



“Summary of article by James R. Lincoln and Yoshifumi Nakata: The Transformation of the Japanese Employment System: Nature, Depth, and Origins” in Frontier Issues in Economic Thought, Volume 4: The Changing Nature of Work. Island Press: Washington DC, 1998. pp. 91-94

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In the 1980s, as in earlier years, the rapid economic growth of Japan was often attributed in part to the nation’s unique employment system. However, in the 1990s the Japanese economy entered a period of stagnation, which has started to undermine past employment practices. This article describes the changes in the Japanese employment system that have resulted from the economic slowdown and intensified competitive pressures of the 1990s. The article is based on interviews with corporate and union leaders, and on a review of reporting in the Japanese business press.

LEGITIMACY AND CHANGE

There is a high degree of legitimacy attached to the “three pillars” of the traditional Japanese employment system: lifetime employment guarantees for most employees of big companies; steep, automatic salary increases based on seniority; and enterprise unions that work cooperatively with business and government to find consensus solutions to economic problems. The widespread acceptance and legitimacy of these institutions is an important constraint on Japanese management. Even when firms announce that they are making a dramatic break with tradition, in order to create a public image of forward-looking innovation, they often prove to be adopting only cautious and incremental changes in existing employment practices.

Yet there are powerful forces for change. Japanese corporations are increasingly investing and expanding abroad rather than at home. U.S. and European firms, having absorbed some Japanese manufacturing techniques [such as “lean production” methods, discussed in Chapter ___ of this book], are increasingly effective competitors. Deregulation is opening formerly protected industries to both foreign and domestic competition. The aging of Japan’s population makes the seniority system increasingly expensive to maintain. The rise of the service sector, with a largely female and more mobile work force, has increased labor turnover and reduced long-term commitment on the part of both employers and employees.

Responding to such changes, Japanese employers have, to a remarkable extent, bent rather than broken traditional employment practices.

THE END OF PERMANENT EMPLOYMENT?

Japanese corporations have always found ways to achieve some flexibility in staffing levels, despite lifetime employment guarantees to permanent employees. The use of flexible staffing arrangements, often hidden from view, has increased markedly in the 1990s, but is not an entirely new phenomenon. Workers past the retirement age (formerly 55, now 60) are often rehired on a temporary or subcontract basis; they are usually willing to work at much lower pay rates since they are also receiving pensions. Part-time, seasonal, and temporary work, though used much less than in the U.S., are on the increase. Most temporary workers are women, while almost all permanent employees at major firms are men.

“The line between a forced layoff or dismissal and voluntary early retirement has always been thin in Japan.” (40) In the past, those who resisted the “tap on the shoulder” could rely on the lifetime employment guarantee, though at the cost of isolation in a dead-end career. Now firms are more aggressively seeking to dislodge the “sitting by the window tribe,” although they are facing resistance from unions and from individual lawsuits. The Ministry of Labor sometimes intervenes to block what it views as excessive workforce reduction policies.

Within the *keiretsu* (interfirm networks), the dominant firms can transfer excess employees to affiliates, suppliers, and other partners. This practice, known as *shukko*, has become more common in recent years. Because wages and benefits depend on the size of the firm, the *shukko* worker suffers an economic loss. One manager said that the use of *shukko* left the leading firm with the best and the worst employees: the ones it wanted to keep, and the ones the affiliates would not accept. For the firms on the receiving end, *shukko* could mean increased communication and links with the leading firm; on the other hand, it often saddles the recipient with employees who have proved ineffective in another job, and have the wrong skills for their new positions. Nonetheless, the deeply entrenched legitimacy of the hierarchical *keiretsu* structure means that *shukko* is almost always accepted.

RECRUITMENT, SENIORITY, AND PAY

In the past, Japanese corporations hired bright, inexperienced college graduates for most managerial, professional, and technical positions, and trained them on the job as they moved up the seniority ladder. While this approach remains common, many firms are finding that it is no longer entirely adequate in an era of rapid technical change. Midcareer hiring of workers with desirable skills, and recruitment based on specific technical abilities rather than general aptitude, are both beginning to appear. The traditional hierarchy of management titles is still used in many contexts, but new career patterns are emerging. The Ministry of Labor recommends, and several leading firms have adopted, three separate promotion tracks for managers, researchers and planners, and skilled workers and technicians -- with promotion and pay based on ability within each track, not simply on seniority.

This is potentially an important challenge to the seniority system. In the past, workers started at very low salaries but could look forward to a lifetime of steady raises. Young workers were paid less than their productivity warranted, while older ones were paid wages in excess of productivity. This system assumes, and encourages, lifetime employment guarantees; in the absence of such guarantees, young workers would not accept it. However, performance reviews have always played a part in this system (although this fact has rarely been discussed in the

English-language literature). The qualities that are rewarded are signs of commitment to the corporation, skill acquisition, and long-term potential, rather than short-term achievement. Evaluation of merit, in these terms, blends into rewarding seniority and loyalty.

Although the seniority-based system of pay remains much in evidence, it is of gradually decreasing importance. During the 1980s, the age-earnings profile for male university graduates became significantly flatter, with the greatest change occurring in the lowest-paid categories. As economic conditions have threatened to disrupt the stability of labor relations in the 1990s, unions have opted to protect permanent employment rather than seniority-based pay and promotions. This is a noteworthy shift for Japanese unions, which formerly defended both principles. However, there are limits to the extent of change in this, as in other areas: systems of executive compensation based largely on short-term (e.g., previous year) performance, while much discussed in the press, are apparently used by only a small minority of firms.

CONCLUSIONS

Economic forces are propelling broad and sweeping changes in the Japanese employment system; but it would be easy to overstate the extent to which new practices have been implemented. As a Japanese reporter said about labor trends in 1995, “Most companies are phasing in change at a snail’s pace.” (50) Resistance from unions, government ministries, and public opinion plays some part in limiting the speed of change. So does the strength of the postwar consensus and the legitimacy attached to established Japanese employment practices and industrial relations. “[W]elfare corporatism remains a pervasive organizing principle of the Japanese employment system.” (50)

Previous research by one of the authors showed that, as of the early 1980s, age, family obligations, seniority, and on-the-job training were more important determinants of wages in Japan than in the U.S. While that analysis has not been formally updated, the present article suggests that only incremental changes have occurred in the past pattern of Japanese labor relations. “Assuming that real economic recovery takes hold, we envision considerable stabilization of Japanese employment practice, albeit at a higher level of market-oriented flexibility than the three pillars system has thus far allowed.” (51)