

JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

The Changing Labor Market in Japan

by Atsushi Seike

The Japanese labor market is being rapidly transformed by various structural changes in the economy. The most important and striking of these structural changes is the aging of the population. By 2015, an estimated 25 percent of the Japanese population will be older than 65 years of age, while approximately 12.4 million persons will be in the 20 to 30-year-old age group. That latter figure would represent a 30 percent decline from 18.4 million in 2000.

Two demographic factors characterize Japan's aging population — prolonged longevity and substantially reduced fertility. While most developed countries share both characteristics in varying degrees, Japan is a different case. First, Japan's aging population will peak at a much higher level than in

other developed countries. Second, aging is occurring more rapidly in Japan than has ever been observed in other developed countries. Finally, unlike in North America, Japan has no immigration to speak of that would increase the working-age population.

Structural changes in industry have also had an important impact on Japan's labor market. In the last decade or so, Japanese firms have been forced to internationalize their operations significantly in order to remain competitive. This, in turn, has seriously affected the types of occupations available to workers in Japan. In the last 25 years, workers in such primary industries as agriculture, forestry, and fishing have declined from six million to four million. Production workers — traditionally the largest occupational group — have now leveled off at slightly more than 20 million.

During the same period, however, the number of workers classified as managers, professionals, specialists, and clerical staff has jumped sharply from 14 million to 24 million. This latter group now provides the most jobs for Japanese workers.

Yet another important economic structural change is unemployment. With the bursting of the asset-bubble in 1990 and the subsequent recession the unemployment rate has increased from 2.1 percent in 1990 to 4.7 percent in 2000. In addition, the steady increase in "voluntary unemployment" has contributed to the general ballooning of unemployment in Japan. So called voluntary employment refers to individuals who left their jobs

voluntarily, while "involuntary unemployment" refers to those who lost their positions due to bankruptcy or dismissal.

In fact, with the exception of the "bubble period" of the late 1980s, which created an extraordinary number of jobs, Japan's unemployment rates have been creeping up since as early as 1970. As the Figure illustrates, this increase has most likely been due to the continuing rise in voluntary unemployment.

Changes Needed To Secure Employment

Given the aging of the Japanese workforce and anticipated high levels of unemployment, Japan must make certain changes in its institutions and corporate policies. Current demographics suggest that within the next decade or so there will be even more older employees in the workforce than ever before, as compared to the number of younger workers. The longer life span of Japanese workers, in turn, will increase expenditures for the population as a whole. On the one hand, this suggests that older workers will have to work longer and retire at a later age than is currently the case to produce income that will help pay for increased social security expenditures.

On the other hand, increasing numbers of workers may have to find new jobs in mid-career because many firms, facing competitive pressures, have been reluctant — or unable — to provide traditional "lifetime" employment. The current trend to lift the pension-eligibility age increases

Currently No. 7 April 2001

Social Science Research 4
Can Inform Competition Policy, Deregulation, and R&D In Japan

by William P. Butz, Director of Science and Economic Sciences, U.S. National Science Foundation

Japan Business Dialogue 6

Trading Companies' New Mission: Challenge To New Era, by Yuji Takagi, Vice President and General Manager, Mitsui & Co. (USA), Inc.

The Changing Labor Market in Japan

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this likelihood. Thus, a single employer can no longer maintain a balance of labor supply and demand over a person's lifetime as was the case in years past. It therefore is essential that Japan develop a labor market in which unemployed workers can find new jobs.

In the past, fledgling industries helped to reallocate labor from declining sectors by hiring most of the new college graduates. However, in view of the fact that fewer young workers are expected to enter the labor market in the years ahead, this system will not work any longer. Japan clearly needs a labor market in which experienced workers and professionals can move from declining sectors to new industries.

Government Policies To Facilitate Labor Mobility.

Clearly, lifetime employment provided by a single (usually the first) employer is no longer possible. In order to facilitate greater mobility in the labor market, Japan needs to develop a system in which workers can change jobs and be paid commensurate with their qualifications. The following initiatives would help to realize a transformed labor market:

1. Increasing Information. It is important to increase the availability of information about the labor market itself. Workers should have better access to information on available jobs and employer benefits. In this regard, it is essential to deregulate private-sector employment agencies since these firms

help to match professionals and specialists seeking employment with job vacancies. One of the most urgent challenges facing the Japanese labor market is the usually time-consuming process

of placing of mid-career professionals and specialists.

2. New Safety Net. Unemployed workers need a better safety net. Specifically, it seems appropriate to extend the duration of unemployment insurance for displaced middle-aged workers. But employment credits or subsidies aimed at propping up declining industries should be eliminated.

3. Individual Responsibility. The government should encourage individuals and household heads to assume greater responsibility in view of the new realities of the changing labor market. For example, by eliminating the seniority-based wage system, workers would be compelled to save more during their thirties to cover anticipated higher expenditures in their forties or fifties.

Company and public pension plans should also address lifecycle issues.

4. New Skills. Workers should also be encouraged to develop new skills during the course of their careers. This goal now figures prominently in the human

resource policies of many Japanese firms. However, as workers' wages begin to reflect their contributions to a company's profits, the employer will likely feel less of an incentive to invest in worker training. To the extent that public investment in human capital is viewed as profiting society as a whole, it will be necessary for the Japanese government to pursue policies that encourage companies to train and develop

employee skills. The government should be encouraged to extend long-term loans to individuals who would benefit from skill develop-

ment. For practical reasons, such loans should have a long repayment period, but mandatory retirement or age discrimination would conflict with such a policy.

5. Labor-Management Relations.

Government policies that oversee labor-management relations must also change. As more employers abandon the seniority-based wage system in favor of a person-specific, merit-based

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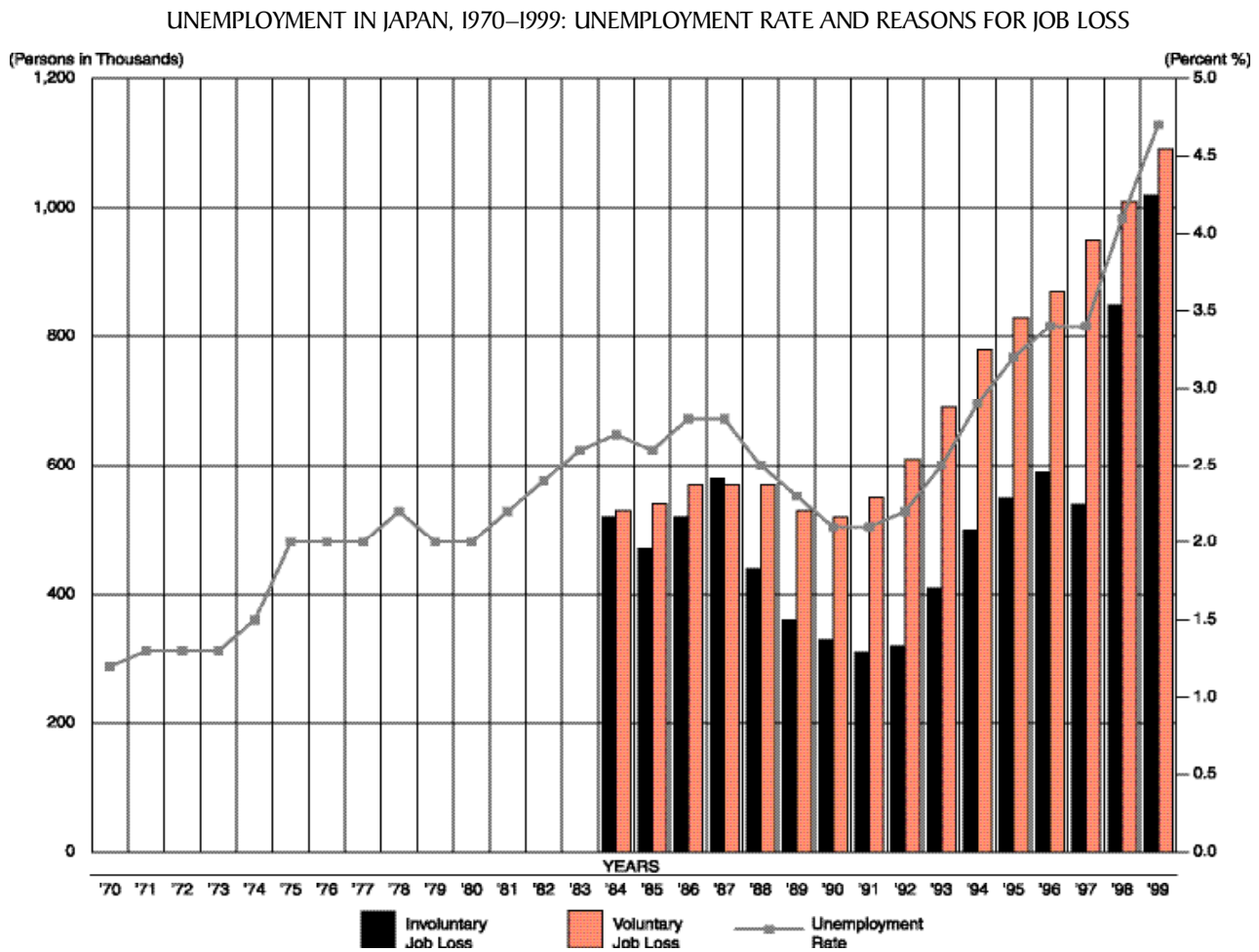
"Workers should also be encouraged to develop new skills during the course of their careers [and] the government should extend long-term loans to individuals who would benefit from skill development."

wage system, we can expect many wage-related disputes. In addition to substantially restructuring the labor offices at the national and prefectural government levels, Japanese companies should consider expanding the authority of their labor-management committees so they can more effectively resolve the anticipated increase in wage disputes.

6. Age-Free Employment Rules. In an aging society, it is important to promote employment of older workers. Mandatory retirement and age limitations in hiring are two major obstacles to this effort. Mandatory retirement has a negative impact on the utilization of older employees, while age limitations in hiring prevent middle-aged and older

workers from finding jobs. To eliminate these barriers, the government should develop policies that discourage age-based employment discrimination. ■

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Social Science Research Can Inform Competition Policy, Deregulation, and R&D In Japan

by William P. Butz

A good deal of the research conducted by American social scientists is relevant to economic developments in Japan. The most obvious example is economic research. This can be used to analyze foreign direct investment, industrial restructuring, corporate governance and trade issues. I have selected five research areas that may be less familiar to many observers. Yet, these topics — presented in the form of questions — may provide important information about developments in Japan.

1. What conditions are most favorable to the production of new knowledge, new inventions, and new technology?

There has been considerable discussion about the need to expedite Japanese progress in information technology and biotechnology, among other fields. Sociologists and psychologists study the process of innovation, as do economists and researchers in organizational behavior. These analysts systematically compare successful research enterprises and conduct laboratory experiments to determine conditions that encourage high creativity in an organization. Social scientists are providing insights into such practical questions as:

- Are researchers who are encouraged to publish their findings in scientific journals more productive?
- Is the source of research funding important?
- Are there higher payoffs from research that cuts across academic disciplines than from traditional research?

- What are the characteristics of labs that remain on the cutting edge for many years?

If Japanese companies examined this research, they may be better able to restructure R&D programs to maximize this investment.

2. What are the characteristics of organizations that adapt quickly and appropriately to changes in technology or in their environment?

The National Science Foundation has an entire program devoted to examining this question. Our research teams are comprised of social scientists and engineers who analyze the internal records of companies and organizations. Using sci-

“Increasingly, American CEOs are supplementing their intuition and experience by consulting social science research on such questions.”

entific methods, the teams have determined which well-worn business slogans truly are effective, and under what conditions. For example, we have all heard:

- “You have to change the culture of a company before you can change its behavior.” Well — do you? Currently, there is much discussion in Japan about changing a company’s culture — that is, the organization’s persistent values and ways of doing things. But altering corporate culture is very difficult.
- “Change in a company must start at the top.” Is that correct? Or, can pockets of organizational innovation begin deep in the company and spread — in spite

of a traditional and conservative top management? Under what conditions can this occur?

- “Top performance requires that people work in teams.” Does it? And should a team consist of like-minded employees or individuals who view things differently?

Increasingly, American CEOs are supplementing their intuition and experience by consulting social science research on such questions.

3. How can one increase efficiency by introducing greater competition into the allocation and decision-making processes — when previously these processes were closed?

Decades of fundamental research in game theory and more recent “decision games” — in

which social scientists study how people in a controlled setting respond to different situations — have given rise to specialized “auctions” worth billions of dollars. For example:

- Airport landing rights are now allocated through competitive auctions, rather than by an administrator.
- In several countries, companies can trade their right to pollute the environment. Political authorities determine the total amount of effluent, but the firms that would have to pay the most to clean up their production processes typically produce that amount. Such firms therefore pay for the right to pollute, and market forces set the price.

- NASA now uses auctions to allocate the very scarce space, mass, and solar energy required by satellite experiments. Previously, an administrator in Washington decided how much physical space on a satellite and how much energy went to each contractor or laboratory.

Now, however, when an engineer tells his project leader that an experiment will require more solar energy than anticipated, the project leader goes to an appropriate website and trades solar energy for mass or for space with the leaders of other projects that will be crowded onto the same satellite.

Previously, all the project leader could do was to appeal to an administrator in Washington and hope for the best. Now there is a market with prices determined by supply and demand.

The point is that markets can now be designed to do things that they never did before. A company, a government agency, and the entire economy can become more efficient, and change will be less painful in human terms.

4. Can organizations conclude voluntary agreements on contentious resource allocation issues and then self-police the accords without regulation by a Federal agency?

The answer in both theory and practice is “yes.” Forty years ago, an economist won a Nobel Prize for discovering the underlying principle. Recently, logging companies

and local residents in the Amazon and the U.S. Pacific Northwest have developed

“...Markets can now be designed to do things that they never did before.”

effective deforestation schemes without the need for contentious regulation by a Federal agency. There has been a rapid increase in such real-world cases.

5. Is the boom in America’s information technology sector fueling U.S. productivity and economic expansion?

Many Japanese analysts seem to believe that this is the case — business and government officials frequently mention that Japan’s goal is to “catch up to America in IT.” However economists who have studied this issue from various angles maintain that there is no clear evidence of a direct relationship between information technology development and economic growth.

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Japan might well be cautious, therefore, about putting too many eggs in the “IT

basket.” The price of catching up to American in information technology may be very large — and may not have the desired broader payoff.

Certainly in the United States, we have hardly scratched the surface in considering how the above research may produce more effective government policy and improve business performance. While some of the findings may already have informed government and industry policies in Japan, I would imagine that Japanese business and government have yet to consider the potential applicability of most of this research. ■

William P. Butz is Director of the Division of Science and Economic Sciences at the U.S. National Science Foundation in Washington, D.C. This article summarizes his remarks at a program on the Japanese economy sponsored by the Keizai Koho Center on September 29, 2000, in Tokyo, Japan.

Japan Business Dialogue

KKC's monthly program featuring Japanese experts on the economy.

Trading Companies' New Mission: Challenge To New Era

Yuji Takagi, Vice President and General Manager, Mitsui & Co. (USA), Inc., Washington, DC Office

The evolution of the Internet-driven "e-marketplace" poses important new challenges to Mitsui & Co. (USA), Inc., Yuji Takagi, Vice President and General Manager of Mitsui's Washington, D.C. office, told attendees of the February 22 Japan Business Dialogue. Mitsui has sought to adapt to the "new economy" by launching e-business ventures that draw on the company's established brand value, its considerable business know-how in logistics, credit, and finance, and its extensive international network.

"Information technology has a central place in our corporate strategy as we work to survive in the new Internet economy," Mr. Takagi said. "Our objective is to create new earning resources by taking full advantage of the Internet."

Mr. Takagi explained that Mitsui and the seven other major *soga shosha* (Japanese trading companies) — Mitsubishi, Sumitomo, C. Itoh, Marubeni, Nissho-Iwai, Tomen, and Nichimen — are "unique animals" in Japanese business. The *soga shosha* have traditionally served as business intermediaries, which perform multiple functions critical to global commerce. These functions cover everything from basic exporting and importing to investment, logistics, marketing, and finance.

Thus, the growth in business-related Internet transactions threatens the *soga shosha's* key middleman role. "Dell Computer's business concept of 'Be Direct' in

the e-marketplace could be the trigger for disintermediation," Mr. Takagi noted. "To cope with this challenge, Mitsui is thinking how to achieve 're-intermediation.'"

An important strategy aimed at establishing Mitsui's place in the Internet world as a business intermediary is through joint ventures in information technology (IT). Mitsui has provided equity capital, logistics know-how, management skill, and its international network to more than a dozen e-business-related ventures in both the U.S. and Japan, Mr. Takagi pointed out. These ventures include:

- AOL-Japan, a three-year-old joint venture with America Online, which provides access to the Internet;
- Smart Online Corporation, a joint venture with U.S.-based e-steel.com, for steel product transactions via the Internet;
- 7dream.com, a joint venture involving Seven-Eleven Japan, NEC, Nomura Research Institute, Sony, and Japan Travel Bureau, which will offer approximately 100,000 products in a virtual shopping mall;
- "Japan Net Bank," the first government-approved internet banking venture with Sakura Bank, Fujitsu, Tokyo Electric Power Company, NTT DoCoMo, Nippon Life Insurance, and other firms; and
- Mitsui Direct Insurance Company, an Internet insurance venture with Mitsui Marine and Fire Insurance Company and Sakura Bank, which provides on-line price quotes and settlement.

Mr. Takagi acknowledged that while the *soga shosha's* traditional business model is in crisis, this problem also presents new opportunities to change. He also antici-

pated that convenience stores, which have become "important centers of Japanese daily life," will drive the expansion of Internet services by serving as centers for B2C e-commerce.

Mr. Takagi further predicted that use of mobile phones in Japan and the rise of the innovative "i-mode" technology, which connects cell phones to servers, e-mail, and the Internet, will boost e-commerce. ■

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KKC offers numerous programs designed to create a favorable business environment within Japan and worldwide. Its efforts extend to promoting free and stable trade by eliminating sources of friction in the global economic community.

KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

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