

## Unemployment, Underemployment and Overemployment: Re-establishing Social Sustainability

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Little more than a decade ago many labour specialists in Japan were agonizing over what to do about Japan's chronic labour shortage. Evident during the heady bubble years, the problem was projected to get worse as the number of school leavers began to drop and the number of pensioners rose. Clearly, ways had to be devised to keep the ageing population in work longer, if more babies could not be produced, or more migrants allowed to enter. To many outside observers, used to wrestling with intractable unemployment issues in their own countries, the debates seemed somewhat surreal.

A decade later, we know that Japan is not immune to the problems which bedeviled other industrialized countries as they faced their post-industrial transitions. The success of Japan's manufacturing champions may have delayed transition, but "hollowing out" — especially the movement of large chunks of manufacturing off-shore — and even competitive problems on the part of some of these champions, eventually took its toll. Employment in manufacturing dropped from just over 15 million in 1990 to 13.2 million in 2000, and continues to fall.<sup>1</sup> Unemployment rose to over five percent, unemployment duration lengthened, and became particularly problematic for both young and old workers. The number of job openings per applicant plummeted from 1.5 to close to 0.5 — less for older workers.<sup>2</sup>

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<sup>1</sup> Conversely, employment in "community, social and personal services" rose from 13.2 million to 15.6 million over the same period: [www.jil.go.jp/kokunai/statistics/databook/documents](http://www.jil.go.jp/kokunai/statistics/databook/documents)

<sup>2</sup> In 2002 the official unemployment rate for 15-19 year old males was 14.1 percent, and for females 9.8 percent. For those aged 60-64 it was 10.4 percent and 4.8 percent respectively: JIL (2002) *The Labor Situation in Japan 2002/2003*, p.21.

The proportion of part time workers has risen to well over a fifth of all (non-agricultural) employees, and if other non-regular workers are included, the figure reaches almost 30 percent, a similar figure to the UK. Relaxation of the Worker Dispatching Law in March 2004 will no doubt send this figure higher. Again, the increase in young people, who used to feed the lifetime job ladders, in non-regular employment has been pronounced, raising fears of whether such employment can support career development and family aspirations.<sup>3</sup>

Those in regular, full-time employment face other problems, apart from job uncertainty, namely long working hours, work intensification and rising levels of stress. Aggregated statistics show a graceful decline in scheduled working hours and overtime throughout the 1990s, but the experience of many regular employees, especially white collar workers, is quite different. Surveys show a sharp rise in unreported overtime from the mid-1990s, concentrated in white collar occupations and among male workers.<sup>4</sup> As the Ministry of Health, Labour and Welfare (MHLW)'s 2003 *White Paper* notes, birth rates are lowest in regions where working hours are longest.

This paper explores the following conundrum. Japan has begun the 21st century facing simultaneous challenges to continued economic prosperity and social sustainability.<sup>5</sup> In the early postwar period it faced the simultaneous challenges of rebuilding a shattered economy and ameliorating intense social conflict. New micro and macro-level institutions were forged which powered Japan's postwar growth and eventually resolved much of the conflict. Can it rise to the new challenges once again, through new — or adapted — micro and macro-level institutions or mechanisms? What might these look like?

<sup>3</sup> In 1991, 8 percent of (non-student) males aged 15-25 were in part time, temporary or other non-regular work. By 2001 the proportion had risen to 20.4 percent. The corresponding figures for females were 10.8 percent and 28.8 percent: Kosugi, 2002: 10.

<sup>4</sup> E.g. Dai-ichi seimei kenkyujo (2003); also JTUC RIAL's Suzuki (2003). On white collar work intensification, see Morishima (2003).

<sup>5</sup> By social sustainability I mean conditions conducive to demographic, civil and (widely distributed) economic well-being.

## 1. Changing Employment and Governance in Large Firms

While Japan's industrial structure is changing in familiar ways, there has been little of the large-scale redistribution of employment between large and small firms that characterized the transitions in the UK and US. This is often attributed to a lack of entrepreneurial startups. It is problematic that closure rates have exceeded startup rates since the early 1990s, but it must be remembered that on the one hand, Japan already had a higher proportion of employees in small and medium-sized enterprises than the US and especially the UK, and on the other, that many of its large firms have proved relatively adept at adapting to changing competitive conditions. The desire to protect employment may impede rapid response to changing conditions, but it also provides a powerful incentive to move into new areas of business as old ones decline.

Nonetheless, employment in large firms has undergone substantial change, particularly since 1998. Japan's experience of declining unionization and collective bargaining, which with de-regulation were key factors in the reshaping of employment relations in the Anglo-Saxon countries, has been more muted. But the general trend of "individualization" has been similar, spurred by greater emphasis on the performance of white collar workers.<sup>6</sup> Indeed, since the late 1990s many companies have deliberately sought to recast employment relations with these employees, as their future increasingly depends on their creative performance.

Hitachi Ltd, for instance, introduced a new package in 1998 featuring a more transparent qualification system and linked wage system, as well as a new work system to extend flexibility of working time and place. The package was aimed at encouraging individual responsibility, initiative and creativity. Management by objectives (MBO)

<sup>6</sup> Cf. Nakata, 1999.

was extended, self-responsibility was emphasized in education and training, and individual choice in welfare through a “cafeteria” scheme. Long-service awards were converted into cafeteria points, and loyalty de-emphasized in pension calculations. Diversity was increased through a rise in mid-career hiring, new “family friendly” options and the beginnings of HRM differentiation by business group. An internal job posting system was introduced, followed by a “free agent” system by which employees could seek to change jobs internally.<sup>7</sup>

By emphasizing self-responsibility and de-emphasizing loyalty per se, the company was taking a calculated risk that greater conditionality in the employment relationship would produce a positive rather than a negative change in the way white collar employees approached work. By and large the changes were supported by the union, and the union by its membership. Individualization’ at Hitachi was not the result of unilateral management imposition.

Large companies such as Hitachi have found themselves under intense competitive pressure in recent years. They have implemented organization and HRM reforms in response. While white collar (including managerial) creativity is vital for new value creation, however, a more immediate response in many companies, or workplaces, is to seek to reduce costs through reducing headcounts. The temptation is to cover gaps by having the remaining employees work harder and longer (which might actually undermine the long-term objectives). These pressures can be especially intense in smaller, non-unionized workplaces, and extension of discretionary work schemes aimed at boosting creativity might exacerbate this. These pressures are behind the rise in working hours of regular workers, especially non-reported overtime, and have prompted a clampdown by the Labour Standards Office. Partly as a result of these pressures, and partly as a result of downward pressures on wages, the number of pay-related

lawsuits rose rapidly in the late 1990s.

Dismissal-related suits also rose. In the early 1990s companies were pilloried in the business media if they failed to protect employment. By the late 1990s they were more likely to be criticized for not acting more decisively to reduce it. Until the early 1990s most companies only shed employees in exceptional circumstances, and their share price generally dropped. By the late 1990s, labour shedding had begun to exert a positive effect on share prices. As consciousness of share prices itself was rising — spurred in part by a rise of foreign share ownership — this may well have encouraged more pro-active labour shedding. A statement on dismissal was inserted into the revised Labour Standards Law in 2003 for the first time, but its effects remain to be seen.

Even if they do not indicate an outright abandonment of long-term employment, these changes indicate greater conditionality in employment relations, and perhaps changing priorities in “employee favouring” Japanese firms. Favoured management performance indicators began to shift in the 1990s from sales growth and market share to profits, which had dwindled significantly in many companies. And this shift, as the above suggests, indicates (at least on the part of large, listed companies) a growing awareness of investor relations amidst the tide of accounting standard and corporate governance reform, which reached Japan in the late 1990s. US stock market euphoria contrasted starkly with prolonged stagnation in Japan’s markets, enhancing claims of the “US model” as the “global standard”. The spectacular fall of Enron and similar scandals eventually undermined these claims, and take-up of the US-inspired committee system of governance legalized in 2003 was relatively low, but interest in corporate governance itself remained high, along with corporate social responsibility (CSR) following a string of scandals involving consumer deception.

<sup>7</sup> These observations are based on extensive interviews at Hitachi, 1996-2003. Further, HRM reforms are planned for 2004.

The 2003 *White Paper* of the Keizai Doyukai (Japan Association of Corporate Executives) was titled “Market Evolution and Corporate Social Responsibility Management: Toward building integrity and creating stakeholder value.” It began with the importance of profitability and competitiveness, and then argued that managers should not prioritize shareholder interests over those of other stakeholders. Performance should be measured as the “total impact of corporate activities on stakeholders, as seen in the context of the corporation’s own mission.”<sup>8</sup> This is based on the view that corporations are public bodies, with public responsibilities, a view with a long history in the Keizai Doyukai.

Such thinking could conceivably be embodied in a Code of Practice, like the “soft law” Codes introduced in the UK to spur corporate governance reform in the 1990s, except that the latter attempted to align management behaviour with shareholder interests. All the more reason if, as is reported, Japanese executives are leery of European-led attempts to create an ISO “global standard” on CSR.<sup>9</sup> A Japanese Code which established tangible goals for responsible employment, and more broadly, a commitment to social sustainability, might be one micro-level means of counterbalancing the waning power of unions, and increasing emphasis on short-term competitiveness regardless of the long-term consequences. Berle and Means (1932), no less, argued that corporations should ultimately be subject to the claims of communities, and that managers should be subject to the claims of various groups, but they failed to establish a clear conception of such responsibilities.<sup>10</sup> Perhaps the Doyukai and other business organizations could take up this challenge.

<sup>8</sup> p.12, English summary version.

<sup>9</sup> Cf. *Nikkei Weekly* 27 Oct. 2003.

<sup>10</sup> Cited by Learmount and Roberts, 2002.

## 2. Complementary Macro Institutions

Micro-level measures alone are insufficient. In fact they can be part of the problem if employers and unions pursue a narrow agenda of shared, vested interests.<sup>11</sup> They must be complemented by macro-level institutions capable of facilitating both economic vitality and social sustainability. In the postwar years, bodies like the Japan Productivity Centre played a significant role in spreading knowledge of best productivity practice, and attempting to reduce social conflict. Notable were the JPC’s three principles of employment security, joint consultation and a fair distribution of the fruits of productivity gains (between management, labour and the consumer — shareholders were not mentioned). Today the issues are different, and perhaps even more complex, even if they arouse fewer passions. What institutions might address them?

One clutch of recent efforts to revive economic vitality has coalesced around the banner of technology management (or techno-entrepreneurship), which features education programmes to promote awareness of linking technology resources with marketable — and profitable — products, fostering new startups and entrepreneurship, greater public support for scientific research, and assigning universities a more prominent role in all of these.<sup>12</sup> These efforts represent a significant reorientation of industrial policy.

Another set of debates has focused on employment and social sustainability, and features the resurrection of work sharing, across generations and between regular and non-regular workers. In 2002 the MHWL and peak employer and union organizations agreed on a broad agenda, and in 2003 the MHLW set up a central and prefectural structure to promote implementation. Progress is likely to be tortuous, however, as both employers and unions have strong interests to pro-

<sup>11</sup> James Meade, among others, argued that the growing advantages of privileged insiders is one cause of intractable unemployment. Citing Meade, Dore (1996/2001) argued that the enterprise-based union structure in Japan offers a poorer platform for breaking the insider-outsider impasse than, for instance, that of German unions.

<sup>12</sup> Cf. Whittaker, 2003.

tect, including the breadwinner's ("living") wage in the case of unions. This makes it difficult to tackle the entrenched but often arbitrary divide between regular and non-regular employees, which constitutes a barrier to the spread of substantive work sharing.<sup>13</sup> Whether the IMF-JC's recognition in September 2003 that work sharing could be accompanied by wage reductions (for regular employees) signifies a shift on this issue remains to be seen.

More immediately, efforts have been made to improve the quality and effectiveness of job placement mechanisms, both in the network of 600 Public Employment Security Offices, and through a partial opening up of job placement to the private sector. On-line job searching has been streamlined, and the government is seeking a massive boost in the number of qualified career development advisors, aiming for 50,000 by 2006.

But efficient job placement and career development officers alone are unlikely to break the "disconnect" that exists between, for instance, the large number of "freeter" and discouraged youths on the one hand, and many of the jobs on offer on the other, even — or especially — career jobs. The so-called "7-5-3" phenomenon (of 70 percent of middle school leavers quitting their first job within three years, 50 percent of high school leavers and 30 percent of university graduates) reflects a gulf in values, such that unemployment can co-exist with worker shortages or problematic turnover, particularly for blue collar jobs.

The list could go on. A critical question is how the slew of initiatives is to be co-ordinated and adapted to suit regional and local needs. Business creation and labour market realities are very different in rural Aomori than in urban Tokyo. Many OECD countries have undertaken decentralization in policy implementation, and even designing policies or fleshing out framework policies, which have resulted in new institutional arrangements.<sup>14</sup> In the UK, for instance,

<sup>13</sup> "Part timers" frequently do similar work and even similar hours to regular employees but with significantly inferior pay and conditions. Inferior pay is frequently attributed to distortions caused by spouse tax and social security regulations. See, for example, Nagase, 2002.

<sup>14</sup> Cf. OECD 1998; 1999.

Birmingham struggled with rapid de-industrialization and high unemployment in the 1980s with a variety of unco-ordinated efforts, but from the early 1990s it forged a number of overlapping "partnerships," first targeting economic-regeneration, and then spreading to encompass labour markets, lifelong learning, social inclusion, etc.<sup>15</sup>

Japan has embarked on decentralization, but has been hampered by ministerial rigidities (or rivalries) at the national level which inhibit co-ordinated regional and local responses, even within public administration. It might learn selectively from the partnerships which characterize Birmingham's approach. And it might contemplate regional and local Vitality and Sustainability Councils, with participation of various "stakeholders," including local government, employers, unions, education and training institutions, NGOs and voluntary sector organizations. If and when public works expenditure, which transfers resources to rural areas but at a cost of deteriorating public finances, is reined in, these efforts will be all the more important.

Ending deflation will certainly relieve some of the pressures on Japan's labour markets and bring relief to ailing companies, like a rising tide. It will not resolve many of the problems listed in this paper, however. Unnecessary regulations should be rescinded, but marketization is no panacea, either. Neither, conversely, is new legislation, though some might be needed, for instance for non-regular workers. In which case, serious consideration should once again be given to micro and macro (or meso)-level institutional innovation and mechanisms to address Japan's simultaneous challenges to economic prosperity and social sustainability.

<sup>15</sup> The initial partnerships were formed between the City Council, the Chamber of Commerce and the newly-formed TEC (Training and Enterprise Council, which was restructured into a Learning and Skills Council in 2001). They were not formed simply to implement central government policy, but in part to ensure that the welter of central initiatives, often with start-stop funding, could be implemented for long-term needs. Eventually a City Strategic Partnership was created to co-ordinate the various partnerships.

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