

Foreign Labor Developments



Lifetime employment in Japan: three models of the concept

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As the Japanese economy overcame the adverse effects of two oil crises, admiration for its management emerged in foreign countries. The success of Japan's economy tended to promote myths about the "lifetime employment" practices of Japanese firms. Following is a brief look at three models of the lifetime employment system.¹

Lifetime employment is a long-established practice in large Japanese firms. However, it is a "gentlemen's agreement" and is not guaranteed by statute or collective bargaining agreement.² The recent concept of lifetime employment is described as follows:

Workers become employed right after their graduation from school with a particular company. The employer will not lay off his workers if possible even in the course of depression. The employee in turn will not quit his job at this company but tend to continue working there until he reaches his retirement age.³

This definition reflects the concept of lifetime employment which prevailed during years of high economic growth which began about 1955. It also reflects the social ideas generated by labor unions' resistance to mass dismissals during the preceding decade, as well as court decisions to restrict employers' right to dismissal due to business difficulties. This concept differs from the prototype of the lifetime employment system originated in large firms around 1910. Three differences, in particular, should be noted.

First, in the prewar period, there had been a considerable number of job changes by workers prior to their entering large firms. Most workers usually established a career after finishing compulsory military service, not right after graduation from school. Therefore, many tended to change jobs during the first 10 years after school. After World War II, because of the abolition of military service and continuous growth of large companies, employment practices changed so as to recruit a new work force mostly from recent grad-

uates. However, in the 1960's through the early 1970's, many fast-growing companies faced labor shortages due to a continuous increase of output. Occasionally, these companies would recruit temporary workers until they could fill vacancies with regular workers from the ranks of new school graduates. A number of these temporary workers had opportunities to be retained as "halfway" regular employees if they could demonstrate good performance and efficiency. Most of the "halfway" workers came from rural areas. Their pay was less than that of standard regular workers, even if they had equal capabilities and skills, because they had fewer years of service with the company. However, over time the wage differentials between the two groups could be reduced because of accumulated merit ratings.

Second, there was intense competition among workers with many years of service in the same company for promotions and wage increases. Lifetime employment and seniority-based wages do not exclude competition among workers, although since the war, the labor movement has endeavored to control the wage differentials resulting from merit rating. Even blue-collar workers are rated by merit at least three times a year. Promotion is determined according to the results of such accumulated merit ratings. To maintain the fairness and continuity of the merit rating system, management keeps detailed records of the personal history of each worker. At one time, these records were kept in both the worker's ledger and the wage ledger. Now they are stored in a computerized data base.

Third, the prototype stationary model of lifetime employment assumes that a certain percentage of workers will voluntarily quit their jobs as a result of competition among work groups.

The stationary model. Under the stationary model, lifetime employment is a system of highly developed internal labor markets.⁴ It consists of a web of administrative rules for pricing labor and allocating the labor force within a firm. It is characterized by specialization of labor, on-the-job training, and a body of firm-specific customs.

The stationary model is illustrated below. For simplification, the maximum length of service was limited to 10 years.

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<i>Number of employees</i>	<i>Years of service</i>	<i>Wage rate</i>	<i>Total wages</i>	<i>Separation rates</i>
1	10	10	10	1/2
2	9	9	18	1/3
3	8	8	24	1/4
4	7	7	28	1/5
5	6	6	30	1/6
6	5	5	30	1/7
7	4	4	28	1/8
8	3	3	24	1/9
9	2	2	18	1/10
10	1	1	10	0
55	-	-	220	19.3

New workers are recruited only at the bottom of hierarchy (usually from among new school graduates). To maintain the hierarchy, it is implicitly expected that a worker will quit voluntarily as a result of failure to compete successfully with fellow workers of the same generation and tenure. Theoretically, this should be the least efficient worker in the group. Each remaining worker can then receive a wage increase of one grade and can be promoted to higher positions. The wage fund can be maintained at the stationary level of 220 in spite of wage increases for remaining workers. Thus, the average wage rate can be maintained at the constant level of 4. Because one worker from each generation quits, the total annual rate of separation is 19.3 percent in this model. (If the maximum length of service is extended to 30, the average separation rate becomes 10 percent.) In other words, all workers who are hired after school cannot necessarily continue their employment until the age of mandatory retirement, contrary to the usual definition of lifetime employment cited above.

The growth model. For this model, the concept of stationary lifetime employment is modified. The organizational growth of a company makes it possible for all workers to expect to remain employed and be promoted each year until retirement. One of the basic characteristics of the growth model is its strong dependence on organizational growth, which in turn requires the expansion of market shares. The larger the market share of a company, the greater the opportunities for organizational growth which guarantees employment security and improvement of wages and other conditions of work. In this sense, Japanese firms tend to have stronger impetus for organizational growth, rather than increased rate of return on investment.

The stagnation model. After the oil crisis in 1973-74, most of the major firms changed their employment strategies to adjust to new market situations. They reduced employment by various measures: cutting overtime, laying off temporary workers, stopping new recruitment, not filling vacancies, and transferring workers to other shops or plants within their company as well as to related companies or subsidiaries. Some deeply depressed industries, such as shipbuilding and petrochemicals, promoted voluntary sep-

aration by offering severance payments. For example, more than 10,000 workers left Mitsubishi Heavy Industries Corporation during the years following the first oil crisis. Part-time workers with lower labor costs were recruited to fill the vacancies. As a result, organizational hierarchies tended to shrink, illustrating the stagnation model. □

FOOTNOTES

¹ This report is excerpted from Kazutoshi Koshiro, "Personnel Planning, Technological Changes, and Outsourcing in the Japanese Automobile Industry," a paper prepared for the Workshop on Industrial Relations and Industrial Change in the World Automobile Industry, Brussels, February 16-18, 1983. The workshop was part of an international joint project on the future of the automobile. The paper, Discussion Paper Series 83-3, May 1983, is available from the Center for International Trade Studies, Faculty of Economics, Yokohama National University, Yokohama, 240 Japan.

² The civil law requires an "unavoidable reason" to terminate an employment contract without notice. The labor standards law introduced an even tighter restriction—it permits dismissal without notice only when there is an "inevitable cause." There are no laws requiring a reason for dismissals with notice. However, legal theory has established some very strict rules concerning dismissal with notice. See T.A. Hanami, *Labour Law and Industrial Relations in Japan* (The Netherlands, Kluwer-Deventer, 1979), p. 82.

³ Kazuo Koike, "Nihonteki Koyo Kanko" ["Japanese Employment Practices"] in Toyokeizai Shinposha, ed., *Keizaigaku Daijiten* [*Encyclopedia of Economics*] (Tokyo, Toyokeizai Shimpō Sha, 1980), Vol. II, pp. 100-08.

⁴ Peter B. Doeringer and Michael J. Piore, *Internal Labor Markets and Manpower Analysis* (Lexington, Mass., D.C. Heath and Co., 1971).

Robots are a big success at auto plant in Japan

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In 1971, robots were first introduced in a plant at X Motor Co. in Japan.¹ During the latter half of the 1970's, the number of robots at the plant increased dramatically; by 1981, the company had 730 robots. Most of them (90 percent) perform welding operations in the body assembly shops. The company also uses robots for painting, and is considering robots for battery and spare-tire loading. Other automation, such as computer-aided design and manufacturing, transfer machines, and automobile loaders are widely used by the company.

The robots were obtained largely to do heavy, hazardous, and monotonous work for which very few workers were available during the period of high output growth. Because robots are adaptable and can simultaneously work on different models of cars, the company believed they would improve product quality and save energy and space.

Automation at X Motor Co. has contributed to improved product quality by decreasing human error and increasing mechanical reliability. The company's output increased 186 percent between 1970 and 1980, and productivity increased