

NEW DYNAMICS OF LABOR MARKET IN JAPAN

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Abstract

This article highlights the major issues faced by the Japanese workforce in the after-math of economic slowdown in the last decade of 20th century. Collapse of Japan's economic bubble in 1990s was taken as 'lost decade' having wider implications on labor market in Japan. With continued economic hardship in running century, the employment sector in Japan is going through major changes, moving away from the framework of traditional employment to non-traditional employment. This shift includes the erosion of the life time employment system, lowered retirement ages, the hiring of disabled employees and encouragement of more women in the workforce.

Introduction

The Japanese labor market is undergone a structural shift in nature of its workforce. Multiple factors could be attributed in bringing out this radical restructuring in the conduct of the jobs among workers. The economic stagnation in early 1990 made many firms to reconsider the policy of employment so as to curtail expenditures by introducing the performance- based model in employment of workers.

Traditionally Japan followed lifetime based model and seniority pay. Many companies have moved away from this tradition, instead, companies are reducing the number of regular employees. The hiring of part-time worker or non regular labor is more prevalent in lieu of onset of corporate governance and advance of globalization having ripple effects on Japanese labor market. Before 1990s, about a third of workers income was from bonuses equal to approximately three months wages. In recent years, the companies have decreased the bonuses while making small increases in the base wage.

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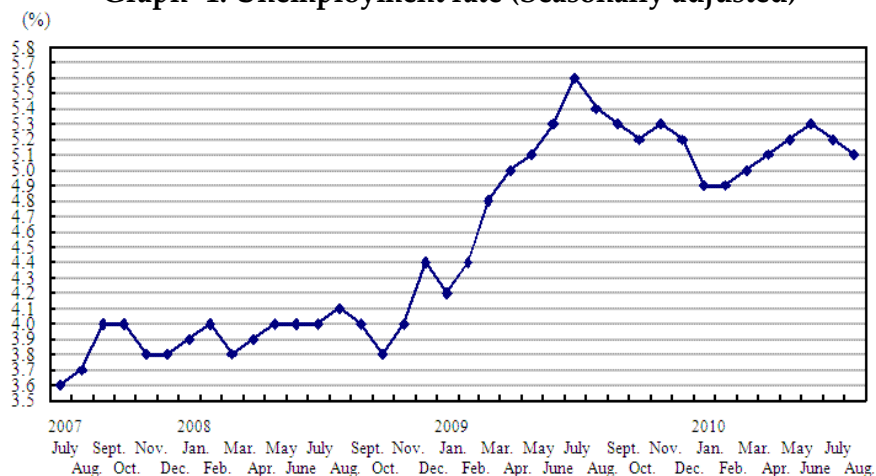
The workforce in Japan is well educated and skilled. The major segmentation is urban enterprises about 90 percent are concentrated there. The rural work force is mainly engaged in farming, fishing and forestry consist of only five percent of total work force.

The global credit crisis in 2008 has increased unemployment all over the world. In this respect, Japan is not immune to this phenomenon. The current unemployment runs at five and half percent in Japan. The division of labor force by occupation and unemployment ratio in general: gender wise and by age-profile is given in the following table: 1.

Table – 1: The division of labor force by occupation and unemployment ratio in general: gender wise and by age-profile
(in million)

Year	Population of 15 years old or more		Labor force		Employed persons		Unemployed persons %	
2005	109.96		65.97		64.48		4.7%	
	65.7 Male	44.2 Female	37.8 Male	25.17 Female	36.28 Male	28.2 Female	4.5 Male	4.2 Female
2007	110.46		66.01		64.46		3.7%	
	53.43 Male	57.02 Female	38.55 Male	27.43 Female	37.71 Male	26.75 Female	3.7 Male	3.8 Female
2008	110.50		66.77		64.05		4.1%	
	53.44 Male	57.09 Female	39.05 Male	27.73 Female	37.44 Male	26.61 Female	4.1 Male	4 Female
2009	110.50		66.57		62.96		5.4%	
	53.41 Male	57.09 Female	38.53 Male	28.03 Female	36.35 Male	26.0 Female	5.7 Male	5.1 Female
2010 (Sep)	110.49		66.15		62.78		5.0%	
	53.37 Male	57.12 Female	38.30 Male	27.84 Female	36.27 Male	26.5 Female	5.2 Male	4.8 Female

Source: Ministry of Health, Labor and Welfare 2010; Ministry of Health Labor and welfare 2010)

Graph- 1: Unemployment rate (Seasonally adjusted)

Source: Japan Statistical Yearbook 2010.

In the past, the work structure based on lifetime employment poised the workers to work hard and demonstrate loyalty to the firm, in exchange for some degree of job security and benefits, such as house allotment, medical facility, bonuses and pension wages were low initially, but seniority was rewarded with promotions over-time. While lifetime employment is still regarded as one of the distinctive features of Japanese employment system, the researchers have pointed out that now such as system covers only a minority of workers in job.

Currently, the ratio of organized labor in Japan is drastically low, and the number of union members continues to decline after reaching a peak in the mid 1990s). As of 2007, the ratio of organized labor in Japan is 18.1% the ratio of organized Female workers is 12.2% and the sex compositions of organized labor is 28.5% women and 71.5% men.¹ The percentage of organized part-time workers is 4.8%, considerably low (Equal Employment, Children and Families Bureau, Ministry of Health, Labor and Welfare 2008; Ministry of Health Labor and Welfare 2008). According to the annual report of

2009 by Japanese Ministry of Health Labour and Welfare, non regular accounted for approximately 34% of the entire labor market, more than double compared to mid 1980s. This decline in the trade unions ability to organize workers and low percent of women workers participating in unions may also cause a delay in the implementation of gender – equal policies.²

According to the Health, Welfare and Labor Ministry, women makeup the highest number in the expanding market of part time employees. Women made up 62% of 610,000 part timers in 2009. They are usually employed at call centers, office clerks and workers health care workers or sales representative. Part timers are hired on annual or six months contract by companies or are sent to work by agencies under the labor dispatch law. They are paid on hourly basis, but women are some times paid 30% less than their male counter-parts. Usually their employment contracts do not have paid vacation or allowances to support pensioners.

The division of labor force by occupation and unemployment ratio in general, gender wise is given in the following table:

**Table: 2. Division of labor force by occupation,
employment and unemployment**

(in Millions)

Year	Population of 15 years old or more	Labor Force	Employed persons	Unemployed persons %	Engage in Agriculture sector	Engage in Industries	services sector
2005	109.96	65.97	64.48	4.7%	4.6%	26.9%	66.4%
2007	110.46	66.95	64.47	3.7%	4.5%	27.01	66.8%
2008	110.50	66.77	64.05	4.1%	4.5%	27.7	67.2S
2009	110.65	65.39	62.96	5.4%	4.4%	27.9%	67.7%
2010	110.49	65.39	62.78	5.0%	4.3%	27.6	67.2%

Source: Japan Statistical Yearbook 2010.

Above table indicates that;

Japanese labor involvement in agriculture, forestry, fisheries and land cultivation was 4.6% in 2005, it became 4.3% in Aug. 2010.

Japan's labor involved in main Industries like motor vehicles, industrial and transportation equipment, electronics, chemicals, steel, machine tools, processed foods, nonferrous metals and ship building industries, increased from 26.9% to 27.6% only.

And Japan's service sector like banking, insurance, real estate, retailing, transportation, and telecommunications, accounts for nearly three-quarters (66.4% in 2005 to 67.2% in 2010) of its total economic output.

Changing Patterns of Job Employment

After the slowdown of Japanese economy in 1990s, many companies are moving away from lifetime employment practices to performance-based employment.³ In the wake of collapse of its bubble economy and financial crisis in 1997, Japan is mired in economic quack mire. This has a profound impact on labor market. Previously companies considered employees as being their primary stakeholders but after these crises they began paying more attention to stakeholders as well.⁴

The pattern of employment in Japanese large enterprises is transforming on the lines of 'hiring and firing'. The new strategy is the outcome of management's mind-set to have the right workers in the right place and at the right time.⁵

The march of globalization and rapid technology progress, especially in information sector has altered the mind-set of firms in hiring the employees. In the first place, the ways in which companies raise funds are changing. In the past most firms relied primarily on indirect financing that is borrowing from banks. They are shifting to direct financing through the capital market. In this process, they are

under pressure to lay more emphasis on the pursuit of short-term profits to attract investors. This changing rule of game in labor market of Japan has undermined the position of employees' vis-à-vis companies.⁶

As a result of this shift, labor market is divided into two factions regular and non-regular work-force. The concept of regular or lifetime employment is becoming less prevalent. Instead, companies are reducing the number of this type of workforce more in non-regular workforce or as part-time workers. Part time labor refers to the practice in which part time workers internationally adjust their working hours so that their annual income does not exceed 1,030,000 yen because by law, dependents whose annual income is less than this are exempted from the income tax liabilities.¹⁰ They are regarded as dependents under the Social Security system and eligible to receive spousal allowances from their husband's company.⁷ The division of labor force by employment and unemployment ratio is given in the following table:

Table. 3. The division of labor force by employment and unemployment

(Million persons)

Year	2007	2008	2009	2010
Population of 15 years old or more	110.46	110.50	110.50	110.49
Labor force	66.95	66.77	66.57	65.39
Employed persons	64.47	64.05	62.96	62.78
Unemployed persons %	3.7%	4.1%	5.4%	5.0%

Source: Japan Statistical Yearbook 2010.

Thus, the present tax and social security system, as well as companies wage system, hinder efforts to improve part-time workers wages and support wage gap between part-time employment and regular employment. Further more, part-time workers low wages

adversely affect not only an over all wage structure but also people's lives in the general. Part timers are hired on annual or six-month's contracts by companies or are sent to work by agencies under labor dispatch law; they are paid on an hourly basis. The hiring of large number of contract workers led to an increase in the number of low-income workers which has aggravated the income-gap in Japanese job market. This situation has lowered the rate of consumption, resulting into deflation of its economy.⁸

The hiring of non-regular employees provides more flexibility and easier adjustment in downsizing the workforce. The companies are not required to provide all types of fringe benefits to irregular employees, since the beginning of 2002, the number of non-regular staff is increasing by nearly four percent (4%) every year who are often younger workers or mothers.⁹

The number of non-regular workers has been multiplied, rising from a level of 11 million in 1997-98 to 18 million in 2008. Whereas number of regular workers at peak 38 million in 1997-98, has been reduced to almost 5 million workers in recent times.

Distribution of Work Force

Since 1990s, Japanese job market has seen shift in sectoral employment from manufacturing to service industry.¹⁰ The restructuring of employment mode has vital bearing on the polarization in Japanese job segmentation. The workers in tertiary sector earn more wages. The workers in secondary sector are low paid. In the primary sector, the average farmer's condition is worse where wages are more deflated. The salary of administration and technical workers is about 20% higher than those of production workers.¹¹

The last decade of 20th century and early decade of 21st century are regarded "two lost decades" of Japanese economy.

After decline in export growth, concentration on saving-rate, made Japanese society less consuming. In most modern economics, consumption generally accounts for around 75% of GDP. After losing export-edge in foreign markets, Japan had not increased the home consumption.¹² This ultimately has caused huge deflation at the cost of substantial loss of jobs within Japan.

The structure of Japanese labor market is gradually changing in terms of both supply and demand. The deflation has caused lower demand of workforce making the surplus labor in Japan. More over, deflation in Japan has caused downward spiral in wages and prices. The falling prices continue to put pressure on the Japanese job market as firm cut employment to prop up projects. The running unemployment rate, according to Japanese Ministry of Labor has risen from 2 percent to 5 percent in recent years.¹³

Table 4 shows the distribution of work force in Agriculture, industry and services sectors:

Table-4. Distribution of work force in Agriculture, industry and services sectors:

(In million)

Year	Population of 15 years old or more	Labor Force	Employed Labor Force	Labor force engaged in			Unemployment
				Agricultural sector	Industrial sector	Services sector	
2005	109.96	65.97	64.48	4.6%	26.9%	66.4%	4.7%
2006	110.1	66.0	64.42	4.4	27.2	66.4%	4.6%
2007	110.46	66.95	64.47	4.4%	27.9%	66.4%	3.7%
2008	110.50	66.77	64.05	4.5%	27.7%	67.25%	4.7%
2009	110.65	66.69	62.96	4.6%	27.8%	67.7%	5.6%

Source: <http://www.stat.go.jp/english/data/nenkan/index.htm>

Graph – 2: Unemployment rate in Japan 1953 - 2009

Source: Japan Statistical Yearbook 2010.

This development made Japan to change its investment policy from fixed assets, such as manufacturing, to fluid assets like stock and property markets. After appreciating yen under American pressure by 'Plaza Accord' in 1985,¹⁴ Japanese companies- large and small punted in stock and property market generating huge paper profits that marked their in-efficient domestic business, resulting into bust in its economy. The crunch time came in 1997 in the after-math of financial crisis in the region. The dwindling of fiscal resources undermined the bureaucratic ability to protect industry and industry in turn lost its ability to guarantee jobs for Japan's male breadwinners. As well as, unemployment in youth labor was 9.2% in late 2009.

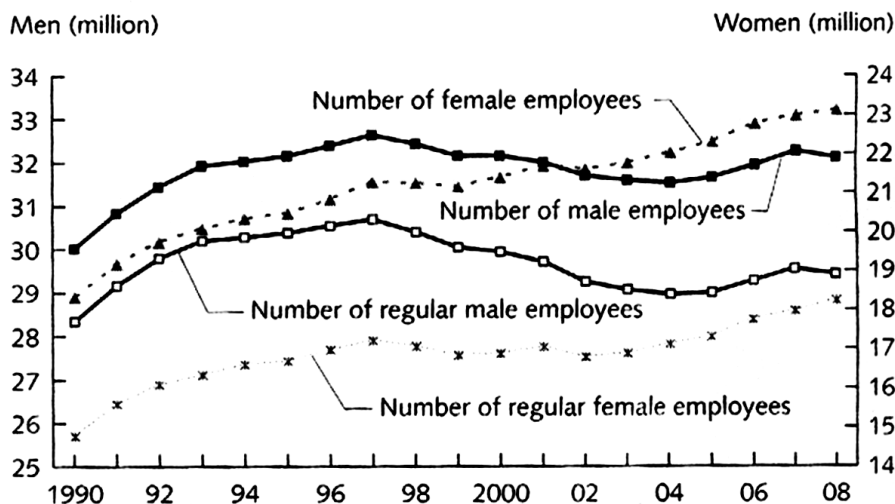
New Problems in Job Market

While minority workers choose non-regulatory jobs such as married women choose part-time jobs but majority is forced in non-regular jobs.¹⁵ The measures taken in this respect, by Japanese corporations include transforming employees to other company and enticing voluntary early retirement. Some employers are explicitly lowering the age from 65 to 60 years. These appear more trends in further lowering the age for retirement. As a result, older workers are particularly vulnerable. Despite the difficulties some young Japanese face in finding employment, almost all jobs positions are for people aged 20-40. The positions available to “older” workers are often in such categories as security personnel and taxi drivers.¹⁶

Disable workers are another potential labor source that has been neglected in Japan; it is against the cultural ethos to expose disable persons in public. In fact in the past, even pregnant women kept out of sight, although in modern times that is not the case. And with new regulations by Japan’s ministry of labor, new efforts are underway to support the disable to join the workforce.

Women Work Force

On the other side of gender, the number of women in the workforce is increasing in Japan. With nearly 60% of women employed in full-time or part-time jobs, while male ratio in workforce is 85% which ranked Japan on 3rd place in the women representation in labor force.¹⁷ On managerial positions women ratio is underrepresented. However, new regulatory laws recognize equal opportunity law by putting glass ceiling for women in the workforce. Despite law protection female is marginal labor force where as male remains the mainstay of labor force in Japan. Male and female ratio in employment is given in the following graph:

Graph – 3: Employment Trends, Male and Female, 1990-2008

Source: Labor Force Surveys, Statistics Bureau, Ministry of Internal Affairs and Communications, Tokyo.

Women employment has been declining in the construction and smokestack industries, which hire many more men than women, but it has been growing substantially in service industries that numerous women, especially in the fields of medical, nursing child care and call centers.¹⁸

Future is pregnant with bright prospects as many Japanese women have travelled to the US and western countries for higher education. As Japan's economy is transforming from manufacturing to service industry, the hunt for these highly skilled people will be critical human resource. Many of these women have valuable training in high tech areas.

Conclusion

In the immediate future, Japan will continue to face economic difficulties, having strong implication on problems of labor force.

Though unemployment remains a big problem at present, the future will be marked with worker shortages on the ground of changing demographic reality of population implosion in Japan. It will definitely put more demand for manpower shortage especially of young people. In this regard the major constrain in employment opportunity is national character of Japanese society. The Japanese are very slow to change their social and business practices.

Under the fear of rising social storm in Japanese society in the guise of ageing problem and population implosion, for keeping the long term assurance in the supply of labor in their country, Japan needs to employ pro-active employment policy to keep the engine of employment warm and working Japan should go for more job creation especially in social sector to address the problem of long-term deficit of work-force which is vital factor of productivity. Sustainable labor power will prove a safe valve for assured economic growth.

The market-rigidity on principle of profitability continues to harm the dynamism of change in business practices. It has resulted into limited foreign direct investment to Japan.

To address the major economic problem deflation, Japanese needs to lessen more reliance on saving their income. It requires diversifying dependence on only export-led growth and providing stimulus to business sector to produce consumer products to activate the functioning of its economy. The Japanese government takes appropriate measures that creates new domestic demand such as agro-industry and in social sector like nursing and child care centers. This is a reasonable way to mitigate the effects of deflation on job market in Japan.

Besides, through legal steps or other persuasive ways government should strive to reduce the widening gap in income level between regular and non-regular workers. This will grow depolarization in

Japanese workforce and it will definitely bring out stability in Japanese labor market.

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