

Trends in the Japanese economy since the collapse of the bubble

After falling into recession with the collapse of the bubble in the 1990s, Japan's economy came out of recession by eliminating the "three excesses" (equipment, employment and debt) in the early 2000s, following a period of severe restructuring. The economy then expanded for 69 consecutive months from February 2002, outstripping the 57-month growth recorded during the economic boom in the late 1960s to reach a new record high. Nevertheless, the real growth rate in GDP (gross domestic production) during this period remained low at 2%. This was markedly lower than the 10% registered during the period of high growth, revealing a certain lack of vigor in the economy.

The global financial crisis triggered by the collapse of the US investment bank Lehman Brothers in autumn 2008 caused a major contraction in the Japanese economy, which recorded two straight years of negative real growth in GDP in fiscal 2008 and 2009. In the meantime, the economy was starting to correct itself, albeit somewhat weakly, with a recovery in exports from around spring 2009.

But just then, the Great East Japan Earthquake struck the Japanese archipelago on March 11th, 2011. Besides the immediate damage, other problems including interrupted parts supplies, the nuclear reactor accident and restrictions on the power supply cast a dark cloud over the Japanese economy. And although the economy subsequently returned to the path of recovery, progressive currency appreciation from summer 2011 and the global economic slowdown caused by the European debt crisis inevitably made the pace of that recovery extremely lethargic.

In the General Election at the end of 2012, the Liberal Democratic Party returned to power at the head of a coalition government, and embarked on an economic policy founded on bold monetary easing. The markets reacted to this policy, dubbed

"Abenomics" after the name of the Prime Minister, and the Japanese economy suddenly turned to currency depreciation and rising share prices. However, a counterreaction to this started in June 2013, when share prices fell sharply. The policy of monetary easing is merely "the first shot"; the search is on for a "growth strategy" that will put the economy on track for real growth. At the same time, the future direction for employment and labor to meet this growth has also surfaced as a focal point of concern.

Trends and characteristics of the employment situation

Looking back over the employment situation during this period, the problem of unemployment was aggravated by major financial collapses in 1997, causing the overall unemployment rate to post a record high of 5.5% in April 2003 and an equally high level of 5.3% in calendar year 2003. The unemployment rate improved during the subsequent economic recovery and was trending in around the 4% range between 2004 and 2008. However, the storm of global recession triggered by the Lehman shock brought an unprecedentedly sharp deterioration in employment, taking the unemployment rate back to the 5% level for two straight years in 2009 and 2010.

The Great East Japan Earthquake of March 2011 caused considerable setbacks to employment and labor in the three affected prefectures of Tohoku, where the total number employed fell from the previous figure of 2.75 million to 2.60 million at one point. And although the government's employment support and job creation measures are starting to improve the situation, there is nevertheless concern over the impact of a population exodus; problems of mismatches in occupations, gender and other factors have also emerged.

The national unemployment rate has been gradually improving from the aftermath of the

Lehman shock, registering 4.5% in 2011 and 4.3% in 2012.

Upheaval in the Japanese-style Employment System

Perceptions of the “Japanese-style employment system”, founded on the practice of long-term employment, went through a major upheaval during this period.

The context for this goes back to the time of the oil crisis in autumn 1973. The crisis brought an abrupt end to the “golden sixties” enjoyed by leading capitalist states, and western nations sank into a combined morass of “stagflation” (stagnation + inflation). In contrast to these, however, Japan continued steady growth throughout the 1970s and 80s, eventually becoming the biggest trading nation in the world. At the conclusion of the “Plaza Accord”, an agreement on currency adjustment designed to address Japan-US trade friction, Japan was enjoying an unprecedented bubble of prosperity. To unravel the secret of Japan’s economic prosperity, in such stark contrast to the stagnation of the west, experts in various fields, in both Japan and abroad, focused their attentions on “Japan research” in the 1980s. In the process, interest leapt on the Japanese-style employment system, with its central pillars of long-term employment, wages based on seniority and in-house unions.

However, this bubble of prosperity burst, taking the Japanese economy into a protracted slump in the 1990s. This changed everything, and from then on the Japanese-style employment system came under fire from all sides. The traditional system was now nothing more than a millstone holding up the “structural reform” of Japan’s socio-economy. As this kind of sentiment suddenly took shape, reform of the Japanese-style employment system and its core principle of long-term employment, as well as labor relations, wage policies, labor policies and others connected with it, came to be seen as an indispensable task for “structural reform”.

But what exactly was the much-discussed Japanese-style employment system? In short, it could be interpreted as the employment practice of training and using regular employees over the long term in the

internal labor market. It was developed during the period of high economic growth and became established in the 1970s.

Various employment-related systems then sprang up to fit this internal labor market. On the assumption of guaranteed employment until retirement age, new graduates were regularly hired, employees were rotated through “flexible relocation” with no specified job contents, and training was done on the job. A system of seniority, whereby wages and promotions were based on the accumulation of work performance ability, was made the cornerstone of personnel and wage management. Even in a recession, companies made every attempt to avoid releasing regular employees, preferring measures such as transferring or re-training surplus personnel, or disadvantageous changes to labor conditions.

In collective labor relations, meanwhile, industrial unions independent of companies were the mainstream in Europe, but failed to take on in Japan, where in-house unions suited to the internal labor market took the leading role.

Even government employment policies were rooted in measures designed to keep employees within the embrace of companies as far as possible. When business contraction became inevitable owing to recessions and the like, the government would mainly use “employment adjustment subsidies” to subsidize companies’ costs in maintaining employment through leave of absence, training or secondment of employees.

Under the pressure to reform, the Japanese-style employment system based on these features went through violent upheavals, while at the same time “distortion” arising from the reforms also surfaced. Since then, there has been an ongoing debate on the future direction of employment and labor, as one of the top priority issues facing Japanese society today.

Expansion of Non-regular Labor and the Problems of Young Workers

From the mid-1990s onwards, companies rigorously cut back on their numbers of full employees earmarked for career development, and started to make broader use of non-regular employment. This was one of the measures they took

to reduce overall personnel costs.

In 1995, the Japan Federation of Employers' Associations (as it was then; amalgamated with the Japan Federation of Economic Organizations in 2001 to form the present Japan Business Federation) published a report entitled "Japanese-Style Management in the New Age". Today, this report is accorded the status of a "historical document", as an indicator of the expansion of non-regular employment. The report divides company employees into three types. Employees under the practice of long-term employment were called the "long-term accumulated ability utilization type", and these were seen as continuing to form the nucleus of corporate human resources. However, the report suggests that numbers of employees in this type will be narrowed down through rigorous selection, and instead, ratios of employees in the other two types (i.e. the "advanced specialist ability type" and the "flexible employment type") will be expanded. Moreover, personnel and wage management for these will differ from those applied to workers under long-term employment.

As if to coincide with the publication of "Japanese-Style Management in the New Age", employment formats have become increasingly diverse since then. The ratio of non-regular employees to all persons in employment rose rapidly from 20% in 1995, and has today reached a level in excess of 35%.

A serious issue, however, is the rise of the non-regular employment format known as "freeters". These are young people who are unable to find employment as full employees, as companies suddenly reduced their intake of new graduates amid the protected recession, and instead drift aimlessly on the labor market. The biggest problem facing these young freeters is that, as they are excluded from the opportunities for vocational ability development available to regular employees, they have no hope of improving their skills even after working for a long time. Thus they have few opportunities to engage in work at a more advanced level, and as a result have no prospects for increasing their income in the future. Unlike in western countries, opportunities for vocational training of workers in Japan are mainly

provided within companies. In terms of accumulating vocational ability, exclusion from this in-house training has such negative consequences as to be life-defining.

In Japan, the unemployment rate of young people, traditionally low, has deteriorated since the middle of 1990. A widening of the income gap between young age groups is beginning to be conspicuous, and there are now concerns that it will become established and will further expand. Because many non-regular workers lack the financial means, they tend to marry late or not at all. As such, the expansion of non-regular labor has come to be regarded as a factor obstructing measures to combat the declining birth rate and population aging - identified by the Japanese government as its most important policy target.

The Correlation between "Guarantees" and "Constraints"

There is no shortage of problems facing regular workers, either. Against a background of personnel cuts, many regular workers are compelled to work long hours, a trend most conspicuous amongst males in the prime working ages between 30 and 40. Karoshi (death from overwork) and mental health disorders, fomented on the hotbed of long working hours, have long been established as social problems in Japan. But the problems do not end there. Male workers have less time to spend on housework and child rearing, and instead, the burden of chores falls on the shoulders of their partners.

The ratio of childcare leave taken by female workers is gradually rising, and has passed 80% recently. However, the proportion of women quitting their jobs to have babies has reached 60%. Therefore, if the total number of female employees due to give birth is taken as the denominator, the rate of taking childcare leave in real terms is only just over 30%. Considering attempts to improve the efficiency of home life, female workers will inevitably think twice about the working style of regular workers, with the strong constraints it involves. When it comes to marriage and raising children, they are pressed by a choice between two options - whether to continue working in regular employment, or not.

Regular workers enjoy the strong support of their

employers in terms of employment guarantees, but on the other hand, cannot easily refuse overtime orders or re-assignments against the company's wishes. Firm guarantees of employment are therefore counterbalanced by a large degree of constraint by the company. In other words, they can be said to have strong "guarantees" but also strong "constraints". By contrast, non-regular workers are rarely forced to work overtime or to change the location of their work. However, their employment guarantees are so weak as to be incomparable with those of regular workers. In other words, they can be said to have weak "guarantees" but also weak "constraints". Regular and non-regular working styles are clearly divided from each other by the barrier of this correlation between guarantees and constraints.

The very nature of employment practices lies behind the decrease in rates of marriage and childbirth, and there is a growing perception that a reform of employment practices is also necessary for the sake of measures to combat the declining birth rate. Measures for working people, liberating them from choosing between the two options of regular or non-regular employment and making their employment terms continuous, are being brought to the table for discussion, as is the creation of schemes to make it easier for workers to move between the two formats.

Labor Policies of "Abenomics"

As part of its "Abenomics", the LDP-led coalition government formed at the end of 2012 compiled a "Labor Policy for Growth" in June 2013. It includes plans to create a manual on "limited full employees" (limited to specified jobs and regions) in mid-FY2014, with a view to spreading this format. This is an attempt to expand schemes for full employees within a separate framework from conventional full employees, with their strong degree of constraint, and could be seen as a proposal to open up the bottleneck of the choice between regular and non-regular work. Labor unions do not in principle oppose the creation of this scheme in itself. Nevertheless, they warn that the scheme of "limited full employees", while weakening the "constraint" from companies, has the associated characteristic of creating full employees

with weaker "guarantees", and that "this could become a trigger for easing regulations on dismissal and making it easier to dismiss full employees".

"Abenomics" reveals an attitude of shifting the fulcrum of policy from "maintaining employment" to "promoting job changes". It stresses the need to shift labor from mature industries to growth industries, and sets out to reduce the "employment adjustment subsidy" used to support companies that protect employment during a recession, increase "labor mobility support subsidies" paid to companies that transfer employees using private-sector employment agencies, and reverse the budget scales of these two.

In any case, this is an issue touching on the very core of the Japanese-style employment system, and debate continues, while reviewing the course of "reform" since the mid-1990s.

Reform and Revision of Wage Systems

The "Japanese-Style Management in the New Age" report by the Japan Federation of Employers' Associations advocated a revision of wage systems for full employees as an important means of reducing a company's "total personnel costs", alongside the diversification of employment formats. Since then, the number of non-regular workers has grown but there has been continuous downward pressure on the wages of regular workers, through the medium of revised wage systems. As the specific content of reform, particularly noteworthy examples include the introduction of wage systems reflecting performance and outcomes, the reduction or abolition of regular pay rises, and linkage between corporate performance and bonuses.

One conspicuous characteristic of the period of economic expansion after the protracted recession was that, while large corporations continued to earn record profits, improvements to workers' wages were slower to materialize. It was described as "economic recovery with a hollow ring". The fruits of economic growth were not reinvested in the lives of ordinary workers, and as a result, consumer demand showed no growth. Apart from capital investments, economic recovery has a strong tendency to be led by increased exports. When the global financial crisis struck in

autumn 2008, the Japanese economy should already have overcome its own financial crisis; nevertheless, this very dependency on exports could be seen as the reason why Japan suffered a bigger blow than expected, in comparison with other countries.

For “Abenomics” to achieve its policy effect of launching a recovery in the real economy, it will require an expansion of household consumption, which accounts for 60% of gross domestic expenditure. Just before the round of wage negotiations in spring 2013 (the 2013 *shunto* or “spring offensive”), Prime Minister Abe asked the heads of business organizations to increase workers’ wages, as they are the wellspring of consumption. This was a highly unorthodox approach for the government, which normally remains neutral in labor negotiations, and was given considerable media coverage as a result.

That notwithstanding, changes to wage systems, which started in earnest from the beginning of the 2000s, have caused a lot of confusion in sites of employment. In many cases, they have had a negative effect on employee incentives. The “excessive introduction” of performance and outcome-linked pay has provoked a barrage of criticism that “teamwork in the workplace has worsened” and “the evaluation of conditions and processes is being neglected”, among others. Moves to correct this trend have also been notable.

In any case, one thing for certain is that progress has been made in the “personalization of wages” reflecting the individual worker’s performance, outcomes and working attitudes in pay and conditions.

The Transformation of the *Shunto* System

The *shunto* system, a uniquely Japanese system of deciding wages, could be called the showpiece of the postwar labor movement. In most European countries, labor and management negotiate wages for sectors and industries in regional or national units. In Japan’s case, this is basically done between labor and management on an individual company basis. Instead, individual company unions form alliances in different industries, and the unions in each industry start pay rise negotiations at around the same time. This has

the effect of forming and spreading agreed rates of pay rises. After its beginnings in 1956, this *shunto* system rode the wave of high-level economic growth to grow and become established, resulting in standardized wage levels for workers and contributing greatly to the expansion of domestic demand in the Japanese economy. The *shunto* system also served as a springboard to accelerate high-level growth.

However, this system differs in essence from the style of systematic negotiation and forming agreements laterally across companies. Since the 1990s, the labor market has changed dramatically from the state of labor shortage pertaining until then; there has been conspicuous variation in corporate performance, even within the same sector, and with the advance of “personalized wages” following the reform of wage systems, the function of the *shunto* system in forming and spreading agreed rates of pay rise has weakened. Instead, “the theory of companies’ ability to pay” has been thrust to the fore as a determining factor affecting pay rise trends.

The transformation of the *shunto* system has also served to accelerate the “widening gap” between workers.

Reconstructing the System of Collective Labor Relations

There is also pressure to reconstruct the system of collective labor relations. The unionization rate of labor unions continues to fall; in 2003 it slipped below 20%, and by 2012 had fallen to 17.9%. In Japan, where individual company unions are the norm, the overwhelming majority of unions limit their members to regular employees, and despite the dramatic increase in non-regular workers, they are decidedly slow to join unions. From the beginning of the 2000s, various unions have started to unionize non-regular workers, thanks to encouragement by national centers, and signs of positive results are starting to be seen. Nevertheless, the unionization rate of part-timers is still only in the 5% range.

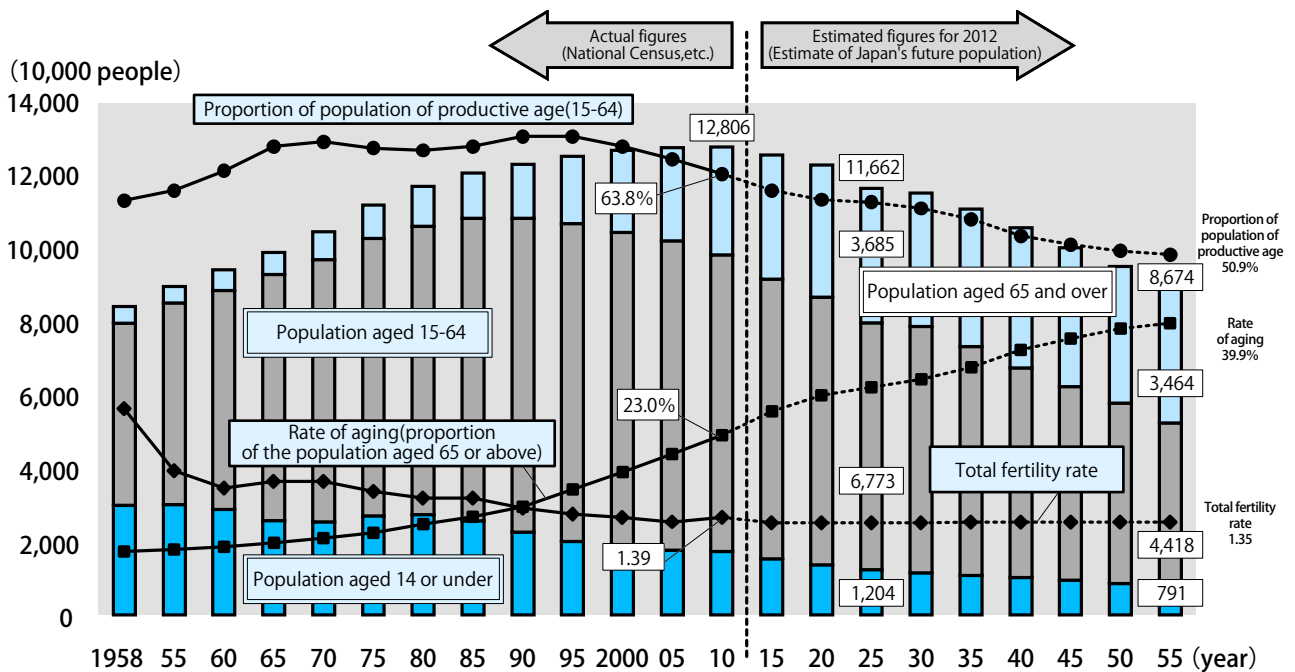
Japan’s labor legislation consists of a two-tiered structure, whereby minimum working conditions are decided by law, and working conditions above this level are decided through labor negotiations. Besides non-regular workers, many workers in small and

medium enterprises do not belong to labor unions either; in the case of small companies with less than 100 employees, the unionization rate is only about 1%. In Japan's case, moreover, it is very rare to find cases of labor agreements being applied beyond the range of union members, as seen in Germany, France and other European countries. The rate of application of labor agreements to the general workforce is extremely low. Labor negotiations have to be instigated to raise minimum working conditions above the levels determined by law, but for many

workers, even that is out of the question. The essential content needed for deciding working conditions has been hollowed out, and the provisions of labor legislation have become little more than a façade.

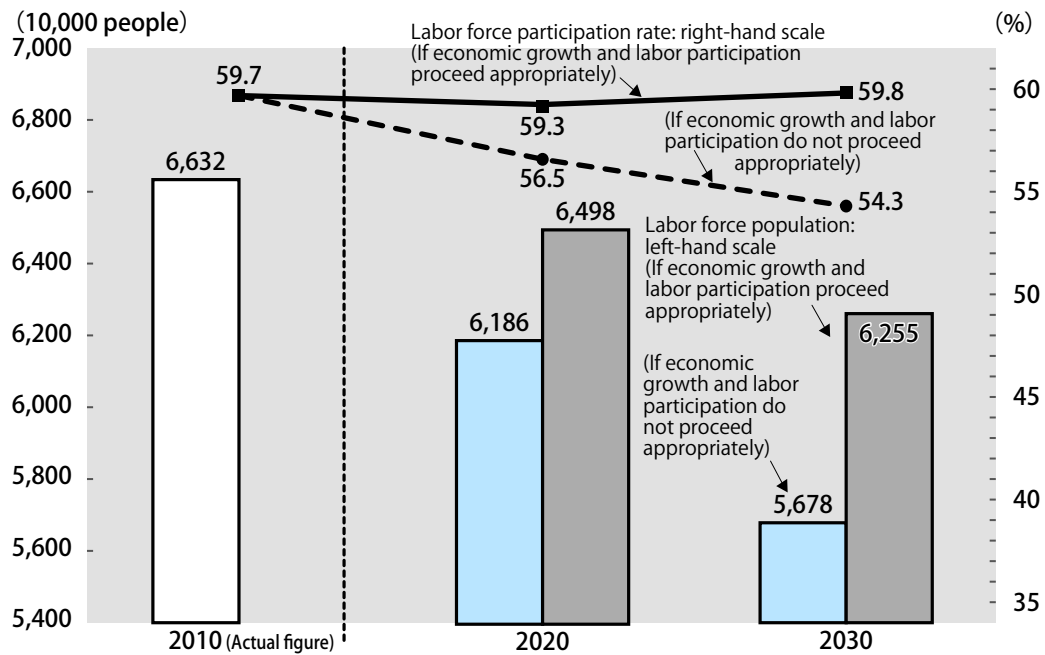
So what can be done to create a system of collective labor relations that also reflects the interests of non-regular workers? Japan is now at the stage where this should be discussed, together with the future directions for labor union legislation, taking account of new laws for employee representative systems found in European countries.

Figure I-5 Trends in Japan's Population



Source: Ministry of Internal Affairs and Communications, *Population Census and Population Estimates*
 National Institute of Population and Social Security Research, *Population Projections for Japan (Jan. 2012 estimates): Medium Fertility (Medium Mortality) Projection* (population as of Oct. 1 each year)
 Ministry of Health, Labour and Welfare, *Vital Statistics*

Figure I-6 The Outlook for the Labor Force Population and the Labor Force Participation Rate

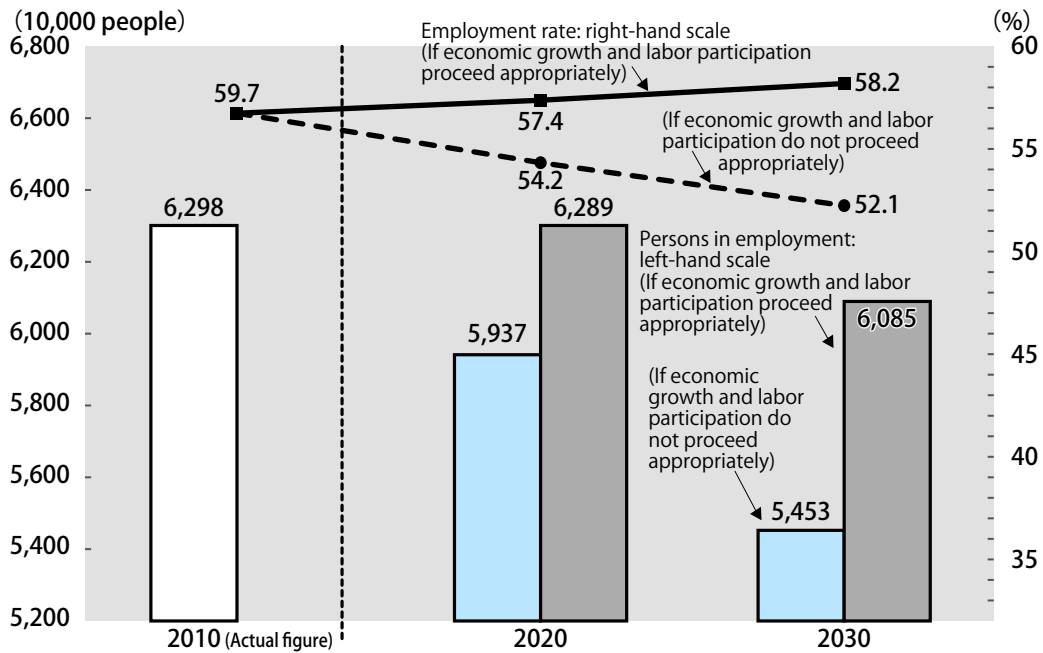


Sources: Actual figures for 2010 – Ministry of Internal Affairs and Communications, *Labour Force Survey*, calculated from intercensal adjusted figures based on (new) standard population

Figures for 2020 and 2030 – JILPT estimates

Note: Estimates are made by JILPT using the National Institute of Population and Social Security Research, *Population Projections for Japan (January Estimates): Medium Fertility (Medium Mortality) Projection*

Figure I-7 The Outlook for Number of Persons in Employment and the Employment Rate



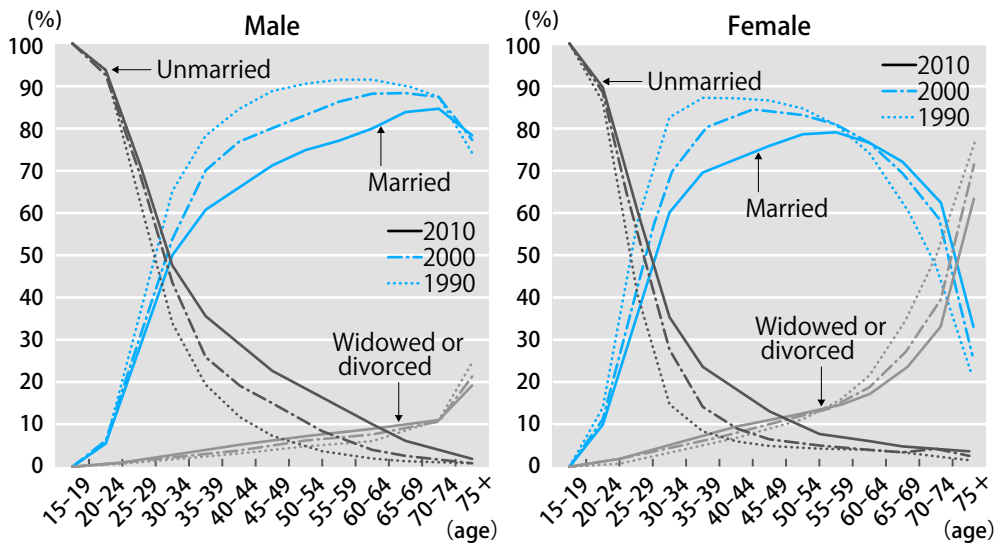
Sources: Actual figures for 2010 – Ministry of Internal Affairs and Communications, *Labour Force Survey*, calculated from intercensal adjusted figures based on (new) standard population

Figures for 2020 and 2030 – JILPT estimates

Note: Estimates are made by JILPT using the National Institute of Population and Social Security Research *Population Projections for Japan (January Estimates): Medium Fertility (Medium Mortality) Projection*

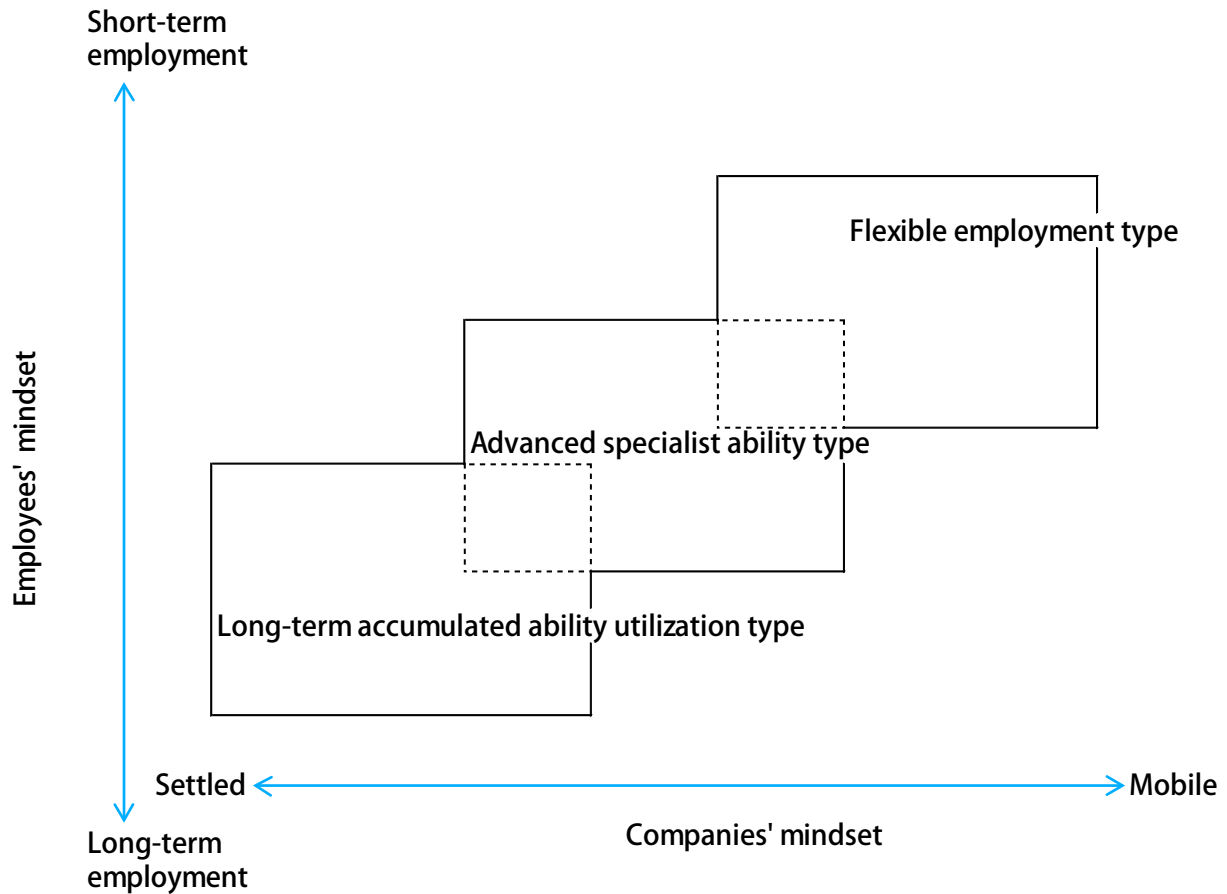
Figure I-8 Trends in the Unmarried Ratio by Age Group

The unmarried ratio is rising in all age groups for both males and females. For example, the unmarried ratio for males aged 30-34 was around 30% in 1990 but has now risen to around 50%.



Source: Compiled with reference to Ministry of Internal Affairs and Communications, *National Census 2010*

Figure I-9 Classification of Employees by Employment Format



Main content of conditions by employment format

	Long-term accumulated ability utilization type	Advanced specialist ability type	Flexible employment type
Employment format	Open-ended contract	Fixed-term contract	Fixed-term contract
Target personnel	Management, career-track, core workers in skilled divisions	Specialist divisions (planning, sales, R&D, etc.)	Non-career track Skilled divisions Sales divisions
Wages	Monthly or annual salary Ability-related Incremental	Annual salary Performance-related No increments	Hourly pay Job-related No increments
Bonuses	Fixed rate + performance-based slide	Allocation by results	Fixed rate
Retirement pay, pensions	Points system	None	None
Promotions and upgrades	Promotion to management Upgrade of professional qualifications	Performance evaluation	Conversion to higher post
Welfare measures	Comprehensive livelihood measures	Livelihood support measures	Livelihood support measures

Source: "Japanese-Style Management in the New Age" Report
Japan Federation of Employers' Associations, 1995