading to the Basic Plans for Employment Measures from which the current plan began to take shape. In 1974, the Employment Insurance Law was enacted with the establishment of three employment insurance projects (the Employment Stability Project, Ability Development Project and Employment Welfare Project) to grant subsidies to employers (Inagami, 1998). On the one hand, this classical model relied on Japanese-style employment practices, such as employment stability, ability development and "livelihood insurance," and, on the other, sought to provide supplementary measures to correct the structural imbalance between labor supply and demand, which could not be solved by Japanese-style employment practices, and thus achieve full employment. This structural imbalance is thought to be attributable to industrial and regional factors as witnessed by terms such as "structurally recessional industries or regions" as well as to ascriptive factors such as the elderly, the handicapped or females.

However, it was in the latter half of the 1980s that full employment as a guiding principle was first held. The Basic Plans for Employment Measures launched subsequently bore the following titles: "Structural adjustment and the realization of a comfortable working life" (Sixth

[10] On the subject of "financialization," see Dore (2000).

[11] Concerning the phenomenon as it occurred in the 1980s in the U.S., see Kanter (1993), Heckscher (1995) and Cappelli (1999).

[12] In the case of Japan, a policy guideline for the achievement of full employment was already incorporated in the Five-Year Plan for Economic Independence launched in 1955.

Plan, 1988-1992); "Development of individual workers and fulfillment of their abilities" (Seventh Plan, 1992-96); "The enhancement of individualization and the establishment of a social environment for a stable working life" (Eighth Plan, 1996-2000); and "The realization of a society that correctly reflects structural changes in the labor market, aims at positive creation and stability of employment, and allows people to make full use of their enthusiasm and abilities" (Ninth Plan, 2000-2010).

As seen in these themes, the focus of the Japanese government's labor policies has been shifting from quantitative measures, such as achievement of full employment, to qualitative and indirect measures that bring out and utilize the abilities and characteristics[13] of individual workers and leans towards subjective selection, together with the establishment of appropriate conditions[14] for such.

How should these changes in policy be described? Let us, for the moment, label them "from achieving full employment to realization of fair employment." But what does this in fact mean? Subjective selection and the reduction of discrimination are valued in terms of opportunities, but in terms of results, differentiating factors are regarded — and rewarded — more highly than maintaining some kind of egalitarian system. Thus, the first critical factors in fair employment policies are "minimum guarantees and subjective choice." Second, the nature of "fairness" varies substantially not only between labor and management, but also between different generation and gender. "Fairness" can never be free from ambiguity. Its definition requires discussion and consensus among those involved so that labor-management relations or individual labor contracts are more than just a simple uniform regulation. Hence, the second factor for a fair employment policy will be "a shift in emphasis from uniform regulations to labor-management relations and individual labor contracts." Of course, the aim of relaxing such legally determined regulations and increasing the emphasis on labor-management relations and individual contracts must be the realization of fair employment. If such a shift led to the creation of unfair labor practices, the demand for an expansion of legal safety nets would increase and a retreat from deregulation to re-regulation would occur. In this sense, it is necessary, in considering the nature of labor legislation, to have some clear prospect of how labor-management relations and individual labor contracts will play their roles. Thirdly, the measurement of fairness will vary according to the nature of the job or occupation in question. Taking a fair wage payment system as an example, a considerable difference exists between professional work and casual labor. If a wage payment system based on the regulations in a factory, or equivalent criteria, which measures the achievement of workers in terms of working hours, was applied to professional work, "fairness" would be conversely impaired. An emphasis on multi-dimensional aspects of fairness arising from different kinds of occupations and employment patterns will be the third factor in fair employment policies. Fourth, fairness must be compatible with efficiency. If you plot a fair social system on a horizontal line and economic efficiency on a vertical line, the relationship between the two forms a pattern that looks like a palm with fingers extended, that is, a multiple peak model (Freeman, 2000). In other words, different social systems can produce approximately equivalent degrees of economic efficiency. If this is an accurate picture and if global financialization progresses quickly, the question of how to integrate various social systems and how to determine what kind of capitalism should be chosen will be the fourth factor for fair employment policies.

As in corporate governance, there is no global standard for fair employment policies. The question to be asked is how fair models for the world of labor can be drawn up that is compatible with efficiency.

[13] Sugeno and Suwa (1994) argued the necessity of transforming labor law, which has so far restricted market trading and labor-management autonomies, into a "system of laws that provide various supporting schemes to help smooth trade (negotiations) involving workers in the labor market" by means of introducing the concept of "worker as individual."

[14] Along with the argument of Durkheim's thesis in *De la division du travail social* (1893), the development of individuality should spontaneously form an "organic solidarity" with social coherence. For this purpose, Durkheim indicated two requirements: voluntary participation and standardization of external competitive conditions.

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