

change to a bell-like shape to reflect a work-cycle that parallels the life cycle.

The research reveals that the potential of the female workforce has yet to be adequately tapped. One implication of this is that the economy is not producing at its maximum capacity. A further implication is that unless this situation is corrected, the predicted labor shortage will become a reality. While legislation is already in place to address gender inequality in Japan, it is recommended that these laws be enforced in accordance with the Constitution, and the Equal Employment Opportunity Law (EEOA).

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Lifetime Employment in Japan: Myths and Misconceptions

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The practice of lifetime employment is rooted in Japanese culture. It is difficult to imagine a key economic institution that does not reflect a country's culture. If it does not, either the institution or the culture would undergo change leading to mutual divergence or convergence. Patterns of employment practice that diverged from the concept of lifetime employment can be detected in early twentieth century Japan, in instances where workers either voluntarily moved to other jobs or were fired. Over time, as cultural and economic practices began to converge, lifetime employment became an institution within the country. However, one cannot conclude that lifetime employment, once entrenched within the culture, will always remain a permanent fixture even if the practice itself generated a closed external labor market that discouraged labor mobility. Instead, one can argue that the institution of lifetime employment evolved from social forces that can undercut as well as legitimate the practice. (Blair and Roe 247-48) Recent economic decline in Japan has seen the country taking steps to make adjustments in key social institutions to better mirror changes in the economy. The practice of lifetime employment is prominent among these changes. This paper will focus on the evolution of social forces that has influenced employment practices in Japan, leading to lifetime employment for a given period of its history as well as causing the country to reassess this practice in view of its current economic decline.

Economic evolution is so intertwined with historical and political events that they persistently shape and reshape each other. Economic changes have influenced historical and political events, and these same events have shaped and reshaped the course of economic evolution. Thus, lifetime employment in Japan does not represent a self-contained phenomenon. Traces of the practice of lifetime employment can be seen as early as post World War I. However, its distinct origin resulted from the struggle for labor peace in a disrupted World War II Japan, where various government agencies encouraged the practice in order to ensure efficient production. (Blair and Roe, 240)

After World War I, Japanese labor markets were tight and skilled workers, facilitated by the existence of an external labor market, began to move from job to job. Even the attempt by firms to reduce job-hopping with incentives such as increase in wages, seniority privileges and year-end bonuses failed to slow the labor turnover.

The business cycle changed and the economy experienced a downturn in the 1920s—leading to a surplus labor market and a decrease in employees' wages, bonuses, as well as a decrease in the labor supply. Firms began to hire inexperienced workers directly out of school, which necessitated on-the-job training and precipitated the start

of “a pattern of long-term or career employment.” In addition, a slow economy had some impact in decreasing the mobility of employees. However, lifetime employment did not firmly take root during this period. Employers were still prone to terminate workers during periods of slow business. Even seniority did not guarantee exemption; older workers were often fired due to perceived declining skills. When traces of lifetime employment appeared from time to time during this period, they more often were a reflection of temporary labor market conditions. Employees were inclined to leave jobs during scarce labor supply markets, and employers were more inclined to offer incentives in order to maintain a stable workforce. On the other hand, firings were prominent with a surplus labor market. (Blair and Roe, 249-50; Gordon, *Postwar Japan As History*)

The 1930s saw the external labor markets tighten, with firms offering pay and training incentives to encourage worker loyalty. However, since skilled workers engaged in searches for their next best alternatives, instability in the labor market persisted. This continuous turnover in employment prompted the Japanese government to intervene by implementing specific labor laws. In 1939 the government “restricted employers from pirating other firms’ workers.” In order “to hire a new employee, a firm needed permission from the employee’s former employer as well.” By 1941, firms and workers needed government approval for all hiring, firing, and voluntary termination. Thus, the government attempted to “freeze all workers in their existing jobs.” However, government efforts were not totally successful; though there was a decline in job turnover throughout WWII, skilled workers still occasionally moved between jobs, “even illegally,” when the opportunity arose. (Blair and Roe, 250)

The post-WWII labor market saw a rise in surplus labor to the extent that companies resorted to massive layoffs, and millions lost their jobs. Yet, it is in this environment of surplus labor that employment practice began to take on an element of permanence in the Japanese culture, influenced in part by politics. Labor unrest prevailed in Japan after WWII and U.S. Occupation (should it be Allied Occupation or just simply Occupation??) authorities, in order to promote democracy, allowed workers to form labor unions and to strike. During strikes, workers often actually took over and ran the factories. The workers took over the role of managers by paying themselves, settling other factory’s costs, and depositing residual in the company’s bank account. By June of 1946, 255 such “takeover strikes” had occurred. “Socialist-influenced” union takeovers began to threaten U.S. anti-communist cold war strategy and the Occupation authorities?? abandoned their pro-union policy and encouraged the Japanese Parliament to ban all public sector employees from striking. (Blair and Roe, 251-52)

Since the chaos prevailing in the labor sector was threatening production, attention was focused on formulating a peace strategy as a stimulant to economic activity. A political compromise resulted in which some members

of the labor coalition were slotted into the “favored” category of lifetime employees and the remainder (largely comprised of women) into the category of temporary employees. This compromise was also used during industrial restructuring involving downsizing. By extending privileges to the “favored” lifetime employees, labor unrest could be curtailed. By mid-1950, the central facets of lifetime employment were in operation—permanent employment for part of the work force and temporary employment for the remainder whose employment was a function of economic conditions. During economic good times, temporary workers would be hired and during economic downturns, they would be the first to be laid off. (Blair and Roe, 253-54) In essence, temporary workers sheltered the favored portion of the work force from downturns in the economy. Politics defined the “initial” conditions of lifetime employment, and economic institutions evolved and adjusted to function within this fixed employment framework.

Once in place, lifetime employment was buttressed by Japanese courts and the government in general. For example, in the expanding economy of the 1960s, courts ruled that the “employer must show economic need to downsize; must exhaust alternatives to layoffs, one of which might be to transfer excess employees to company affiliates; and must treat workers fairly and consult with them.” Ultimately, it was “the Japanese government and the occupation authorities that helped design the trade-off” which “settled the postwar labor strife” and the informal government pressure of delegating main banks to monitor and bail out weak affiliated industrial firms that propelled lifetime employment as a prominent feature of the Japanese economy. In addition, the practice of large Japanese firms’ implicit code of not hiring skilled employees of other firms served to close off the external labor market and reinforced the practice of lifetime employment. (Blair and Roe, 255-56; 258; 260)

The Japanese economy, like others, has responded well not only to fluctuating market conditions, but also social and political changes occurring in society. As such, the institution of lifetime employment played a major role in the economic growth and development of the country. For many years, world business leaders were impressed with the postwar “miracle” growth rate of the Japanese economy. They attributed Japanese success to hard work and institutional practices that included: (1) weak labor unions whose individual company union structures, as opposed to industry-wide unions, moderated the demands for improved wages and benefits; (2) quality control practices; and (3) employee-management teamwork and loyalty which facilitated the practice of lifetime employment and created an environment of group spirit, enhancing worker productivity and morale. Thus, there was a tendency for Japanese workers to grant to the company the same level of loyalty traditionally reserved for families, thereby minimizing the social gap between workers and management. Companies benefited from the Japanese ethic of hard work, and for most of Japan’s postwar history, workers labored six days a week, arriving early and leaving late. Wages were managed in a way to include a significant savings component, somewhere between 15 and 25 percent, which ensured ad-

equate cash reserves for financial institutions to provide low interest loans to companies for expansion.

However, as the Japanese economy passed its “miracle” growth phase and entered its current, prolonged stagnant state, the effectiveness of the institution of lifetime employment is being challenged. Lifetime employment proved to be a useful management tool with smaller companies and a scarce, skilled labor force. But, as companies became larger and skilled labor plentiful, the practice proved to be burdensome resulting in some modifications being advocated and at least partially implemented. (Japan and the Pacific Rim)

During economic downturns, firms with many permanent employees, who were unable to lay off workers, found themselves having to cut new hiring which constricted the flow of junior employees who were needed for future leadership. This left a vacuum in the pipeline of skilled managers and employees for future growth of firms and the economy. In contemporary times, Japanese high school and college graduates are having difficulty finding jobs; there were some 150,000 unemployed graduates in the mid-1990s. Honda hired 2,075 graduates in 1990, but in 1994 the company hired only 250; during this same time, Fujitsu employment of graduates dropped from 2,000 to 300. (*Financial Times*, 6/20/94) Such employment practice does not bode well for the future leadership of companies. On the other hand, modifications to the practice of hiring workers immediately after graduation and perks for seniority are occurring gradually. Toyota Motor Corporation is beginning to experiment, on a small scale, with hiring workers on the basis of experience and offering merit-based rather than seniority based pay increases. The company says that over time this method of employment is expected to be applied to approximately ten percent of white-collar hires. (*The Los Angeles Times*, 1/24/94)

One can look at a specific industry and observe how the practice of lifetime employment has stymied the country's effort to revitalize its declining economy. In the banking sector, Japan has been characterized as being “overbanked,” especially in the number of bank branches, which are heavily overstaffed. It has been estimated that Japan's commercial banks employ three to five times as many people per thousand transactions as do American or European banks. Thus, the banking system in Japan is one of the largest employers, as well as its highest paying. The redundant, well-paid employees, with a modicum of skills would find it hard to procure other jobs if laid off. (*Japan and the Pacific Rim*; Drucker, 156) In addition, Japan goes to extended lengths in order to preserve the country's social contract of lifetime employment. The country allowed Merrill Lynch, an American financial company, to take over the main branches of Yamaichi, Japan's fourth largest brokerage house when it failed in 1997 with the caveat that Merrill Lynch would keep on approximately one-sixth of Yamaichi employees—constituting a few thousand people. (Drucker, 156)

While the *keiretsu* structure, loosely defined as a cluster of businesses around a major bank, has also operated to preserve the social contract of lifetime employment, its practitioners are finding it very difficult to do so in the current

economic climate. The *keiretsu* structure is considered the ultimate guarantor of lifetime employment. If a *keiretsu* member company gets into trouble and must lay off people, the other *keiretsu* companies will provide jobs for them, thereby reinforcing the commitment to permanent job security. However, the recent financial crisis in the country is propelling banks at the core of the typical *keiretsu* to begin selling off their holdings in the group to curtail losses. In addition, more *keiretsu* members are selling off their shares in other *keiretsu* members to shore up their financial status. (Drucker, 157)

From the employees' perspective, sense of duty and worker commitment are shifting. Workers' personal goals are taking precedent over loyalty to companies, and employees are asking for and receiving flex-time work schedules. The decline in worker loyalty is accelerated by the fact that employers are making decisions to lay off permanent employees during economic downturns and are introducing promotion and pay systems based on merit rather than seniority. Thus, it would appear that the practice of lifetime employment is undergoing significant modification, and once complete, the question is, “into what form will it have metamorphosed?”

In conclusion, lifetime employment evolved from the struggle for labor peace in a disrupted postwar Japan that saw other governance institutions emerge to support it in an effort to promote efficient production. The institution of lifetime employment has been considered Japan's social glue that helped stave off civil and social unrest while aiding the country in jump-starting its post-World War II economy. However, this practice has begun to unravel as the country is facing one of the longest economic downturns in its history. As the country makes structural adjustments, the permanency of this employment practice is in jeopardy.

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