

THE ECONOMICS OF WORK IN JAPAN

KOIKE KAZUO

Professor of Human Resource Management
Hosei University



LTCB International Library Selection No. 3

THE ECONOMICS OF WORK IN JAPAN

KOIKE KAZUO

Professor of Human Resource Management
Hosei University



LTCB International Library Foundation

Transcription of names

The Hepburn system of romanization is used for Japanese terms, including the names of persons and places. Long vowels are not indicated. Chinese terms are romanized using the pinyin system. The Wade-Giles system is used, however, for certain place-names outside mainland China. As for the romanization of Korean terms, the McCune-Reischauer system is used.

With regard to Japanese, Chinese, and Korean personal names, we have followed the local custom of placing the family name first.

This book was originally published in Japanese in 1991
by Toyo Keizai Inc. under the title
Shigoto no Keizaigaku.

© 1991 by Koike Kazuo

English translation rights arranged with
Toyo Keizai Inc.

© 1995 by LTCB Library Foundation

All rights reserved by LTCB International Library Foundation. No part of this book may be used or reproduced in any manner whatsoever without written permission except in the case of brief quotations embodied in critical articles and reviews.

Published February 1996 by LTCB International Library Foundation
1-8, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100, Japan
Tel: 03-5223-7204 Fax: 03-5511-8123

This book abridged from originally translated English manuscript.
Translation and production by Simul International, Inc., Tokyo

Printed in Japan

ISBN 4 924971-02-2 C1336 P3000E

Preface to the English-Language Edition

This book presents in broad outline my analysis of Japan's labor economy and human resource management. I focus on work—highlighting the way work is done and the formation of work ability. Work is an important part of life with a profound impact on the way people live. In researching it, I visit workplaces and listen to the people who work there. The observations of workers who have spent many years at their jobs are tremendously compelling. Their work underpins Japan's present standard of living. It is my hope in writing this book to forge an understanding worldwide of how work is performed in Japan.

This book has two main purposes. The first is to show that Japan's labor economy has a lot in common with other industrialized countries' and to thereby present a counterargument to the sometimes overwhelming Japan-is-different thesis. Many people overseas claim that Japanese industrial society is different. Japanese labor practices are unique, they say, its labor market is uncompetitive, and its workers put their company's interests first. Japan, they add, does not play by the same rules as the rest of the international community, and unless it changes its ways the rest of the world cannot compete with it because the rules of international free trade do not apply. Sadly, this argument originated in Japan, where it persists in some quarters. But the analysis of good-quality data discloses many more common aspects between Japan and other countries than it suggests, something made all the more clear through detailed observations of how work is performed at workplaces. There is no mystery in the way work is done; it is quite straightforward and therefore universally comprehensible.

Despite the high degree of similarity an examination of work reveals between Japan and other industrialized countries, differences do exist. Indeed, there are aspects of work in which Japan leads other countries. And it is the second main purpose of this book to explain these aspects. They include the means by which skills are formed; the nature of those skills; and the intensive, long-term competition that stimulates skill formation. Skill refers to the know-how needed to deal with changes or problems for which it is difficult to standardize or document procedures. Ongoing competition encourages the widespread acquisition of know-how.

Let me explain these two purposes further. Japan's labor economy is central to the Japan-is-different argument. The argument refers to Japan's distinctive system of permanent employment, seniority wages, and enterprise unions and especially to the group-centered way of thinking that, despite Japan's lack of domestic market competition, makes the Japanese economy very competitive vis-à-vis other countries.

A lot of excellent statistical data is available in Japan. Using it, I demonstrate that those in Japan who enjoy so-called seniority wages are only part of the workforce and that the workforce in Japan consists of diverse groups (chapter 1). I also point out through a comparison with other industrial countries, for which data has only recently become available, that Japan is not alone in having a seniority wage curve; it is a feature common among white-collar workers in Western Europe and North America. What is distinctive about Japan is that the seniority wage curve also applies to blue-collar workers, a phenomenon that I refer to as white collarization (chapter 2).

Permanent employment is examined through a comparison with recent Western European statistics on length of employment. I demonstrate that there is a group of immobile, long-term employees in Western Europe similar to that in Japan and that the length of employment of blue-collar workers in large Japanese corporations is like that of white-collar workers in Western Europe, further evidence of white collarization (chapter 3). In chapter 7, I examine another aspect of permanent employment: dismissal. Contrary to popular belief in Japan's permanent employment sys-

tem, but as expected, dismissal does occur even in large firms with labor unions if financial losses continue for two years. I show, moreover, that Japan's voluntary redundancy form of dismissal predominates for white-collar workers in the United Kingdom, the United States, and Germany, again indicating white collarization, and that it is only now being extended to blue-collar workers in the United Kingdom and Germany, making Japan a trendsetter.

My examination of enterprise unions takes place in chapter 12. Statistical comparisons of strike activity and a look at organizational structure and function reveal that the basic organizational unit of labor unions in the United States and Germany is the enterprise or the plant and that there are no major differences in the functional separation of roles with respect to wage negotiations and so on.

White collarization epitomizes the merits of the Japanese system. What underlies white collarization, as seen in the wage system, employment, and dismissal, is skill on the shop floor. In this book, the skill that is the source of Japan's competitiveness is called intellectual skill: the know-how to deal with problems and changes effectively. Efficiency does not increase simply because of the increasing sophistication of machinery and equipment. The world is beset by uncertainty. Problems and changes are frequent. Consumer demand alone changes constantly and, for the most part, unpredictably as to when and to what extent and for what product. No one can know precisely what products will be in demand and how much will be sold. How well an enterprise responds to qualitative and quantitative changes has a major effect on efficiency. This requires complex, sophisticated know-how.

Production lines, meanwhile, are never problem free. How well problems are handled is crucial. If not dealt with, line machinery will continue to make defective products, ruining quality and efficiency. If problems could be predicted and the most appropriate way to deal with them predetermined, corrective procedures could be programmed into a machine or computer. But this is impossible, and the time taken in trying would witness a host of changes in machinery and products, adding to the effort's

futility. Instead, workers must acquire the know-how to handle problems and changes. This underpins efficiency.

This, however, entails a superb knowledge of machinery and production processes. Identifying and rectifying the cause of a defect demands such knowledge. It is so important that I call it intellectual skill. To acquire it, workers must experience the full range of a workshop's principal jobs. In Japan, even production workers thus possess know-how approaching that of engineers'. Greater demands for intellectual skills are placed on white-collar workers, but what is distinctive about Japan is that these skills also exist among blue-collar workers. This is why compensation, employment, and dismissal for Japan's blue-collar workforce approximates that of the white-collar workforce.

The difference between intellectual skills and human capital theory is the nature of the skills and their incorporation into and formation through on-the-job training (OJT). Years of experience and schooling are generally used as proxies for the level of skill in quantitative analysis, but in this book I emphasize that skill levels vary depending more on how OJT is conducted. Furthermore, once skill formation is explained the process can be adapted to and developed in other countries.

Long-term competition is vital in forming intellectual skills. Many people say that Japan is not a competitive society. In fact, intense competition surrounds the upgrading of skills in Japan. Psychological theories on corporate commitment do not explain this. Corporate commitment is of no help in dealing with problems. Problems call for technical know-how, the formation of which is difficult without a deliberate promotional policy. Raising skill levels takes time, necessitating long-term competition and incentives, such as unbiased evaluations of skill improvements and commensurate pay.

Long-term competition and incentives are not apparent unless looked for. Intellectual skills are intangible, and the long-term competition needed to develop them obscures the connections between achievement, evaluation, and rewards. I try to define these relationships in chapters 5 and 11. Because intellectual skills are a type of software or technology, it is eminently possible for

other countries to introduce them provided the necessary conditions are in place (chapter 10).

Chapter 1 indicates that there are, contrary to popular opinion, a variety of workers in Japanese workplaces. There are workers in small and medium-sized companies, female workers, and older workers. These groups form the majority of the workforce, and prevailing views about them defy the facts. The dual-structure argument maintains that workers in small and medium-sized companies are sacrificed to the interests of large enterprises, that their wages are low, and that there are large wage differentials according to company size. It is also said that few Japanese women, long confined to the household, join the workforce. Both assertions contradict observations.

Size-based wage differentials do not appear to be especially large in Japan. This is not definitive because quality statistics like Japan's are not sufficiently available for other countries. Intellectual skills, moreover, are present in small and medium-sized companies, although to a lesser extent than in large corporations. They are the basis of contributions by workers from the majority workforce groups to the nation's overall industrial productivity. Without them and the substantial proportions of these groups, would it be possible to increase Japan's competitiveness? The proportion of Japanese women who work outside agriculture, where it has always been high, has long been higher than in Western Europe and North America. Proportions in those regions, however, have increased rapidly over the past 15 years, catching up with and even exceeding Japan's (chapters 8 and 9).

In the last chapter, I present a theory that attempts to explain the trend behind Japan's overtaking other industrialized countries in some respects. It is a version of the latecomer theory that assumes that some as of yet undetermined country will take the lead in the next stage of development (chapter 14).

The concepts that I have set down in this book and the means by which they were derived differ significantly from the usual approach of labor economics. The key concept is skill, particularly intellectual skill. The word *skill*, of course, has been widely used, but few attempts have been made to analyze skill.

Furthermore, this and many of the book's other concepts result from actual observations of practices in Japanese workshops. Statistics and other references were also used, but the literature does not provide statistics for the key concept of skill. This concept can only be studied through patient observation of workers' mobility and performance at the workplace. This is the foundation of this book. Amid the popularity of econometric analysis, my analysis relies on old-fashioned methods.

I am deeply indebted to all those who made this analysis possible—the many people on the shop floor who took the trouble to explain things clearly to an outside observer. Because comparison is essential to an understanding of one's own country, I applied the same methods in other countries. My gratitude thus extends beyond the shop floors of Japan to people in workshops in many countries, particularly in the United States, Thailand, and Malaysia. I thank them for their cooperation.

I am very pleased to have this book translated and published as part of the Long-Term Credit Bank of Japan's LTCB International Library Selection. My sincere thanks to Uehara Takeshi of the LTCB International Library Foundation. My sincere gratitude also to the translator, Jean C. Hoff, of Simul International, for taking charge of such a troublesome translation and to the Simul staff members who undertook the whole process from researching, editing, and proofreading to publication with such fine teamwork. Because I use concepts and terminology that differ from the conventional in texts in other countries, the translation must have been particularly difficult. A personal check of each of the translated and edited chapters, however, revealed a job well done. Again, my thanks.

I also thank all the young scholars and friends—particularly Professor Inoki Takenori, of Osaka University, and Professor Muramatsu Kuramitsu, of Nanzan University—who over the years have made many discerning comments on the original Japanese edition of this book and who have guided my research in so many ways. Finally, I thank Yamashita Kenkichi, of Toyo Keizai Shinposha, for taking such care in publishing the Japanese edition.

CONTENTS

Preface to the English-Language Edition	ix
Chapter 1 Various Worker Groups	1
The Self-employed and Employees	1
An Unlimited Supply of Labor	9
Chapter 2 Examining the Seniority Wage Legend	13
The Commonly Accepted Views	13
The Wage Profile and Wage Scale	15
An International Comparison of Age-Wage Profiles	18
Chapter 3 Examining the Permanent Employment Theory	29
Job Separation Rates	30
International Comparisons of Job Tenure	34

Chapter 4	The Careers of Workers at Large Companies	43
	Workers at Large American Companies	43
	Starting a Career	50
	Broad OJT	54
Chapter 5	Intellectual Skills	63
	Dealing with Changes and Problems	63
	Separated Systems versus Integrated Systems	66
	Methods of Forming Intellectual Skills	68
	The Future of Intellectual Skills	72
Chapter 6	Current Theories	75
	The Human Capital Theory	75
	Internal Labor Markets	78
	Explaining Job Attachment	81
	Constructing a Career	84
Chapter 7	Adjustment to Change: Dismissal and Unemployment	89
	Employment Adjustment	89
	Dismissals in Japan	96
Chapter 8	Workers at Small and Medium-Sized Companies	109
	Wage Differentials by Company Size	109
	Various Views	119
	Skill Formation at Small and Medium-Sized Companies	124

Chapter 9 Women and Older Workers	131
Older Workers	131
Women Workers	140
Chapter 10 The Transferability Overseas of the Japanese Way of Working	153
The Issue	153
Japanese Corporations in the United States and the United Kingdom	155
Skill Formation in Southeast Asia	160
Documentation	163
Technical Cooperation	166
Chapter 11 College Graduates in Industry	177
Transferability Abroad	177
Early Screening System	181
Promotion within a Japanese Corporation	186
Chapter 12 Labor Unions in the Workplace	195
Labor Disputes: An International Comparison	195
Local Unions In The United States	199
Works Councils In West Germany	203
Enterprise Unions In Japan	207
Chapter 13 Changes in Wage Levels and Unemployment	217
Wage Levels	217
Unemployment	223
Distribution	229

Chapter 14 Basic Theory and the Theory of Stages	233
Basic Theory	233
The Theory of Labor Types	241
Stage One—the Age of The Craft Union	243
Stage Two—the Age of The Industrial Union	250
Changeover—an Explanation of National Differences	255
Epilogue	261
Appendix	265
Notes	267
Index	283
The LTCB International Library Foundation: Statement of Purpose	

Various Worker Groups

THE SELF-EMPLOYED AND EMPLOYEES

Gainful Employment

It is sometimes mistakenly believed that most Japanese workers work under long-term employment and seniority wage systems. But, as is true everywhere, a variety of worker groups exist within Japan.

An important distinction must be made between the self-employed and employees. Working conditions are quite different, even for workers doing the same job, depending on whether workers are self-employed or salaried employees. In statistical parlance, this distinction is called employment status. Employers make up a third category, but they constitute a very small minority of the labor force and will not be discussed here.

What percentage of the total does each of our two categories account for? To find out, we must clarify how many people in Japan are gainfully employed. These figures are seldom recorded, and when they are no explanation of how they were calculated is offered. Answering the question, therefore, will be no easy task. We must delve into basic data.

The most reliable data for postwar Japan are provided by the National Census and the Basic Survey of Employment Structure, both compiled by the Statistics Bureau of the Management and Coordination Agency. A national census is a country's basic statistical survey. For the time being, we will look for the numbers we need in Japan's 1985 National Census. The National Census

divides Japan's gainfully employed workers into the following groups:

Labor Force	60,390,000	
Employed	58,360,000	100.0%
Self-Employed	14,360,000	24.6%
Farm & Forestry	4,710,000	8.1%
Nonagricultural	9,670,000	16.5%
Employees	41,300,000	70.8%
Employers	2,690,000	4.6%
Unemployed	2,030,000	3.5%
Not in the Labor Force	34,410,000	

The census first classifies the 94.97 million people in Japan who are 15 years of age or over by whether they are in the "labor force" or "not in the labor force." Those in the labor force are the "employed" and the "unemployed" who are looking for jobs. Those not in the labor force include students, housewives, the elderly, and others who are neither employed nor seeking employment.

Establishing who is in the labor force is somewhat troublesome. The method is to ask people using questionnaires and to make a decision based on their responses. But people can be asked about their activities in two ways: either for a specific period or in general. The former approach is known as the actual situation method, while the latter is the usual situation method.

Japan's National Census uses the actual situation method. For the last week of September, it classifies all those who answer "yes" to the question "Did you work?" during that week as "employed." Work is defined as "a paying job," which "includes part-time work, side jobs, and helping out in a store or on a farm." Even those who worked "at all" during that one week are considered "employed."

As a result, the census counts as employed those people who normally do not work but who happen to work even slightly during that one week. This approach inevitably results in an overestimate of the working population. To counter this, the Basic

Survey of Employment Structure adopts the usual situation method, which asks whether someone usually works. Inevitably, this method estimates the size of the labor force to be smaller than does the actual situation method. According to the 1985 census, 63.6 percent of Japanese aged 15 or over belonged to the workforce. Two years later, in 1987, when one would expect the figure to have grown, the Basic Survey of Employment Structure revealed that the number had instead declined to 62.2 percent. The variation between these two methods is greatest in the case of women and the elderly. International comparisons of the percentages of women and the elderly who work must take this into account.¹

Nonetheless, these two sources of basic data are invaluable and help illuminate factors in addition to those discussed. The Basic Survey of Employment Structure collates more important facts. Information on workplace size and on income, for example, is available only in the Basic Survey. This degree of detail is possible because the Basic Survey entails having statisticians ask questions directly at each household of a sampling on a scale of 1:100. The National Census tends to avoid questions that may infringe on privacy and so cannot probe as deeply. On the other hand, any study of trends that predate World War II is dependent on the National Census, which has been carried out every five years since 1920. The National Census is also the source to turn to for information on every city, town, and village in Japan. Because it is a survey of the entire population, it collects and classifies extremely detailed statistics for each part of Japan.

Self-employment

The figures cited earlier indicate that of the gainfully employed nearly a quarter were self-employed while 70 percent were employees. The existence of large-scale self-employment has long been regarded as a sign of late economic development. In all countries prior to modernization, the self-employed, especially farmers, accounted for most of the gainfully occupied, but their numbers were thought to decrease with economic development, as many farmers become employees.

The trends depicted in figure 1-1 suggest that this was not the case in Japan. True, the percentage of employees has increased rapidly, and the number of self-employed in farming and forestry has precipitously declined, but there has been no decrease in the number of self-employed in nonagricultural areas; in absolute terms, their numbers are clearly rising, while the relative importance of nonagricultural self-employed has leveled off. According to the figures given previously, self-employed farm and forestry workers were a mere 8 percent of the gainfully employed in 1985, whereas nonagricultural self-employed, at 17 percent, already accounted for most self-employed. What is the reason for this? Is Japan alone in having so many nonagricultural self-employed?

Figure 1-2 gives an international comparison of self-employment rates. Please note that the figures for Japan differ from those given earlier because only the owners of businesses are included. The self-employed in any country consist of business owners and

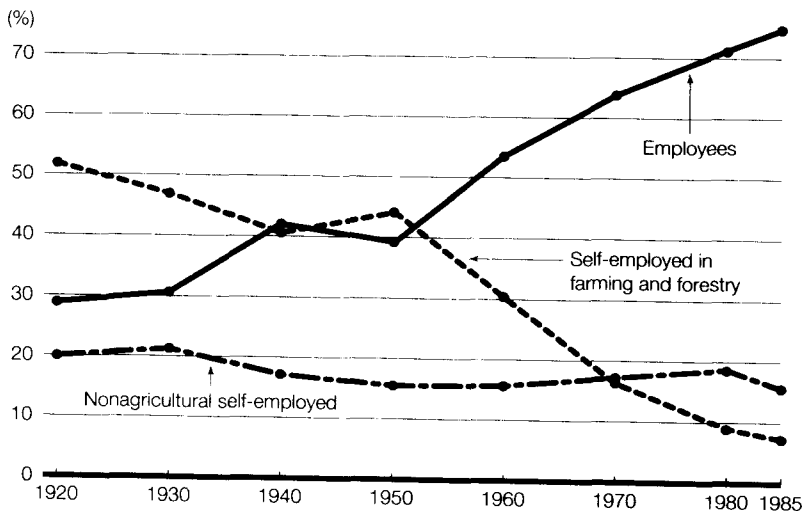


Fig. 1-1. Self-Employment and Employee Rates for Japan (1920–85)

Sources: National Census. Figures for 1920 and 1930, however, are from Ishizaki's estimates based on the National Census (Showa Dojinkai, ed., *Koyo to Shitsugyo* (Employment and Unemployment), p. 40).

Notes: 1. For 1920 and 1930, the category "self-employed in farming and forestry" has been substituted for the employed in farming and forestry. The difference between the two categories is thought to be insignificant for the agricultural sector.

2. For statistical purposes, "employees" includes "executives."

3. The number of gainfully employed workers for each year is set at 100.