

# The Japanese Employment System

Based on the book,  
written by Marcus Rebick

# Image of Japanese Employment (1)

- *Long-term employment*: Japan is among the group of the countries with the longest average tenures (No. 1: Italy).
- *Enterprise-based unions* are responsible for the fact that the blue-collar workers received similar treatment to white-collar workers.
- *Pay rises with age and seniority*: Both white and blue collars display upward-sloping wage profiles.

## Image of Japanese Employment (2)

- *High participation in decision-making:* Workers are encouraged to be involved with various activities.
- *Large gender-based wage differentials* and few women in the upper tiers of management.
- *Size matters:* Employees of larger firms have higher pay and better benefits, after controlling employee characteristics.

## Image of Japanese Employment (3)

- *Internal training within companies:* Companies prefer to hire new graduates and train them within their organization.
- *Age-based discrimination:* Job advertisements carry explicit/implicit age limits.
- *Large differentials between the regular employees and non-regular (part-time or temporary) workers.*

## Image of Japanese Employment (4)

- *Mandatory Retirement System*: Most workers lose their status as regular workers when they reach the age of mandatory retirement.
- *A well-organized job market for new graduates*: Recruitment is concentrated on early spring (*shu-katsu*).
- *High internal mobility*: Men are often required to live apart from their families (*tanshin-funin*).

# Regular/Non-regular Employment

- The Japanese Labor Standards Law restricts the length of the fixed period contract to less than three years, in order to prevent exploitation of the weaker elements of labor force.
- The case laws and company practices extend employment protection not only to regular workers but also to non-regular workers. Contracts of part-time workers (mostly women) are often routinely renewed on an annual basis.
- The main difference is that non-regular employees do not receive the same fringe benefits (housing, pension, health coverage, etc.) as regular ones.

# Cultural Explanations of Long Tenure (1)

- In 1950s some observers assumed that workers had strong loyalty to their companies from company affiliation, not from occupation (Abegglen 1958)
- But historians have found that Japan's labor market was characterized by very high turnover rates in 1910s.
- The pre-war labor movement had the goal to have blue-collar workers included as full *members* of the organization. In western countries, however, blue-collars maintain a separate identity and class-consciousness.

## Cultural Explanations of Long Tenure (2)

- Take Doi (『甘えの構造』) argues that the prevalence of words connected with *dependency* in Japanese, shows that Japanese people tend to derive much of their identity from group membership.
- Chie Nakane (『タテ社会の人間関係』) says that vertical (superior-subordinate) relations are more important than horizontal relations in Japan.



# Economic Explanations of Long Tenure

- Economists focus on the incentives that keep employees in the same firm.
  - Wage increases with tenure, which makes leaving current jobs less attractive.
  - There is a strong penalty in pension benefits for changing jobs prior to mandatory retirement.
  - Employment protection by case laws.

# Employment Protection by Case Laws

- The courts have decided that employers must meet *four conditions* before they can fire an employee.
  1. Possible bankruptcy makes redundancies (jin-in seiri) unavoidable.
  2. Employers have made efforts to avoid redundancies (cutting overtime, hiring freezes, transfers, seeking voluntary retirements).
  3. They have consulted with the labor unions and employees.
  4. They have a rational procedure to select those who are to be fired.

# Wage Profile

- Classical View: Hashimoto and Raisian (1985) found that the effect of tenure on earnings was much higher in Japan than in the US.
- Revisionist View (Ohtake and others): The estimated returns to seniority or tenure in Japan are no higher than in US.

# Blue-Collar Careers

- After WWII, the idea that workers must be paid a “living wage” that meets their basic needs, prevailed. Older workers have greater need than youth because of their family responsibilities.
- (Koike) Economists offer an alternative explanation that Japanese blue collars receive more training than their counterparts in western countries.
- (Lazear) Other economists argue that the firm will underpay the workers early and overpay them later, in order to make it costly for them to leave the firm.

# Enterprise-based Unions

- The company unions are federated to industry associations, associated with larger national associations: Rengo (11 milion), Zenroren (1m), Zenrokyo (0.25m).
- They are accused to be so docile that they do not represent employee interests.
- Most companies have established joint consultation committees alongside the unions.
- The cooperative approach between management and labor is best shown in the wage negotiations known as *shunto* or Spring Offensive.

# Employee Involvement

- Japan has been a world leader in developing mechanisms for employee involvement in corporate decision-making.
- Group activities (shop-floor committees, quality-control circles) are strongly encouraged.
- Joint labor-management committees (JLMC) facilitate the information sharing about the firm's financial performance and generate higher levels of trust.

# Gender

- Women have not received the same levels of training as men in Japan.
- Women are viewed by management to tend to quit when they marry and have children.
- The participation rate of women by age shows the *M-shaped* pattern.
- Women are unlikely to reach the higher levels of management.

# Firm-Size Differential (1)

- Larger firms pay their highly skilled employees a premium to prevent them from leaving.
- The firm-size differential is related to the industrial organization including the keiretsu relationship between a parent company and many subsidiary companies.
- The quality of labor force declines as one moves down the hierarchical chain.
- Activities with lower values are pushed into subordinate firms.



## Firm-Size Differential (2)

- The firm-size differentials after controlling education are much larger than in US.
- Larger firms pay higher wages to motivate their employees to make more efforts.
- Larger firms are more highly unionized and the employees are engaged in rent sharing with the employer.

# Firm-Size Differential (3)

- Employees tend to move to smaller firms after the age of 50.
- Most firms prefer to pay an egalitarian pay structure within the firm, but they are always willing to reduce middle-aged employees because they are paid higher than their productivity.
- They encourage their middle-aged employees to move to the subsidiary companies that pay a lower wage.

# Age-Based Discrimination

- Western observers are often surprised to find that age discrimination in job advertisements are not only widespread but also socially acceptable in Japan!
- Age discrimination is due partly to the age-based pay structure that new hires tend to be paid according to their age.
- Managers often complain that new hires do not fit in well with the 'company culture'.

# Mandatory Retirement System

- The most common average age of mandatory retirement is 60, which is an outcome of the efforts by the government and unions since public pension benefits are not available until age of 60.
- Older workers than 60 are likely to be re-contracted at a lower wage or transferred to small subsidiary companies.
- Japan is in the group of countries with the highest participation rates of old workers, partly because of low pension benefits.