

**UNTRAINED JAPANESE WHITE-COLLAR
EMPLOYEES**

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ABSTRACT

In Japan, company-specific skills are generally developed within a firm at an easy pace. This is because of the influence of the Japanese employment system, which is characterized by the hiring of new graduates, seniority-based promotion/pay, and lifetime employment. Because of global competition, employment practices worldwide include increasing labor mobility and the rise of non-regular employees, and it is difficult – if not impossible – to fight these trends. Japan is no exception.

Fundamental problems regarding the nurturing of talents are put on the back burner while economic restructuring is in progress. The methods of nurturing talents should change because human resources are the key to competitive strategy, especially for Japan whose natural resources are scarce. Japan has to cultivate the strengths of employees who can achieve major results on the international stage, to accelerate the speed of doing so, and to regard these goals as the highest priority in the ongoing restructuring.

INTRODUCTION

I have been working for a Japanese electric power company, which was a monopolistic enterprise to sell electricity in an allocated region, for more than 16 years. Until 2000, the Japanese electricity market was strictly regulated and there were only 10 electric power companies, which were allowed to sell electricity exclusively to customers in specifically allocated regions. As our firm faced deregulation, in which new entrants were allowed to sell electricity, and the decade-long recession, we saw no opportunities for business expansion and decided to seek overseas markets instead. Since 1999, my assignment has been the development, management, and engineering for overseas thermal power plant projects with Japanese and foreign consortium partners. Through my experience working with foreign people, in general, I have found that Westerners are well trained and more capable than Japanese of pursuing international projects.

Initially, I thought they were better trained than just our company's employees, since we had dealt with only the regulated domestic market and did not have sufficient human resources to lead an international consortium team. But as I was working with other Japanese consortium partners including personnel from world leaders in heavy industry and well-known trading companies, which have a good deal of overseas experience, it became apparent to me that this weakness is universal among Japanese firms. If this is the case, lack of training must be an obstacle for the unemployed to find new jobs. I think the Japanese management system for blue-collar employees still functions effectively as such workers have been dispatched all over

the world, but there is considerable room for debate about the management system for white-collar employees.

As I attempted to answer the question of why Japanese white-collar employees, in other words, potential managerial employees, seem to be so unskilled, I concluded that it involves and is deeply related with the Japanese system itself, how the system has changed so far, and other current problems of employment relations. In this paper, then, I will explore the past practice, current status, and future problems of the Japanese human resource management system. Unless otherwise noted, my subject will be major Japanese enterprises.

CHAPTER 1

WHAT IS THE JAPANESE MODEL?

Three unique treasures have been recognized in the Japanese employment system: lifetime employment, seniority-based promotion/wages, and enterprise union systems. These apply, however, only to regular male employees in large firms. Even in such firms, lifetime employment and seniority-based promotion/wages have not been explicitly guaranteed in labor agreements.

Before World War II, there was little difference in turnover rates between U.S. and Japanese firms. What, then, changed the system? One factor was the dissolution of the *zaibatsu*, the large capitalist conglomerates of the past. Each *zaibatsu* contained many firms ranging from banks, trading firms, and manufacturers to shipbuilding companies. After the dissolution, executives who had represented the *zaibatsu* and worked mainly them were removed from their positions, and suddenly it was young businessmen, previously ordinary employees and not related to the *zaibatsu*, who were managing the companies. Following this shift, the majority of executives have been employees who spent their entire careers within one firm and were promoted through the ranks in that company. Such senior executives see the interests of the employees as being as worthy of consideration as those of the investors, and they believe that the employees' interests actually do guide policy to a very important degree.¹ Thus, it is easy to understand that they have been generous to their employees in comparison to their predecessors.

¹Paul Milgrom and John Roberts, *Economics, Organization, and Management* (Englewood Cliffs, NJ: Prentice-Hall, 1992) 350.

The Lifetime Employment System

Lifetime employment in larger firms could be maintained because of the robust Japanese economy and high mobility within a company group (in addition to the sacrifice of many employees, as will be explained later). In Japan, an employee is not hired for a specific job; instead, they are rotated within a firm and nurtured as generalists, who, someday in the future, will receive managerial positions. Transfer from one office to another within a company is acceptable for employees; otherwise, they will not be promoted. This rotation system has the advantage that employees can be nurtured through job rotations, and, obviously, good managers should have experienced many kinds of jobs during their careers.

Atsushi Yashiro, an expert on human resource management from Keio University, gave an example of how the rotation works as training: “If you work for the personnel department in a firm, you need knowledge about other departments and to collect personnel information. Such knowledge and information can be gained through long-term service and building a network of personal contacts. To this end, therefore, job experiences in various departments in a firm are very important.”² Also when business is slow, management can transfer employees from over-staffed departments to short-staffed ones. This practice has contributed to maintaining job stability.³

²Atsushi Yashiro, *Daikigyo Howaito kara no Kyaria: Ido to Shoshin no Jissho Bunseki* (Tokyo: Nihon Rodo Kenkyuu Kiko, 1995) 31.

³The practice is reinforced by case law precedents that restrict an employer’s right of dismissal, as discussed below.

The Seniority-based System

It is said that the Japanese wage and promotion systems are mainly linked to seniority. This is only partially true. In my company, for example, the old wage formula, which was revised recently, already had a merit-based component. The fraction based on seniority was only about 20 percent of the total monthly wages. About 65 percent was merit/skill-based. This was increased to 75 percent, but this seems to be a very minor change in the current situation as compared with the previous one. Despite appearances, in reality, the level of merit was determined based mainly on the length of service. This was because it is difficult to determine an employee's strengths accurately, especially young white-collar workers, and it was believed that employees gained skills with their increasing years with the company.

CHAPTER 2

THE CURRENT STATUS OF THE JAPANESE SYSTEM

It is said that the Japanese system cannot be maintained and has been in the process of drastic change. In this chapter, then, I will examine this argument as it relates to lifetime employment and seniority-based practices.

The Lifetime Employment System

Evidently, as Figure 1 shows, the jobless rate in Japan has been increasing, standing at 5.4 percent in 2002.⁴ This is still lower than the average of other developed countries, but it is an historical high for Japan.

Amazingly, though, there has been little news of dismissal of specific workers in Japan. Because firing of specific regular workers has been extremely difficult due to case law precedents, which require firms to clear minimum criteria before doing so, employers have taken the following measures: cutback on hiring new recruits, transfer within the firm, transfer to subsidiaries, temporary release from work, solicitation of voluntary retirement, dismissal of temporary workers, and so forth. Of course, dismissal rates in small and medium-sized enterprises have been always higher than those in bigger firms. What, then, has driven up the unemployment rate in large enterprises?

⁴Ministry of Health, Labor and Welfare of Japan (MHLW), "White Paper on the Labor Economy 2003, Economic and Social Change and Diversification of Working Styles 2003," 24 February 2005 <<http://www.mhlw.go.jp/english/wp/wp-l/index.html>>.

According to Figure 2, among job seekers, including those who left a firm for personal reasons, only 8.7 percent of them were laid off from large firms, i.e., those with more than 1,000 employees (8.7 percent = 45.7 percent x 19.1 percent). Dismissals of regular workers are still less common among larger firms than smaller ones. In contrast, the rate of people who accepted voluntary retirement is higher among larger firms than smaller companies. It can also be confirmed that about half of the job seekers who left larger firms at the employer's request have reached retirement age or completed their contracted terms.⁵ This trend can also be confirmed by an OECD report stating that (Japanese) regulation of individual dismissals of permanent workers is stricter than the OECD average and has not changed much since the late 1980's; in practice, firing permanent workers is rare in Japan, where the preference for lifelong attachment to a single employer is still predominant.⁶

Another cause of the increased unemployment rate is unemployment among young people. Figures 3 and 4 indicate the harsh job market conditions for new graduates.⁷ As can be seen in Figure 3, the unemployment rates of the younger cohorts show a larger negative deviation from the average. For example, the 2003 rate for the age 15-19 group 6.6 percent

⁵MHLW, "Heisei 14-nen Kyushokusha Sogo Jittai Chosa, 2002," 24 February 2005 <http://www.dbtk.mhlw.go.jp/toukei/kouhyo/indexkr_26_1.html>.

⁶Organisation for Economic Co-operation and Development (OECD), "How Does Japan Compare? 2004" 19 April 2005 <<http://www.oecd.org/dataoecd/30/56/32562071.pdf>>.

⁷MHLW 2003; MHLW, "Sei, Nenrei Kaikyū Betsu Kanzen Shitsugyōsha Oyobi Kanzen Shitsugyoritsu 2004," 25 February 2005 <http://www.dbtk.mhlw.go.jp/toukei/youran/indexyr_b.html>.

points higher than the average; in other words, the unemployment rate of the cohort is 11.9 percent.

Viewed in this light, the increased jobless rate in large enterprises is not mainly due to dismissals but to voluntary resignations, leaving only a few spaces for new graduates. All these factors make it clear that larger enterprises have attempted to (or have had to) maintain the lifetime employment system for their core employees, finding other solutions to overstaffing and leaving dismissal as a final solution.

The Seniority-based System

As explained above, the Japanese wage/promotion system had, in effect, been operated as seniority-based, although the system itself emphasized skills and merit. Of course, almost all firms have changed their wage/promotion systems, but the question is whether the seniority-based structure has actually changed. If the promotion system were based on seniority, we would see many accelerated promotions and young executives. But I rarely saw an accelerated promotion in my company, and my impression of the situation is that the wage gap between employees did not widen; on the contrary, overall promotion slowdowns are of particular note. Yoshio Higuchi, professor of labor economics at Keio University, undertook a study that shows average promotion ages and tenures for male employees at large Japanese companies between 1976 and 1999 and here, clear signs of promotion slowdowns can be seen

(Figure 5).⁸ As of 1976, the average tenure of university graduates before they became a section manager was 17 years, and that before becoming a department head was 21.9 years; by 1999, these had increased to 20.9 and 26.3 years, respectively. Higuchi argued that the wage dispersion among university graduates who joined a company in the same year has been gradually widening. This is not due to a wider wage gap between managers and rank-and-filers, however, but to the increased number of university graduates who cannot be promoted because of the limited number of positions.⁹

It may be possible to construe that the new merit-based systems have counteracted the seniority-based promotion and pay raise systems. Instead, though, I would argue that firms have had to slow down overall promotions because of the large number of baby boomers, the growing burden of salaries, and organization flattening, but so far promotion is still decided primarily based on seniority and then secondarily merit among the various candidates. This is no different from the traditional seniority-based promotion system, although there has been a slight change with regard to competition. In the past, everybody became a department manager, saving the actual competition for executive positions, but these days, there is competition at the department manager level.

⁸Yoshio Higuchi, *Jinji Keizaigaku* (Tokyo: Seisansei Shuppan, 2001) 67.

⁹Higuchi 74.

CHAPTER 3

WHY DO JAPANESE WHITE-COLLAR EMPLOYEES SEEM TO BE UNTRAINED?

Through my experience working with foreign businesspeople, I feel that, in general, Westerners are well trained and more capable of pursuing international projects as compared to the Japanese. Does this imply that the productivity of Japanese white-collar employees is low? According to a study by the Japan Productivity Center for Socio-Economic Development (JPC-SED), which compares productivities among OECD countries, the productivity of the Japanese manufacturing sector in 2002 was the third highest among 30 OECD countries.¹⁰

It has been said that the productivity of blue-collar workers in Japan is very competitive, but that white-collar workers are a burden for their employers. Keidanren (the Japan Business Federation), which is the largest employers' association in Japan, has looked for opportunities to note that the productivity of the nation's white-collar workers needs to be improved.¹¹ The productivity of white-collar employees, however, is hard to measure because labor productivity is a ratio between input and output (products or services), and the output of white-collar employees is difficult to define. Recently, however, Keio's Takanobu Nakajima calculated the rate of change of productivity of white-collar employees in three industries by dividing the rate

¹⁰Japan Productivity Center for Socio-Economic Development (JPC-SED), "Dai 15-kai Kigyo Hakusho, March 2003," 14 April 2005 <http://www.doyukai.or.jp/whitepaper/articles/pdf/no15/040116_5.pdf>.

¹¹Refer to the Japan Business Federation website <<http://www.keidanren.or.jp/>>.

of change of overall productivity into direct and indirect department contributions (Figures 6 and 7).¹²

During the period between 1985 and 1996, indirect departments in all three industries made larger average contributions to increase total factor productivity (TFP) than production departments did. In the electric machinery industry in the post-bubble economy, indirect departments made up for the slump in the production departments. At the same time, in the steel industry, a sharp drop in the contributions of product departments to the TFP stood out. And, in the transportation production industry, contributions by indirect departments were larger in general. Based on these results, Nakajima argued that indirect departments are not a burden for firms, but rather propped up their productivity during a period of huge business fluctuations.

If that is indeed the case, then what caused my impression that Japanese white-collar employees are untrained? I would argue that this is an effect of a variety of causes: lifetime employment, the seniority-based system, and collective working practices (decision-making by consensus); thus, individual white-collar employees appear untrained, although their collective productivity is high. The causal relationship regarding unskilled labor is shown in Figure 8.

Maintaining the lifetime employment system, which means low mobility outside a firm, requires high mobility within the firm. Employees move from job to job and from office to office within the same firm and, thus, are not required to be specialists. In the United States, new MBA

¹²Takanobu Nakajima, *Nihon Keizai no Seisensei Bunseki* (Tokyo: Nihon Keizai Shinbun-sha, 2001) 139-140.

graduates, for example, are treated very well and paid sizable salaries. In Japan, on the other hand, my friends who have master's or doctor's degrees and joined the company in the same year generally receive the same wages as those with no graduate-level education. This means that the starting salary for a fresh recruit with a master's degree was calculated assuming that he or she was a college graduate with two years of work experience; consequently, working at a firm and studying at a graduate school for two years are virtually the same in terms of wages and promotion. Because firms did not appreciate the specialties of new graduates, students were less motivated to obtain specialties or improve them if they did have them. Thus, vocational training has relied heavily on a training system that has been mainly provided by on-the-job training (OJT) within a firm. OJT is usually very informal and is not well planned; thus, employees mainly acquire firm-specific skills, for example, how to handle a document, for which approvals must be gained, and so on.

How much money, then, do employers spend for training? The Japan Association of Corporate Executives (Keizai Doyukai), which is an association of top executives, stated in its "Opinion Report Regarding Restructuring of the Labor Market" issued in 2000 that the mobility of the labor market should be increased; for that purpose, firms should be responsible for improving the level of their employees' career development, education, and training.¹³ In a questionnaire conducted by Keizai Doyukai in 2003 to which more than 200 major firms answered, over 95 percent of them said that they "have been working on improvement and

¹³Keizai Doyukai 2000.

enhancement of their education and training programs to increase their employees' employability."¹⁴

The reality, however, proved different. According to economist Lisa Lynch of Tufts University, among other developed countries, Japan has spent the smallest amount of money on training (Figure 9).¹⁵ On average, Japan spent only 0.4 percent of total labor costs on training, while other countries spent 1.3 to 2.5 percent. Even considering that the Japanese number excludes trainees' wages, it seems very low. And to make matters worse, Figure 10 shows a downward trend in this regard.¹⁶ Thus, even though executives said that human resource development has been becoming more important in the global economy, training expenses have been chopped. The difference in the training expenses between the 1988 peak and 2002 is a 26 percent, or ¥100 billion, reduction. The reason for this seems to be today's increased labor mobility; in other words, firms do not want to spend money on an employee who might leave.

This is an ironic situation since people should be better trained to increase their value in a labor market with increased mobility. Management should take a human development policy that really makes a difference in the long run. From that perspective, I sympathize with and quote the

¹⁴Keizai Doyukai March 2003.

¹⁵Lisa Lynch, "Payoffs to Alternative Training Strategies at Work." R. Freeman, ed., *The New Inequality in the U.S., Growing Apart: The Causes and Consequences of Global Wage Inequality* (Washington, D.C.: The Brookings Institution, 1999) 73.

¹⁶Ministry of Economy, Trade and Industry (METI), "Kusanone e Rangu Kenkyukai Chukan Hokokusho ni Kansuru Sanko Shiryo, 2004" 24 February 2005
http://www.meti.go.jp/policy/economic_industrial/report/downloadfiles/g41022a02j.pdf.

words of Tsuyoshi Kikukawa, President of Olympus Corporation, who said: “I want to create a firm from which other firms want to headhunt personnel by reason of the fact that they are well trained and the firm’s training system is superb. It is OK if our human resources are headhunted by Sony or Canon, because if that happens, Olympus will do very well in business and the morale of the staff will be improved. Even if some of our best people are headhunted away by competitors, we will continue to undertake training and this will nurture fresh talent within the company.”¹⁷

Employees get firsthand experience in several jobs by employee rotation within a firm; at the same time, this helps a firm to maintain internal labor flexibility and mobility. Regardless of the length of tenure at a firm, when a worker is transferred to a new office and a new position within a firm, he/she is a layperson about the job. If the wage system were based only on merit, transfers would lead to pay cuts and would not be acceptable to the employees. Therefore, the seniority-based promotion and wage system facilitates high mobility within a firm for maintaining the lifetime employment system.

In Japanese firms, divisions of labor, sharing of work, and job descriptions are very ambiguous, and employees are expected to work collectively, i.e., “decision-making by consensus.” Even though employment contracts generally tend to be incomplete and implicit because of the impossibility of covering every eventuality, those in Japan are even more so than elsewhere.

¹⁷Tsuyoshi Kikukawa, *Jinzai Ikusei wa Keieisha no Sekinin* (Tokyo: Nikkei BP Corporation, 2003) 38.

The seniority-based system has obvious shortcomings; it motivates employees less and creates free riders. To prevent such problems, firms keep everybody in the competition for promotion. To keep hope alive about one's career potential, firms need to make everybody feel they are on the career track because once someone no longer feels this way, he or she is likely to be less motivated. Therefore, actual competition for promotion, in other words, determining who win a promotion race, should be delayed as much as possible.

Such a promotion slowdown with the Japanese collective working system in which an employee has charge of a fraction of a job gives few opportunities for individual decision-making to employees. In general, the full picture of business comes within sight at the section manager level. According to Keio's Higuchi, the average age of promotion to section manager is about 45; until then, the opportunities and responsibilities for management of the budget, human resources, and other resources are very limited. Without such management and decision-making experiences within a firm, it goes without saying that employees are not very well equipped to handle and manage unexpected situations overseas alone.¹⁸

Relevant to this point is the following remark by Kazuo Yoshida, professor of economics at Kyoto University: "Japanese employment practices are well suited to promote cooperation among employees and, even though individuals are not necessarily highly trained in particular specialties, this structure can achieve high productivity with teamwork."¹⁹

¹⁸Higuchi 67.

¹⁹Kazuo Yoshida, *Nihon-gata Keiei Shisutemu no Kozai* (Tokyo: Toyo Keizai Shinposha, 1993) 58.

Figure 11 shows the current causal relationship regarding unskilled labor emphasizing the changes from the traditional situation with shaded boxes. Firms need to carry out strategies that are friendly to foreign investors because of their increased presence. Such strategies mean that the importance of the short-term performance of business as well as the long-term performance has been increasing. In addition, the global competition and the decade-long recession have increased the unemployment rate by decreasing the number of employable people in the lifetime employment and the seniority-based systems and limiting new recruits. On the other hand, the aging of employees and the flattening of organizations have slowed down the pace of promotion depriving employees of more opportunities for decision-making, management, and OJT in the real sense of the term.

It was observed in this chapter that the Japanese system has nurtured employees at a slow pace. Recently, the pace has slowed down even more; employees have to get company-specific skills through OJT, and firms have even cut their employee education and training budgets.

CHAPTER 4

EVER-INCREASING NUMBERS OF NON-REGULAR EMPLOYEES

AND THE NON-EMPLOYED

Increasing numbers of temporary and part-time workers are causing problems in Japan. Because of the decade-long recession, firms have been facing pressure requiring them to reduce the number of employees; against this background, they reduced the number of recruits. And then, when they need additional manpower, they do not increase the number of regular employees, but hire temporary workers instead.

According to OECD statistics, in 2003, Japan's part-time employment rate as a proportion of total employment was 26 percent, one of the highest among OECD countries (Figure 12).²⁰ In addition to part-timers, firms have expanded the use of temporary workers from agencies and full-time employees on short-term contracts.

According to statistics from the Ministry of Internal Affairs and Communications, the average level of non-regular employment is 32 percent of all employees, except for executives (Figure 13).²¹ And high percentages of non-regular employment among younger and older cohorts were marked in contrast to others. The percentage of non-regular employment in the 15 - 19 cohort is 72 percent, while that in the 60+ group is about 60 percent. Because of the increased

²⁰OECD, "OECD Employment Outlook 2004 Statistical Annex, 2004," 24 February 2005 <<http://www.oecd.org/dataoecd/42/55/32494755.pdf>>.

²¹Statistics Bureau, Ministry of Internal Affairs and Communications (MIAC), "Shugyo Kozo Kihon Chosa Kekka, 2002" 24 February 2005 <<http://www.stat.go.jp/data/shugyou/2002/kakuhou/zuhyou/z009.xls>>.

incidence of non-regular employees, legislation has been revised several times, but they are still working under less pleasant conditions than regular employees. The majority of Japanese systems and practices related to employment have been structured aiming at and favorable for a regular employee working with one firm until retirement age. This has a harmful effect on the young who have little opportunity as regular employees.

In addition, the unemployment rate of younger workers has been increased by the change of their attitude towards working. About half of Japan's high school graduates and one third of its college graduates leave their first jobs within three years.²² The reasons for this include: little desire to work, a wish to improve their careers, and a lowered aversion to leaving their jobs. They may become temporary workers, called *furiitaa* in Japanese. There are also people who are called NEET, which means Not in Education, Employment, or Training. It is said that there are more than 4 million *furiitaa* in Japan, and over 850,000 NEET. As explained above, in the Japanese system, vocational training is provided within a firm through OJT. If a person fails to receive such training when he/she is young, it is extremely difficult to recover afterwards. This may cause the overall quality of labor in Japan to deteriorate and weaken the nation's competitiveness in world markets.

Both high unemployment and temporary worker rates also have negative effects in other ways. Unemployed and temporary workers earn little if no pay. Their limited incomes cut into

²²Work Institutes, "Koyo no Genjo 2004, Recruit, 2004" 13 April 2005
<<http://www.works-i.com/flow/survey/download.html#25>>.

their spending, which, in turn, suppresses the rate of economic growth. Most of these people cannot pay social insurance or welfare premiums. But they may eventually become recipients of unemployment insurance and other public assistance. Therefore, it is becoming more difficult to maintain such social systems.

Wage differentials are widening. A study revealed that if you are a NEET for five years, your total lifetime income would be less than 75 percent that of average workers; and, if that period is doubled, this figure would go down to 57 percent.²³ This must create tension and stress and may lead to social instability, including a rising crime rate.

²³Dai-ichi Life Research Institute Inc., “NEET Jinko no Shorai Yosoku to Makuro Keizai e no Eikyo 2004” 28 February 2005 <http://group.dai-ichi-life.co.jp/dlri/kado/pdf/d_0410c.pdf>.

CHAPTER 5

THE FUTURE OF THE JAPANESE SYSTEM

A question is whether this trend in which the traditional Japanese system is disappearing is temporary and will turn back. In other words, can Japanese firms survive in the global market and still maintain the lifetime employment and seniority-based promotion/wage systems. If it can, slow nurturing will not be a problem because Japanese firms will have earned profits through the collective high productivity of their employees – even though individual employees are untrained – and can continue to do so. Also, employees need neither to be afraid of losing their job nor feel the necessity of improving their employability in the labor market.

I understand that there are many opposing views, but I predict that lifetime employment and seniority based promotion/wage systems will continue to gradually disappear as they have done since the burst of the bubble economy; therefore, strategically planned nurturing of talent will be more important than ever. As part of offering the reasons for my argument, I will also examine some opposing views.

Is the Japanese System Funded or Pay-as-you-go?

I can be fairly certain that seniority-based promotion/pay under the lifetime employment system can be sustainable only when an organizational structure is like a pyramid in which more highly paid older employees are in the minority, while younger workers earning lower salaries are the majority. Hiroyuki Chuma, a professor at Hitotsubashi University's Institute of

Innovation Research, is opposed to this opinion. He writes that it reminds him of the argument about the pros and cons of *funded systems* and *pay-as-you-go systems*: a capable management must adopt a *funded system* and accumulate sufficient funds for deferred salaries so that the accumulated value of contributions by an employee equal the accumulated salary paid to the employee; decimating the system means a firm violates the promise of the pay practice because of insufficient funds accumulated or a severe slump caused by poor management, and such firms must be penalized for breach of promise by losing capable job seekers.²⁴

I beg to differ. The prime purpose of a firm is to generate profits so that it can and must hire employees. For this purpose, a firm borrows from a bank or issues shares against its investment. Accumulating funds for future salaries means making money unworkable even if it is deposited in a bank, and is against the prime purpose. A capable management should prioritize investment, purchase its own shares, or discharge its debt over the funds for salaries because they have a higher profit potential, and, thus, this is also better for the employees. Even if funds are accumulated, no one knows the economic conditions and labor market situations 30 years hence when a fresh recruit will be a senior employee. For example, if the average wage decreases to less than half of today's after 30 years because of global competition, maintaining implicitly promised wage raises would make a firm less competitive.

Of course, employers are less risk-averse than employees and take certain risks to ensure fixed wages to employees, but there is a permissible limit, and employees must take some of the

²⁴Hiroyuki Chuma, *Kensho Nihon-gata "Koyo Chosei"* (Tokyo: Shueisha, 1994) 259-265.

risks when, for example, a firm is going bankrupt such as in the situation described above. The Japanese system could be maintained in favorable economic conditions and with the sacrifice of many people. A pyramid organizational shape in the Japanese system can be maintained either by reducing the number of senior employees in proportion to their years of service or by continuously increasing that of younger employees. Obviously, the latter used to be the case in Japan. The system was sustainable thanks to the robust Japanese economy: businesses had been growing steadily and organizations could be enlarged by mass hiring. Cross-shareholding ties did not necessarily require a firm to seek a profit, and many enterprises gave priority to improving their market share. Moving into new business fields also made sense for sales growth even if it lowered profits. In addition, these practices contributed to expanding these organizations.

The Cost of the Japanese System

As I have argued, the lifetime employment and seniority-based promotion/wage systems are inseparably linked. Employees covered by these systems are mainly regular male workers in large firms, and the arrangement has been sustainable at the expense of female, non-regular, and jobless workers as well as new graduates, especially during the recession.

Traditionally, the majority of regular female employees have worked as secretarial/support staff and were expected (or encouraged) to leave the firm when they got married. The revised Equal Employment Opportunity Law enforced in 1999 prohibits gender discrimination. But, since management classification is not subject to the provisions of this law,

career-track employees are mainly male, while their support-track counterparts are mainly female.²⁵ Therefore, there has not been a drastic increase of female career-track employees, and the majority of women workers still remain in the bottom ranks of seniority-based pyramid-shaped organizations.

As has been seen, case law precedents require employers to lower employment levels of new graduates before dismissing current employees. An OECD report also points out these problems in the Japanese system: “Employment protection regulations that tend to discourage new hires may represent a barrier for women and youth to enter the labor market. At the same time, the low regulation of temporary work may worsen the position of youth who find themselves trapped in temporary posts with low career prospects.”²⁶

About 72 percent of non-regular employees are women. They work as buffers for the system. The extreme example is Idemitsu Kosan, where – in 2001 – all 6,922 first-class employees were men and all 584 secretarial/support workers plus 737 temporary workers were all women.²⁷

The Japanese labor market has very low mobility; thus, once a person becomes jobless, it is extremely difficult to find a new job with attractive benefits. In other words, the Japanese

²⁵Kazuko Sakai, “Problems of the Revised Equal Employment Opportunity Law. Woman’s Online Media, 2003” 24 February 2005 <<http://wom-jp.org/e/JWOMEN/kinto.html>>.

²⁶OECD “How Does Japan Compare?”

²⁷Masao Kondo, “The Japanese Employment System: Idemitsu Kosan as a Model for Change.” (Cambridge, MA: Program on U.S.-Japan Relations, Harvard University, Working Paper 2001) 4.

system gives little opportunity to jobless workers. Stanford University economist Paul Milgrom believes, accurately I think, that the lifetime employment system like that in Japan puts excessive much risk on employees if they do not have job security: Being let go would not just mean losing a job, but also being very unlikely ever to find a comparable new one.²⁸ In this manner, the Japanese system has become what it is by the considerable sacrifices mentioned above.

What Discourages the Maintenance of the Japanese System

Chiaki Moriguchi of Northwestern University's Department of Economics argues that studies have shown no major changes in the practice of lifetime employment pertaining to "core" employees. A labor market for job changers, without which workers with general human capital will suffer severely from job separations, has not yet developed in Japan. Thus, as long as complementary institutions continue to support it, the lifetime employment will likely persist.²⁹ I agree with this argument to some extent; I have stated that the lifetime employment system still pertains to "core" employees, and an active labor market has yet to be mobilized. But the number of the "core" employees, in other words, regular male employees in large firms, has been decreasing. The ratio of regular employment decreased from 76 percent in 1997 to 68 percent in 2002; and the ratio of male employees at large firms (more than 1,000 employees) also decreased

²⁸Milgrom 350.

²⁹Chiaki Moriguchi and Hiroshi Ono, "Institutional Change in Japan, Japanese Lifetime Employment: Response to Crisis in Historical Perspective, 2003" 28 February 2005
<<http://www.hhs.se/NR/rdonlyres/824BD8A7-1E02-4C0B-9664-E1BC0FFFFEB8/0/WorkingPaper205.pdf>> 26.

to 12 percent in 2002 from 14 percent in 1997.³⁰ A survey also revealed that about 60 percent of employees in Japan have changed companies at some time.³¹ Thus, given the above facts, I am already dubious about the universality of the Japanese system in Japan.

The global economy requires not only competition of goods, but also of labor. According to Milgrom, the Japanese system would not be feasible if there were an active outside labor market that could bid up the pay for star performers.³² Talents like MBA holders and fund managers have already been the targets of headhunting by foreign firms. They may not offer job security, but very good pay instead. Changes in the consciousness of young people accelerate the shift from an immobile to a mobile labor market. The majority of Japanese young people do not want to be tied down by one company and are interested in working for foreign firms.

At talks in the U.S.-Japan Investment Initiative, which was established and launched by President George W. Bush and Prime Minister Junichiro Koizumi in 2001, the United States has explicitly requested Japan to increase the mobility of its labor market and openness to foreign investments.³³

³⁰MIAC. These are as a proportion to total employment, except for executives.

³¹Adecco, "Hataraku Hakusho 2004," 28 February 2004
<<http://www3.keizaireport.com/file/040107.pdf>>.

³²Milgrom 351.

³³United States Department of State. "United States – Japan Investment Initiative 2003 Report. 2003" 28 February 2005 <<http://www.state.gov/documents/organization/21034.pdf>>.

In the talks, the United States made “suggestions,” which would require systems in Japan to change: these included raising the contribution limits of the Defined Contribution Pension and clarifying dismissal standards. The United States also requested the Japanese government to allow merger techniques, such as triangular mergers and cash mergers, as tools for foreign firms seeking to invest in Japan. These measures ease investments. An investment firm can obtain a large profit when it invests in an inefficient firm and restructures it to be efficient. This process necessarily affects the labor management system. And U.S. trends have always had a major impact on Japanese policy.

As I have explained, the Japanese system could have been sustainable because of the robust economy, which can no longer be expected; discrimination because of gender, age, and employment history must be restricted much more strictly as “a global standard”; and global competition will get more competitive. Thus, the deterioration of the Japanese employment system is essentially inevitable.

Consequently, nurturing talented individuals who can participate in a global market has become much more important on the assumption that the level of the competition and labor mobility will continue to increase.

CHAPTER 6

RECOMMENDATIONS

In order to nurture talents to increase Japanese competitiveness, enhanced close cooperation among the government, educational and financial circles and employees is indispensable, and, in this regard, I recommend the following.

- About 86 percent of Japanese corporate executives are not satisfied with the education at schools from the viewpoint of personnel development; they are the most dissatisfied with college; one of the reasons for this is that, since getting into college is an ultimate goal for young people, they can graduate from it without working hard.³⁴ I must say that they confuse the natural order of things. Of course, schools also have a good deal in their systems that needs reforming, but the main cause this situation must be that firms do not appreciate the academic records of new graduates. Students who want to be lawyers study hard so they will be rewarded for doing so; but those who aspire to an average business career do not study because their efforts will not be recognized. Therefore, firms should learn to appreciate academic achievements and specialties when hiring new graduates. Then, students will be motivated to by the desire for a better job. Consequently, educational institutions that do not offer a quality education will not survive.

³⁴Keizai Doyukai April 2003.

- McKinsey & Co asked managers in American firms how important various items are when they decided which company to join. According to Figure 14 excerpted from the results, helping employees develop their skills is as important, if not more important, than paying a large salary. Thirty-seven percent of the respondents rated “career advancement opportunities” as critical, while “building skills to boost careers” got 35 percent.³⁵ A firm needs to invest in employee training by understanding that a capable person will choose a firm that positively nurtures its employees in an effort to improve their employability. This is because people realize that their only career security lies in the skills and experiences they bring to the job market.³⁶ One particularly effective solution is to establish a corporate university within a company as some U.S. firms have done. Acceleration of promotion is not always necessary. But, in order to get better results from OJT, giving employees – regardless of their positions – authority and responsibility for profit and loss as much and early as possible is crucial to understanding business as a whole because people are nurtured through critical decision-making as well as through experiencing success and failure. A specific example of this is Home Depot. The average age at which managers get their first profit-and-loss job is 26. One manager started at the company at 18, became a department manager at 21, an assistant store manager at 23, and then a store manager at 25.³⁷

³⁵Ed Michaels, Helen Handfield-Jones, and Beth Axelrod, *The War for Talent* (Boston, MA: Harvard Business School, 2001) 45.

³⁶Michaels et al. 46.

³⁷Michaels et al. 101.

- Because of the flattening of corporate structures, it takes more time to promote within a firm; thus, the improvement of job responsibility is too slow to nurture employees in a timely manner. A of dealing with this problem is to make long vacations obligatory. Business and training consultant Wendy Spinks argues that a long vacation has three functions: to rest employees, to train employees, and to prevent fraud by employees.³⁸ The first one is obvious. The second needs an explanation. When a superior goes on leave, subordinates take over until he or she returns. When a department manager takes a vacation, for example, a section manager takes the position; a section sub-manager takes the section manager's position, and so on. In this way, many employees get promoted for a certain period and get the experience of that responsibility. And finally, as to the third point, knowing that someone else may take your position and review your job discourages people from committing fraud.
- Corporate tax reduction by deducting a certain amount of training costs should be implemented. In Japan, the ruling Liberal Democratic Party (LDP) is considering implementing this policy. According to the LDP, this would have major economic effects that would be two to three times the total abatement An important issue in this regard is to choose specific targets; otherwise, firms might not spend additional money for training, but just try to deduct already-existing training costs from their taxes. Training should be targeted not at company-specific, but at portable, skills. The costs of employees' study at

³⁸Wendy Spinks, *Nihon Keizai Shinbun* 21 July 2003.

universities or other educational institutions should be covered and deductible. The costs of establishing a corporate university, as mentioned above, should be covered and deductible. Further, it is really important to give an incentive to invest in the training of non-regular employees by offering a large tax reduction for this purpose. Given that the percentage of the total amount spent on training in Japan has declined since the end of the bubble economy, the tax reduction should be graduated according to the level of training expenditures in order to encourage more spending.

- In view of the high percentage of non-regular employees, systems and practices that have been structured to be favorable only for regular employees should be changed to reflect the idea of the same job/same pay (or benefit) principle. For example, fringe benefits and training are not provided to temporary workers. Premiums for national health insurance and the national pension plan for temporary employees are not shared by a firm. Therefore, there is a substantial advantage for the company in hiring temporary employees, and, once a person becomes a temporary employee, it is extremely difficult to become a regular employee. Thus, there are few opportunities for such workers to train and nurture themselves. If the systems and practices were neutral, a career switch from a temporary to a regular worker would become easier.

CONCLUSION

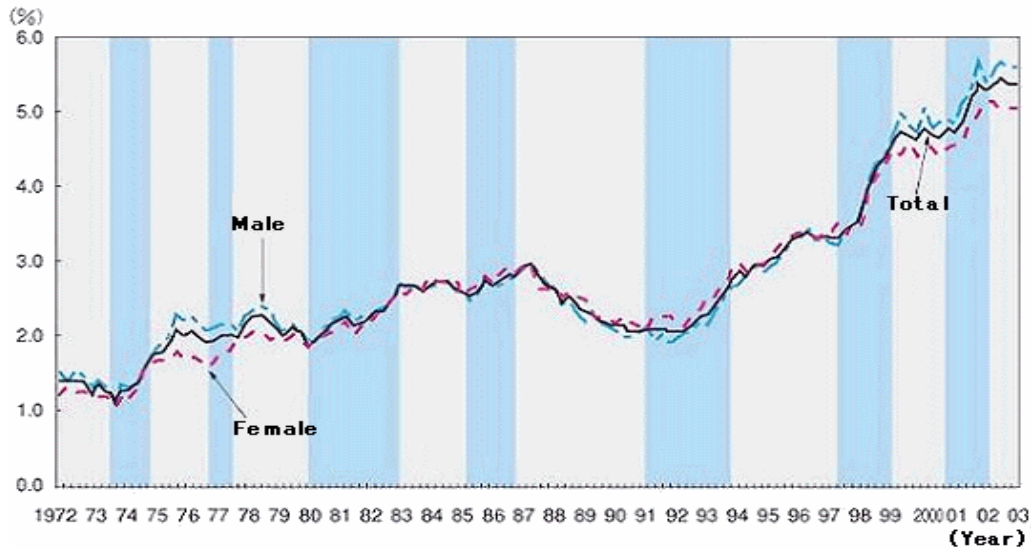
This paper uses a wide variety and amount of literature and studies to examine the past, present, and future of the Japanese employment system focusing on nurturing talents. The results indicate that the Japanese system of lifetime employment and seniority-based pay/promotion, can contribute to improving the productivity of collective work, but has a negative effect on the development of individual employees. The Japanese system has intentionally nurtured employees at a slow pace. Recently, the pace has been decelerated even further; employees have obtained only company-specific skills through OJT; and firms even have cut their employee education and training budgets. Therefore, individual white-collar employees from Japan seem untrained compared to their foreign counterparts, especially in the global market, and the unemployed have difficulty in finding a new job because they are not sufficiently trained to be attractive to employers.

The Japanese system could have been sustainable because of the robust economy and at the expense of female, non-regular, and jobless workers as well as new graduates. But such sacrifices can no longer be expected. Thus, Japanese firms need to nurture employees in order to attract the best people and compete in the global market. For that purpose, I made the following recommendations: 1) Firms should appreciate academic achievements and specialties when hiring new employees; 2) firms need to invest in employee training to attract the best talent; 3) long vacations should be obligatory so that subordinates can take on the responsibilities of their

superiors when they are on leave and experience that responsibility; and 4) training costs should be deducted from corporate taxes.

All these recommendations require close and enhanced cooperation among government, educational, and financial circles and employees.

Figure 1: Trends in Unemployment Rates by Gender



Source: Statistics Bureau, MPHPT, "Labour Force Survey"

Notes: 1) Seasonally adjusted data for quarters
2) Shaded portions indicate periods of recession

**Figure 2: Job Seekers by Job Separation Reasons
Among Those Who Left a Job at the Employer's Request**

(Survey in June 2002) (%)

By gender, age, and size of enterprises which they left	Job seekers who left at the company's request	Retirement or completion of contract term	Bankruptcy	Layoffs	Accept solicitation of voluntary retirement	Sexual or other harassment	others	unknown	
Total	[40.4]	100.0	26.8	14.2	34.6	12.7	3.0	8.7	0.1
Men	[45.6]	100.0	25.2	15.0	34.2	15.2	2.4	7.9	0.1
Women	[34.5]	100.0	29.1	13.0	35.1	8.8	4.0	10.0	0.1
24 yrs old or younger	[20.3]	100.0	27.6	11.1	35.2	9.9	3.0	13.1	-
25 ~ 29 years old	[23.2]	100.0	23.7	17.2	33.4	8.8	4.1	12.7	-
30 ~ 34 years old	[33.0]	100.0	19.1	14.4	36.9	14.9	4.6	10.2	-
35 ~ 39 years old	[37.8]	100.0	17.6	15.8	36.6	14.3	3.5	12.2	-
40 ~ 44 years old	[42.1]	100.0	11.8	18.2	42.9	14.0	3.0	10.2	-
45 ~ 49 years old	[48.3]	100.0	10.4	18.3	41.9	15.4	3.9	10.2	-
50 ~ 54 years old	[53.3]	100.0	9.5	17.4	44.8	16.6	3.4	8.2	0.1
55 ~ 59 years old	[60.3]	100.0	12.4	16.3	40.2	21.3	2.0	7.5	0.2
60 ~ 64 years old	[74.1]	100.0	72.4	5.6	14.5	4.0	1.4	1.9	0.1
65 years or older	[63.9]	100.0	58.7	8.3	21.1	4.8	1.7	5.3	0.1
size of enterprises									
over 1,000 workers	[45.7]	100.0	47.8	2.2	19.1	23.5	1.3	6.1	-
300 ~ 999 workers	[45.1]	100.0	32.9	6.0	23.8	27.6	2.3	7.4	-
100 ~ 299 workers	[45.4]	100.0	27.3	10.6	39.4	12.1	3.1	7.4	0.2
30 ~ 99 workers	[43.2]	100.0	20.5	18.1	38.9	10.1	3.2	9.2	-
5 ~ 29 workers	[46.8]	100.0	15.0	21.7	41.5	7.7	3.7	10.3	0.1
1 ~ 4 workers	[48.1]	100.0	11.0	18.9	43.2	7.6	4.4	15.0	-

Note : Numbers in [] represent percentages of job seekers who left their jobs at the employer's request

Source: Ministry of Health, Labor and Welfare of Japan (2002) "Heisei 14-nen Kyushokusha Sogo Jittai Chosa" (2002 Fact Finding Survey of Job Seekers)

Figure 3: Percentage of Deviation from the Average Unemployment Rate by Age Group

	Ave.	Age group										
		15~ 19	20~ 24	25~ 29	30~ 34	35~ 39	40~ 44	45~ 49	50~ 54	55~ 59	60~ 64	65 or more
		%	%	%	%	%	%	%	%	%	%	%
1960	1.1	-0.9	-0.9	-0.1	0.1	0.3	0.3	0.4	0.5	-0.2	-0.3	0.7
75	1.9	-1.7	-1.0	-0.4	0.4	0.5	0.5	0.5	0.7	-0.3	-0.6	0.7
80	2.0	-2.1	-1.3	-0.6	0.1	0.6	0.8	0.6	0.6	-0.6	-1.6	0.6
85	2.6	-4.7	-1.5	-0.6	0.2	0.6	0.9	1.0	0.8	-0.7	-2.3	0.9
90	2.1	-4.5	-1.6	-0.6	0.2	0.5	0.7	0.9	0.9	0.1	-1.4	1.3
95	3.2	-5.0	-2.5	-1.1	0.1	0.9	1.0	1.3	1.3	0.8	-2.5	1.9
97	3.4	-5.6	-2.8	-1.5	0.1	0.8	1.3	1.4	1.3	0.9	-2.8	1.9
98	4.1	-6.5	-3.0	-1.5	0.1	0.9	1.3	1.6	1.6	0.8	-3.4	2.0
99	4.7	-7.8	-3.7	-1.5	0.1	1.2	1.7	1.6	1.5	0.8	-3.2	2.5
2000	4.7	-7.4	-3.9	-1.5	-0.1	1.3	1.6	1.7	1.3	0.8	-3.3	2.5
01	5.0	-7.2	-4.0	-1.7	-0.3	1.0	1.8	1.6	1.4	0.9	-3.1	2.6
02	5.4	-7.4	-3.9	-1.7	-0.4	1.0	1.7	1.5	1.3	0.9	-2.3	3.1
03	5.3	-6.6	-4.5	-1.7	-0.2	0.7	1.7	1.7	1.6	0.8	-2.2	2.8

Source: Statistics Bureau, Ministry of Internal Affairs and Communications "Labor Force Survey"

Figure 4: Trends in Percentage of New Graduates Entering Employment

Year and month of graduation	(Unit: %)					
	Junior high school graduates	High school graduates	Professional school graduates	College of technology graduates	Junior college graduates	University graduates
1997.3	96.7	98.5	91.5	100.0	90.5	94.5
1998	95.5	98.2	89.5	100.0	86.6	93.3
1999	92.1	96.8	86.8	100.0	88.4	92.0
2000	86.7	95.6	83.2	100.0	84.0	91.1
2001	84.7	95.9	84.1	100.0	86.8	91.9
2002	78.6 (84.4)	94.8 (89.7)	83.3	98.3	90.2	92.1
2003	- (84.3)	- (90.0)	85.0	95.7	89.6	92.8

Source: Surveys by MHLW and the Ministry of Education, Culture, Sports, Science and Technology

- Notes:
- 1) "Percentage of New Graduates Entering Employment" means the percentage of new graduates who gained employment among the job seekers.
 - 2) The percentages for graduates from junior high schools and high schools are based on numbers as of the end of June which were obtained by the survey by the Ministry of Health, Labour and Welfare.
 - 3) The percentages for graduates from professional training schools, junior colleges and universities are based on numbers as of April 1.
 - 4) Numbers in brackets represent percentage of those who received an informal notice for employment.
 - 5) Figures for junior college graduates include women only.

Figure 5: Promotion Slowdowns

(Male employees in firms with 1000 or more employees) (unit: employees)

		1976		1999	
		ave. age	ave.	ave. age	ave.
High school	Rank-and-filer	30.8	9.4	38.2	16.2
	Assistant manager	39.6	19.3	46.5	26.1
	Section mgr	44.2	22.5	50	28.9
	Dep't mgr	48.5	24.3	53.7	30.7
University	Rank-and-filer	30.2	6.3	34.1	9.5
	Assistant mgr	35.7	12	38.7	14.6
	Section mgr	41.3	17	45.3	20.9
	Dep't mgr	47.9	21.9	51.5	26.3

Source: Higuchi

Figure 6: Rate of Change of Total Factor Productivity

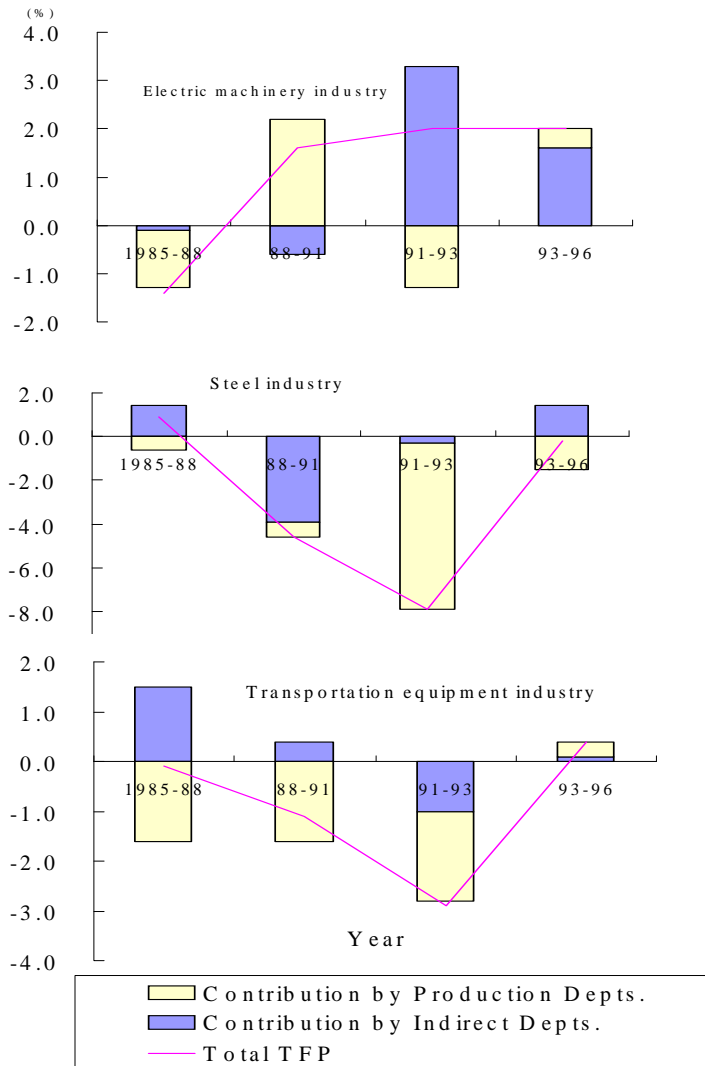


Figure 7: Rate of Change of Total Factor Productivity

	1985-88	88-91	91-93	93-96	Average
(%)					
Electric machinery industry					
Total TFP	-1.4	1.6	2.0	2.0	1.0
Contribution by Indirect Depts.	-0.1	-0.6	3.3	1.6	0.8
Contribution by Production Depts.	-1.2	2.2	-1.3	0.4	0.1
Steel industry					
Total TFP	0.9	-4.6	-7.9	-0.2	-2.5
Contribution by Indirect Depts.	1.4	-3.9	-0.3	1.4	0.4
Contribution by Production Depts.	-0.6	-0.7	-7.6	-1.5	-2.1
Transportation equipment industry					
Total TFP	-0.1	-1.1	-2.9	0.4	-0.7
Contribution by Indirect Depts.	1.5	0.4	-1.0	0.1	0.4
Contribution by Production Depts.	-1.6	-1.6	-1.8	0.3	-1.1

Source: Nakajima 2001

Figure 8: Unskilled Labor: Causes and Effects (Traditional Situation)

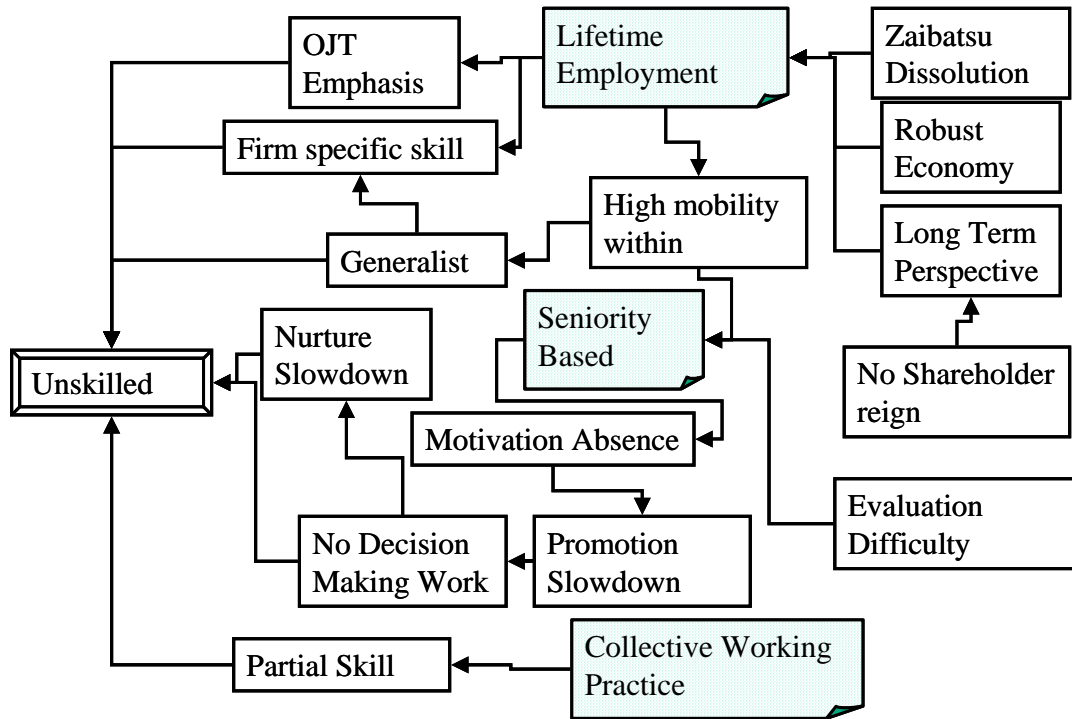


Figure 9: Average Percent of Total Labor Costs Spent on Training

Country	Expenditure (%)
United States	1.8 (1988) a
West Germany	1.8 (1984)
United Kingdom	1.3 (1984)
France	2.5 (1989)
Japan	0.4 (1989) b
Australia (private sector)	1.7 (1989)

Source: Lisa Lynch

Original source: OECD, 1991; for the U.S., Training

a) Firms with 100 or more

b) Training expenditures as a percentage of monthly labor trainees' wages. All other countries include trainees' or

Figure 10: Average Percent of Total Labor Costs Spent on Training

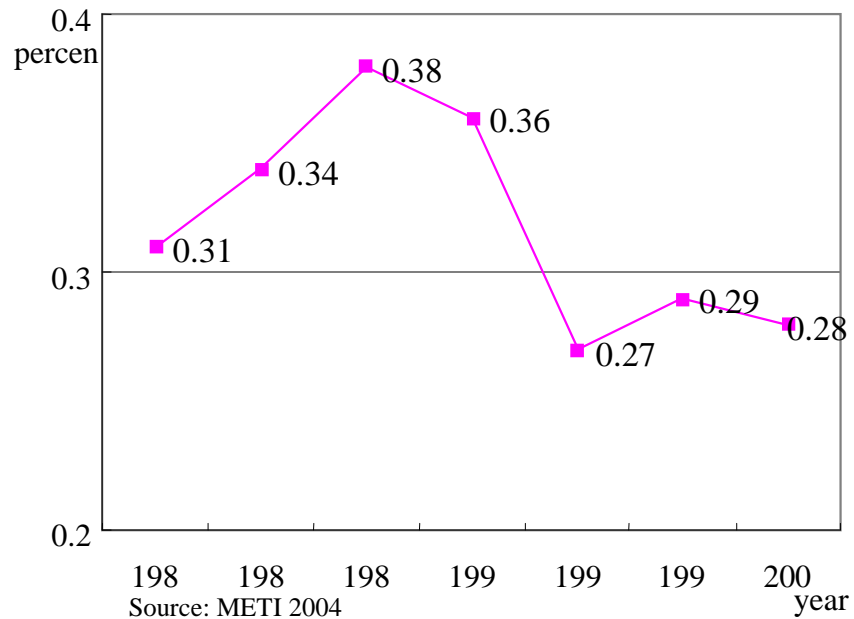


Figure 11: Unskilled Labor: Causes and Effects (Current Situation)

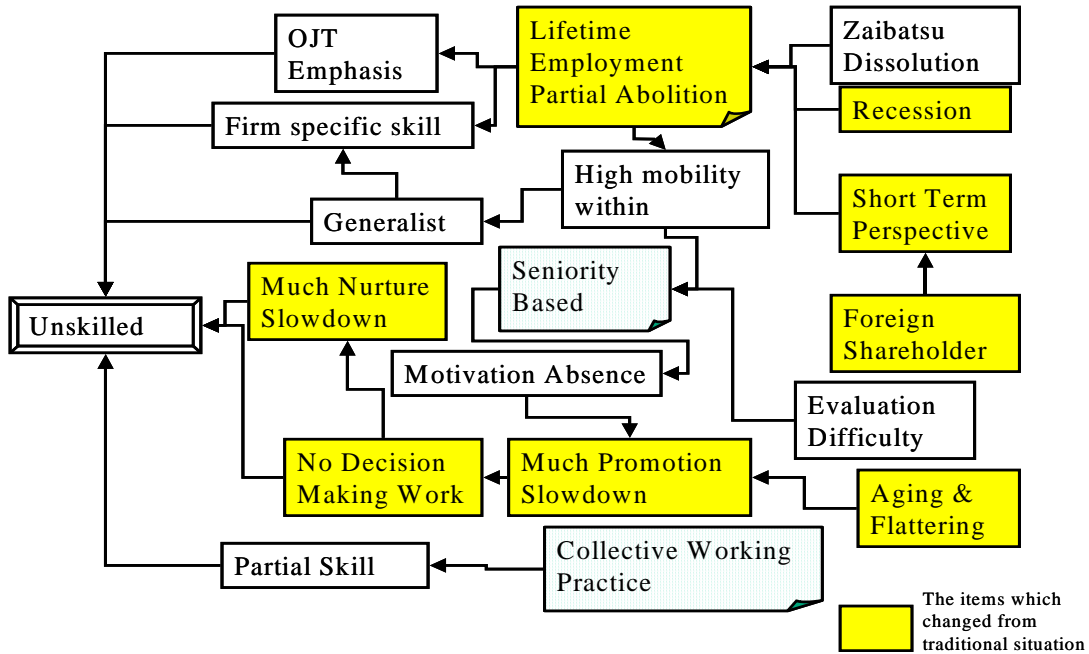


Figure 12: Incidence and Composition of Part-time Employment

	Part-time employment as a proportion of total employment				
	1990	2000	2001	2002	2003
Japan b), e)	19.2	22.6	24.9	25.1	26
Germany	13.4	17.6	18.3	18.8	19.6
United States f)	14.1	12.6	12.8	13.1	13.2
Total OECD g)	11.1	12.2	12.2	14.6	14.8

a) Part-time employment refers to persons who usually work less than 30 hours per week in their main job. Data include only persons declaring usual hours.

b) Data are based on actual hours worked.

e) Less than 35 hours per week.

f) Data are for wage and salary workers only.

g) For above countries only.

Source : OECD Employment Outlook 2004

Figure 13: Non-Regular Employment by Age Group

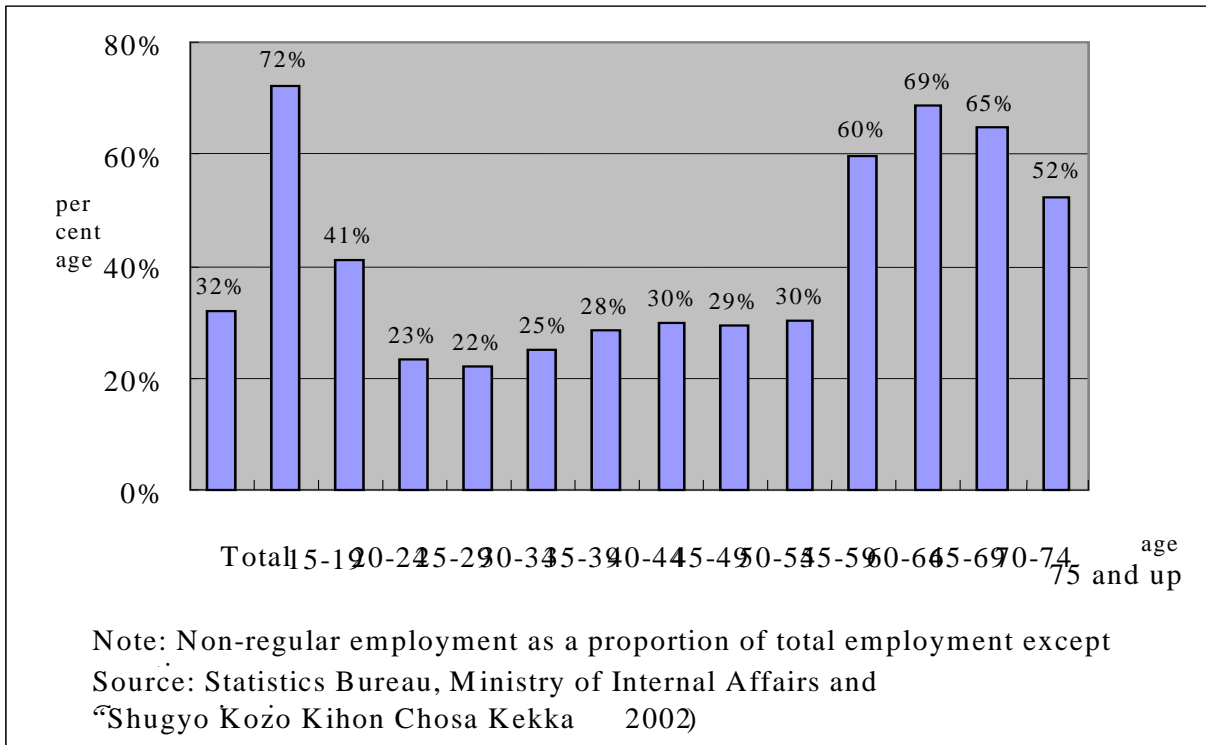


Figure 14: What Managers Are Looking For (abstract)

Percentage of respondents who rate the item as their decision of which company to join and

DEVELOPMENT	
Career advancement opportunities	37%
Build skills to boost career	35%
WEALTH AND REWARDS	
Substantial wealth creation opportunity	36%
Annual cash comp is high	26%

Source: Ed Michaels

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