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Labor Markets in Japan: How Unemployment Is Minimized

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Is Minimized

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Abstract

The "official" labor force statistics of Japan indicate that even under worst economic conditions since the Oil Shock of 1973, Japanese unemployment has rarely risen above 2.5 percent of the labor force. This paper examines the concepts and techniques of the conventional monthly labor force survey of Japan that have given rise to these "official" figures. A once-a-year special labor force survey is used for recounting unemployed on the basis of criteria and definitions approximating the US practices. The results indicate that the US-type unemployment rates for Japan should be about twice as high as Japan's "official" rates. In addition, "discouraged workers" are also counted. Further, this paper clarifies neglected puzzles endemic in the conventional labor force data about differential unemployment rates by sex and age, concluding that women and middle-aged men are heavily discriminated against in the labor market.

LABOR MARKETS IN JAPAN: HOW UNEMPLOYMENT IS MINIMIZED

An efficient labor market system presumably minimizes unemployment when placed under pressure by a reduced aggregate demand or by sectoral imbalances in demand for labor. If statistics on employment and unemployment are any guide to the assessment of labor market efficiency, the performance of the Japanese labor market is almost miraculous: even after the challenge of the unprecedented fall in the gross national product under the OPEC shock, Japan's unemployment rates have been less than 2.5 percent as compared with pre-shock rates around one percent.

However, different people emphasize different aspects of Japanese unemployment--the unemployment rate which is only a little over 2 percent most of the time or the doubling of the unemployment rate within a few years after 1973. If pre-1973 labor economy was in a state of full employment, one must concede that the doubled unemployment rate after 1973 would indicate a labor economy less than full employment. In fact, during much of the 1950s when no one claimed that Japan was in full employment, the reported unemployment rates were similar to those of the 1970s: somewhat above 2 percent. Today people readily discount the problem of unemployment for one good reason; i.e., because of the rise in individual incomes and the progress in social insurances, the same rate of unemployment today means much less human hardship than before. But if the rate of unemployment indicates the degree to which an economy's labor force is underutilized, anyone who remembers the state of labor force underutilization during the 1950s

would consider the similar unemployment rates of the 1970s alarming. The mystery of Japanese unemployment has always been why the reported unemployment figures do not seem to reflect this alarm. This gives rise to two kinds of inquiry. If one feels that the utilization of the labor force is low, one may suspect that there is involuntary underemployment, especially in the form of shorter hours than considered "full-time." (In the labor force survey, anyone who worked even an hour on a paid job or as a family worker is counted as "employed.") In this chapter, we do not intend to investigate this aspect. Rather, we propose to take up another challenge; i.e., the reported rates of unemployment may be due in part to ways in which unemployment is defined and counted in Japan.

In recent years, there has been increasing awareness of possible inadequacies in the measurement techniques that have produced the low unemployment rates. The conventional labor force survey, modelled after the techniques used in the United States, has acquired characteristics that by comparison with the U.S. techniques seemed to understate the extent of unemployment. The Japanese survey techniques are simpler than those of the U.S. and almost deliberately blunted, so to speak, on the edges of questions that should have been sharper for eliciting answers to serve as the basis for unemployment statistics. It seems that workers "statistically" move between employment and non-labor force bypassing unemployment. The U.S. Department of Labor's International Comparisons of Unemployment (Bulletin 1979) compares between the U.S. and Japan as to who is included in or excluded from

unemployed. (The study covers 6 countries including Japan and the U.S.) Persons on layoff are included in the U.S., but excluded in Japan. In Japan, they are included in employed as persons with a job but not at work. Persons waiting to report to a new job at a later date are included in unemployed in the U.S. but excluded in Japan. Family workers are included in employed in Japan if they worked even an hour during the survey week, while in the U.S. they would not be included unless they worked 15 or more hours. Furthermore, what seems most important is that the reference period for jobseeking is one month in the U.S. and either one week or undefined in Japan. Thus, for international comparison of unemployment rates, the published figures have to be adjusted by transferring out of employment and the non-labor force those persons who would have been unemployed by concepts and techniques used in other countries and by eliminating from reported unemployment those who should not be there by other countries' criteria. Several studies have concluded that the statistically hidden unemployment of Japan would double the "official" unemployment rates--more than four percent instead of about two percent.¹

The Japanese Government responded to the demand for more reliable statistics on employment and unemployment by initiating a new survey in March 1977. This is the "Special Survey of the Labor Force Survey" (Special Labor Force Survey hereinafter) undertaken once a year at the end of March.² Detailed questions in this survey yields information which can be used for re-calculating Japan's unemployment rates by internationally comparable concepts. On the basis of the information

generated by the conventional labor force survey alone, it is impossible to detect the unemployed among the jobless who are "not in the labor force" or "non-employed" (to be defined shortly) among the reported unemployed. The adjustments that the conventional survey permits result in trivial differences as demonstrated by the efforts of the U.S. Department of Labor in the publication mentioned above. In this chapter we recount Japan's unemployed by a direct use of the results of the Special Labor Force Survey. First, we look for unemployed among the employed and those not in the labor force. Secondly, we look for "non-unemployed" among the unemployed.

(1) In Table 1, we present the results of the Special Labor Force Survey in the conventional format. In it a few classes of persons

(Table 1 about here)

employed or not in the labor force who should be included in unemployed are also mentioned. These, when re-classified appropriately, yield the adjusted labor force in Table 2. The adjustment is in two steps.

(Table 2 about here)

First, only the clearest cases are included in unemployed: those laid off, those who have temporarily closed down, those having jobs to report to within 30 days and, most importantly, those who looked for work in March, though they did not during the reference week, and who were currently (immediately, sugu in Japanese) available for work. These workers nearly double the unemployment rate. Secondly, other persons with jobs to report to at dates beyond 30 days and the "discouraged workers" are added to the first adjustment. The "discouraged workers" are those who did not look for work any time during March in

the belief that they could not find work any way but who said they were currently (immediately) available for work if found. The unemployment rate rises as a result, but surprisingly, does not rise as much in proportion as it does upon the first adjustment. "Non-unemployed" subtracted from conventional unemployed, in Table 2, is a subject of substantial importance, which is discussed later.

Workers on layoff and self-employed workers temporarily closed down for economic reasons are "employed" in the category "with a job but not at work." Their number is very small, however. That these workers are not included in unemployed is perhaps grounded in Japanese philosophy of employment. Above all, employment to the Japanese is a relationship between employer and employee. So long as that relationship is maintained even though the employee does not report for work, he is employed. This philosophy would make American workers on layoff subject to recall employed, not unemployed. The maintenance of the employment relationship is so important to the Japanese even where there is nothing to do but wait at home till work becomes necessary that the first public employment policy in the wake of the post-OPEC recession was that of subsidizing hard-pressed employers to keep paying their laid-off employees. This policy made it easier for declining or cyclically sensitive industries to unload redundant workers with a minimum of socially undesirable side effects, that is, avoiding the impression that they were throwing unwanted workers out on the street - a traditional image of unemployment much feared and hated anywhere. Furthermore, by calling the otherwise unemployed workers employed, statistics help prevent the status deprivation of the jobless. It is also in conformity

with this line of social philosophy that some of the jobless eligible for being included in unemployed in other countries are statistically hidden in the non-labor force in Japan.

Those who have a job to report to at a later date include an important group: school leavers and college graduates. By March 31 all students (barring a small number of failures) have had their proper graduation ceremonies and earned their diplomas. Long before graduation, they were interviewing for jobs over several months. At different points of time during the pre-graduation jobseeking, the then prospective graduates secured informal agreements (naitei) with specified employers on jobs to report to after graduation. What makes them "unemployed" on March 31 may be more technical than real. But there are good reasons, too. They are neither keeping house nor going to school. They are interested in work and preparing for it. In the United States, future jobs are not so firm and there always is the possibility that those who now may think they have a job will find, when the hoped-for time comes, that the employer has changed his mind. It therefore seems justified to treat a future job as a present equivalent of joblessness. In the Japanese case, the informal promises are probably much firmer than in the U.S. But the cancellation of the promises by the employer is not unknown. Especially during the post-OPEC adjustment period, there was a high risk that the promises were not kept. In any case, the graduates with a job to report to in the future are technically no different from the jobless who are waiting for the results of past jobseeking activities, except that the risk of jobs disappearing is much lower for graduates than for others.

"Current availability" for work distinguishes jobseekers who are unemployed from jobseekers who are not included in unemployed. In the conventional labor force survey of Japan, current availability was assumed for jobseekers, but no independent test was made for the validity of this assumption. The Special Labor Force Survey makes the issue explicit. After the question "Do you want work?" put to those who did not work or look for work during the survey week, the Special Labor Force Survey asks "Do you intend to work immediately if a job is found?" (Emphasis supplied). To this, one of the following three answers should be chosen: "immediately," "not immediately," or "do not know." Answers to this question can be cross-classified with answers to the next question: "Why are you not seeking work now [meaning the reference week] despite your intention to work?" After this, another important question is asked: "For the purpose of finding work, have you during March visited the public employment service, applied for jobs somewhere, asked your friends to find work for you or done other things of similar nature?" The answer called for is either "yes" or "no". Those who answered this question "yes" and who were currently (immediately) available for work as the result of a previous question can be considered "unemployed." This leaves out those who looked for work during March but who did not say that they were immediately available. Why they should not be considered unemployed is a question of priority in the structure of judgment: i.e., which is more important or overriding, jobseeking or current availability?³

In the U.S. labor force concepts, "temporary illness" is an important exception to the current availability rule. Those who meet the

criteria for being considered unemployed but who are not currently available because of "temporary illness" are still unemployed. In the Japanese Special Labor Force Survey, "temporary illness" is introduced at a different juncture. It is one of the answers to the question mentioned above--"Why are you not looking for work...? What is important is that temporary illness is a reason for not looking for work during the reference week. Thus, there are those who looked for work during other weeks of March, although they were unable to look for work during the reference week because of temporary illness. This means that those who looked for work during March and are currently available (and so should be considered "unemployed") include some of those who were unable to look for work during the reference week because of temporary illness. In Japan, therefore, temporary illness is not an exception to the current availability rule. This is shown in a cross-tabulation of answers to the question whether or not the persons concerned looked for work during March (worded in a different form as mentioned earlier) and answers to the question why they did not look for work during the reference week.

Adjusted unemployment (A) in Table 2 is the closest approximation one can make to the coverage of unemployed used in the United States. A minor exception still left out has to do with the persons employed in the Self-Defense Forces of Japan, who are included in employed. In the United States, members of the armed forces are excluded from the labor force. The U.S. labor force is "civilian." But, the Japanese Self-Defense Forces are entirely voluntary and compete with other employers, public and private, for maintaining their manpower level.

These characteristics of the Japanese "military" forces probably caution against excluding them from the labor force. In any case, the exclusion of the 250,000 "military" does not affect the unemployment rates at all when rounded to the tenths of a percent. Thus, from the standpoint of comparability in concepts and coverage, the results of adjustment (A) may bear comparison with the usual unemployment rates of the United States noted at the bottom of Table 2. The U.S. rates are still higher than the Japanese, but the difference is much smaller than that between the U.S. rates and the conventional Japanese rates.

Persons not in the labor force who do not look for work believing that they cannot find work because of the "discouraging" economic conditions are "discouraged" workers. According to Table 1, there are large numbers of them, easily surpassing the conventional ranks of unemployed. But those who are "currently available" for work among them are fewer. Thus, a large bulk of them do not seem to be seriously interested in working. If they do not intend to work, it seems clear that they have decided to withdraw from the labor force or not to participate in the labor force yet. Adjustment (B) also includes jobless who are not looking for work because they have jobs to report to after one month and jobless who are not currently available but have looked for work during March. Interestingly, this expansion of the concept of unemployment does not wildly raise the unemployment rates beyond the earlier, more orthodox, adjustment. Only by stretching the concept of unemployment in this way, Japanese unemployment rates become comparable to U.S.

The Special Labor Force Survey has generated much more information on attitude toward work that indicates different types and degrees of interest in work. These attitudinal dimensions require expertise in Japanese social psychology for proper ordering and interpretation. For example, the "yes" answer to "do you want work?" can be either "yes, any kind of work" or "yes, if terms are right." When these different yeses are cross-tabulated with information on "current (immediate) availability for work," it is a good question whether the reservation implied in "yes, if terms are right" may not overshadow "current availability" and actually turn it into "not currently available." Here one suffers from an embarras de richesse of information. Why people are discouraged from looking for work is also related to several situations such as local labor markets, seasons, business cycles, etc. It is again a good question whether a person who does not look for work believing that there is no job in the local labor market is just as "discouraged" as a person who does not look for work believing that the season is bad for jobseeking. These different perceptions and attitudes await further analysis. In our adjustments for alternative levels of unemployment, we ignored these different shades of "yes" and different kinds of "discouragement."

(2) We have so far been concerned with people who are not considered "unemployed" in Japan but should be so considered by international standards. Another question worth asking is whether those considered "unemployed" in Japan are so considered in other countries. An article by a Labor Ministry official of Japan points out that Japanese unemployment includes those who would not be considered

unemployed by U.S. criteria.⁴ We now recount unemployed, taking this view into account.

The questionnaire used for the Special Labor Force Survey asks "Did you do any work at all during the last week of March?" This divides the respondents broadly into those who worked even an hour and those who "did not work at all during the survey week" (emphasis supplied). The latter responses are then classified into (1) temporary absence from work, (2) seeking a job, (3) keeping house or going to school, and (4) other. "Seeking a job" is defined to refer to "among persons without jobs who did not work at all during the survey week, persons currently available for work and [who] are making specific efforts to find a job or waiting for the results of [past] jobseeking activity." Those who marked "seeking a job" subject to this definition are considered "unemployed." The bone of contention is what to do with those who are classified as "jobseekers" under this definition, but who obviously did not seek a job during the survey week but were waiting for the results of past jobseeking.⁵

In the Special Labor Force Survey, "jobseekers" as defined in the peculiar way mentioned above are asked a number of questions. The first question is "what kind of methods are you taking for seeking a job?" Six possible answers are provided for and the respondent is asked to circle any number of them and to put a double circle on the principal method. A sub-question attached to this question asks "when did you do the last request or application?" (emphasis supplied). Three choices are offered: (1) during the last week of March (survey week), (2) during March, and (3) during February or earlier. It is reported,

for example, for 1980 that more than 40 percent of the "jobseekers" chose the "February or earlier" answer to the question on the timing of the "last request or application." The Labor Ministry article points out that these would be considered "out of the labor force" in other countries and that Japan's conventional unemployment should be reduced to that extent in the interest of better comparability. Obviously, the author of this article believes that those who made their "last request or application" in February or earlier did not look for work during March. However, the main question to which this question on timing is attached enumerates jobseeking methods which include those different from "request or application;" e.g., "collecting wanted ads, or consulting with acquaintances," "preparing to start a business by procuring funds and materials," and "other." This means that those who made their "last request or application" in February or earlier could still be actively seeking work during the survey week or during March by "collecting wanted ads, or consulting with acquaintances," "preparing to start a business" (which cannot be neglected in a country like Japan, where employment on one's own account is fairly extensive) or in "other" ways.

Thus, the cross-tabulation of answers to the question on jobseeking methods and answers to the question on the timing of some of those methods like making a request or application must be read carefully. For example, if those who answered the question on jobseeking methods by saying that they applied for a job at the Public Employment Office also answered the sub-question on the timing of their "last request or application" by saying that they made it in February or

earlier, it may be legitimate to suspect that (provided no other answers were given to the question on jobseeking methods) these persons may not have done anything during March except for waiting for the result of their last application. Although they were not looking for work during March or the survey week, they considered themselves as jobseekers because the definition of jobseeking in the Japanese labor force survey includes "waiting" without seeking. To say that one is doing something without doing it sounds devastatingly inconsistent. But the fact that one can actually say so by defining "doing" as inclusive of "not doing" is one of the flexible properties of the Japanese language. In English, one's prerogative to define something cannot be extended to the inclusion of its opposites in the definition. But English allows a similar practice by the stipulation of "exceptions." Thus, in the labor force survey of the United States, while jobseeking is a prime test of unemployment, there are people who are not seeking a job but still considered unemployed (as exceptions to the jobseeking rule). They are: "(1) persons waiting to start a new job within 30 days, and (2) workers waiting to be recalled from layoff" (emphasis added).⁶ The first group of persons also exists in the Japanese labor force statistics and already was moved from "not in the labor force" to unemployment in the preceding section. The second group cannot be identified in Japanese statistics.

What is interesting is that in the U.S. exceptions to the jobseeking rule for unemployment, the key word is "waiting." It is of course not clear whether "waiting" in the Japanese definition of unemployment was inspired by the American "waiting exceptions" to the

jobseeking rule. Since "jobseeking" including "waiting" has been in practice ever since the beginning of the labor force survey in postwar Japan, the conceptualization of unemployment including "waiting" must have had valid reasons, although at the moment we cannot offer a historical verification of this speculation. The Japanese use of "waiting" occurs with respect to the results of past jobseeking activities. The unemployed who fall under this category may have been "waiting" to be notified by their agencies or prospective employers. Under certain circumstances, this type of waiting can be the result of favorable impressions about the chances for landing a job at the time of request or application. When waiting is as specific as this example, it is almost like waiting to be called in for work and comes very close to the American concept of waiting as an exception of the jobseeking rule for unemployment.

How long one should "wait" in order to be counted as unemployed rather than "out of the labor force" is also important. In the case of a job to report to, the waiting period is 30 days in the U.S. But even in the U.S., there is no specific limitation on the waiting period for a recall from layoff. In the like manner, the Japanese idea of open-ended waiting for the results of jobseeking may be defensible. In Japan, it is well-known that in any area of life, more generous time is customarily allowed for responses to a request than in other countries. From this point of view, the Labor Ministry article's exclusion from unemployed of the jobless waiting for the results of their "last request or application" made in February or earlier seems unusually strict.

The structure and wording of the Japanese labor force questionnaire are unfortunately too ambiguous to permit clearcut adjustment with respect to genuine waiting for the results of past jobseeking. The Labor Ministry article restricts "waiting" during the survey week (the last week of March) to the results of jobseeking between March 1 and the survey week. But if the reference period for jobseeking is expanded to one month from the conventional one week, anyone who looked for work during March regardless of whether or not during the last week of March they were waiting for the results of those activities would be qualified for being included in unemployed. Thus, waiting becomes a non-operative concept in this case. It is also a good question whether the expansion of the reference period for jobseeking to one month inevitably nullifies the need for the concept of waiting for the results of past jobseeking activities. The use of waiting in the American labor force concepts seems to suggest that there may also be room for it in Japanese measurement of the labor force.

The cross tabulations of the answers to the question on jobseeking methods and the answers to the sub-question on the "last request or application" suggest some way out of this murky issue. Table 3 presents an excerpt from these cross-tabulations with special reference to the "February or earlier" answers. The first three items refer to

(Table 3 about here)

persons whose "principal" methods of jobseeking involved some kind of request or application and who said that they made their "last request or application" in February or earlier. From this, although we feel

rather uneasy in doing so, one may doubt that these persons were seeking a job seriously during March. The original data in the books suggest that some of those (Item 1) who used application at the Public Employment Office as their "principal" jobseeking method also resorted to "secondary" methods which did not involve "request or application." This brunts the factoring-out process, but we disregard it for now and assume that they fail the 30-day jobseeking test. Thus they can be excluded from unemployed as "non-unemployed." On the other hand, Item 4 in Table 3 only says that those jobseekers whose principal methods during the survey week were studying wanted ads or checking with friends made their "last request or application" in February or earlier when their jobseeking methods may have involved "request or application." The fact that they made their "last request or application" in February or earlier in no way discredit their status as jobseekers during the survey week, since they were then using different methods of jobseeking. Therefore, they are counted as unemployed. By similar reasoning, Item 5 and 6 are also counted as unemployed. The conventional unemployed and the deductible "non-unemployed" are also shown in Tables 1 and 2 above.

Now that the method of recounting Japanese unemployed has been fully explained, a variety of unemployment rates by sex are presented in Table 3 in a summary form without enumerating the items subjected to adjustment. A couple of points are worth pointing out. The

(Table 4 about here)

conventional unemployment rates tend to be lower for women than for men, but this tendency is reversed after adjustment. For example, in

1977, the male and female unemployment rates are respectively 2.44 and 2.26 percent. When adjusted, the male and female unemployment rates rise to 2.95 and 6.25 percent respectively, the latter substantially higher than the former. When "discouraged workers" are counted, the female unemployment rates rise more sharply than male (3.63 percent male against 14.81 percent female). Knowledgeable persons have long wondered about the lower reported unemployment rates for women than for men in Japan, a fact that appears rather peculiar in view of the widely observed tendency that women usually suffer from higher unemployment rates than men (see U.S. figures in Table 4). But the expansion of the job search period to one month and other adjustments make Japanese female unemployment rates higher than male. This suggests that the labor market disadvantages of women relative to men are at least similar in nature between Japan and other countries. The failure of the conventional unemployment rates to reflect this universal tendency is another reason to suspect the deficiencies of the conventional labor force survey.

Quantitatively, the male-female differentials in unemployment rates are much greater in Japan than in the United States. In Japan, then, the brunt of unemployment is borne disproportionately by women. In other countries, this would be considered substantial evidence of labor market discrimination against women, though in Japan there is no active concept of discrimination in this sense--men and women simply accept their different roles in society and make no fuss about it. In view of Adjustment (A), which represents the closest approximation to the American concept of unemployment, it is interesting to note that

Japanese women have attained the white American unemployment rates. If we count "discouraged" women workers (Adjustment B), Japanese women's unemployment rises to the Black American level. Why women's unemployment rates tend to be lower than men's in the official data owes much to the structure of questions in the survey questionnaire.⁶

Although the unemployment rate based on the labor force survey is the "face" of Japan proudly turned to the rest of the world, very few in Japan take the labor force survey seriously. It is viewed as based on alien concepts of work that the ordinary Japanese find hard to understand. (Precisely for this reason, a good showing by this concept is something to boast to foreigners.) Thus, the Japanese government conducts another employment survey every three years based on more popular concepts; i.e., "Basic Employment Structure Survey" by the Prime Minister's Office. In this survey, a person who is 15 years or older is either "usually employed" (for pay or on own account) or "usually not-employed." By definition, no one can be "usually unemployed." However, the persons "usually not-employed" are asked a number of questions about their interest in employment. Thus, they can be classified into those interested in work and those not interested. The interested persons are also asked whether they are looking (or have looked) for work. Those looking for work are then asked if they are immediately available for work if work is found. From all this, one can say that the persons "usually not-employed" who are interested in work, looking for work, and can start working if work is found can be considered "unemployed."

Naohiro Yashiro estimates "unemployment rates" for men and women from the Employment Structure Survey of 1977.⁷ He first identifies persons "usually not employed" who are interested in work and have looked or are looking for work as a percentage of the sum of these persons and those "usually employed." This yields of 3.2 and 12.9 percent "unemployment rates" for men and women. But when the current availability condition is added, the male and female "unemployment rates" come down to 2.0 and 6.34 respectively. The male unemployment rate from the Employment Structure Survey is quite similar to that from the conventional labor force survey, but the female unemployment rate here is much larger.

Although no one can be "usually unemployed" (because they would sooner or later drop out of the labor force), Japanese concepts underlying the Basic Employment Structure Survey may permit a generalization that the "usual unemployment rates" of Japanese men and women are 2 and 6.3 percent respectively, averaging at 3.7 percent. Although this certainly would not strike anyone as extraordinarily high, it at least suggests that Japan's "true" unemployment may be higher than what some Japanese would like to advertise to the rest of the world on the basis of the labor force survey. It also indicates that Japan's unemployment problem is largely women's problem. In Japan, however, the phenomenon of male-female differentials in employment opportunity has not yet arrived on the agenda for serious discussion.⁸ It is also commonly admitted by men and women alike that Japanese women, if discriminated against in the labor market, enjoy compensating advantages in other areas of life; e.g., the family and

household where the woman-wife-mother is said to be an unchallenged ruler for whom the man-husband-father is little more than a "working bee" (hataraki bachi, which can also be humorously rendered into "punishment at hard labor").

Besides sex, another personal factor that produces differential labor market advantages among different persons is age. In Japan, there is a greater willingness to admit the existence of age discrimination, which is partially indicated by differentially higher unemployment rates among older persons. Table 5 shows male unemployment rates by age groups. These are "official" or conventional rates. As our recounting previously showed, the adjusted

(Table 5 about here)

unemployment figures for men are not greatly different from the conventional ones. For example, in Table 4, we see men's unemployment rises from conventional 2.44 percent to adjusted 2.95 percent for 1977, while women's rises markedly from conventional 2.26 percent to adjusted 6.25 percent. The modest difference between men's conventional and adjusted unemployment rates enable us to make use of the readily available "official" disaggregation of men's unemployment by age as shown in Table 5, reasonably confident that the broad characteristics would not change much after adjustment.

It is generally observed anywhere that the unemployment rates among young workers are higher than the national average. Japan should be an exception if the much touted lifetime employment hypothesis were true, because life employment as usually described gives young men no time to be unemployed by scouting them out of school and

keeping them "for life." Amazingly, Table 5 implies that young men are vulnerable to fairly high unemployment at entry into the labor force or in the course of job changes. Japanese men obviously begin to settle down with long term jobs at around age 30 and stay with them until their 50s. Then unemployment rises among middle-aged men to rates far above the national average. The middle-age bulge in unemployment rates is widely regarded extraordinary by international standards.⁹ It reflects the uniquely Japanese practice of discrimination against aging workers as represented by the institution of teinen which means termination of employment for reasons of age. The prevailing teinen age in Japanese firms was 55 until recently. The proportion of firms using 60 as teinen has since increased. At the same time, firms are increasingly encouraging their employees to retire (quit) early. Thus the "formal" extension of teinen obviously encourages management to find ways to bypass the formal rules. The net effect is that Japan fails to offer job security to workers 55 years or older. Although similarly high unemployment rates among young men below 30 are due in large part to new entries into the labor force and voluntary job changes, the unemployment of older workers is due more to involuntary job terminations and subsequent difficulties in finding new jobs.

Aging also affects earnings inversely. Men's regular base pay reaches its peak on the average in the age bracket of 45-49 and decreases to about 70 percent of the peak by 60-64 years (according to wage statistics for 1979).¹⁰ Since it is during this life stage that unemployment among men is seen to rise, it appears that sharper

decreases in wages are needed for preventing unemployment of the middle-aged from rising or that in case continued regular employment until 65 is desired, earlier pay raises (before age 45) have to be moderated so that wages may be kept from falling in later years (45-65). This requires a new view of lifetime earnings profile distinctly different from the current profile. Since the system of pay increases linked with the length of service (the so-called nenko wage system) was originally fashioned with the teinen of 55 in mind, employers have for some time argued that the raising of the teinen age would require a new earnings profile over the new, longer period of employment if earnings were to continue to rise till the time of teinen. This argument implies that younger men below age 50 would be worse off under the system of revised teinen than at present. Thus, a conflict of interest between generations is a powerful constraint on the revision of teinen.

In addition to open unemployment, the possibility of labor redundancies in Japanese firms was also a popular topic in the late 1970s. Several well-known banks and research institutes announced their estimates of labor redundancies in the Japanese economy. A few examples were picked up by the Ministry of Labor and published in its Labor White Paper (1978). Labor redundancy is defined as the excess of actual employment over optimal employment which is estimated from the level of output and labor productivity. Various formulae with different degrees of sophistication are employed for the purpose. The estimated full-time-equivalent redundancies for 1977 as percentages of

the labor force range from a low of 4.4 percent to a high of 7.2 percent. Since the "official" unemployment rate for 1977 was a little over 2 percent (our adjusted rate was somewhat above 4 percent), the Japanese economy was, obviously holding a surprising amount of excess labor at the expense of productivity, although workers' apparent willingness to forego wage increase or even to take wage cuts helped employers reduce the costs of labor redundancies.

To summarize, the underutilization of Japan's labor force after 1973 has been extensive. One might roundly put it at 10 percent or so for the late 1970s. But this was shared 6 to 4 between redundant employment and open unemployment. The deficiencies of the conventional labor force survey also have helped soften the shock of discovery of the worsened labor market conditions by understating the extent of open unemployment. If the "true" unemployment rates can be said to be double the official rates, Japan's unemployment of the late 1970s was roughly comparable to Western Europe's, though somewhat lower than America's. Even so, the fact that the excess labor amounting to 10 percent of the labor force produced an open unemployment rate of 4 percent is an interesting economic phenomenon. As demonstrated elsewhere, large enterprises unloaded their redundant labor rather efficiently, and labor absorption occurred in smaller firms and in the service sector. The factor that made this possible was the collapse of worker militancy and the moderation of real wage increases. There even was a decrease in average real wages in 1980. Workers were cowed by a great fear of joblessness, it seems.¹¹ In other words, high open unemployment was avoided by the willingness to

chastened workers to take any jobs for any wages. All this of course indicates that Japanese labor markets worked with remarkable efficiency.

8

FOOTNOTES

¹ Mitsubishi Bank Research Institute, Special Research Report No. 22 (August 1981); Akira Ono, Nihon no rōdō shijō (Japanese Labor Markets) (Tokyo: Tōyō Keizai Shinposha, 1981), Chapter 2.

² Prime Minister's Office, Bureau of Statistics, Rōdōryoku chōsa tokubetsu chōsa hōkoku (Report on the Special Survey of the Labour Force Survey) (March every year since 1977).

³ On this point, see U.S. Department of Labor, How the Government Measures Unemployment (Report 418, 1973).

⁴ Eiji Shiraishi, "International Comparison in Unemployment Conception" (in Japanese), Monthly Labour Statistics and Research Bulletin, 34, 3 (March 1982): 13-20.

⁵ For an earlier discussion of this issue without the benefit of insights afforded by the Special Labor Force Survey, see Ryohei Magota and Hideshi Honda, Koyō to chingin (Employment and Wages) (Tokyo: Ichiryusha, 1974), Chapter 3.

⁶ Yoko Sano, Chingin to koyō no keizaigaku (Economics of Wages and Employment) (Tokyo: Chūō Keizaisha, 1981), Chapter 5.

⁷ Naohiro Ysahiro, "Wagakuni ni okeru shitsugyō gainen no saikentō," (A Re-examination of Our Country's Concept of Unemployment), Monthly Journal of the Japan Institute of Labour (February 1981), pp. 15-25.

⁸ Eiko Shinotsuka laments the absence of real debate on this issue in her Nihon no joshi rōdō (Japanese Women Workers) (Tokyo: Tōyō Keizai Shinposha, 1982), p. 72.

⁹Haruo Shimada, "The Japanese Labor Market After the Oil Crisis: A Factual Report" (I and II), Keio Economic Studies, Vol. 14, Numbers 1 and 2.

¹⁰See, for example, Ministry of Labor, Rōdō tokei yoran (A Handbook of Labor Statistics), 1981, p. 104.

¹¹What is somewhat puzzling is why workers, if only for purposes of strategic manouvres, did not seize upon the government's insistence on the good performances of the Japanese economy based in part on the low "official" unemployment rates and mount a strong offensive for wage increases appropriate to the advertised good economic conditions. One answer to this question is that workers are sympathetic toward the government's efforts for putting up a good "face" for the rest of the world despite the really bad conditions at home.

Table 1. The Labor Force of Japan, 1977-1980¹ (in thousands of persons)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Working-age population, total	85,870	86,790	87,790	88,480
Labor force, total	53,430	54,240	54,770	55,370
Employed, total	52,160	52,830	53,420	54,130
of whom persons with a job, but not at work	1,340	1,760	1,390	940
including those laid off or closed down	100	140	140	NA ²
for less than one month	60	60	60	NA
for more than one month	40	80	80	NA
family workers working fewer than 15 hours a week	400	580	490	760
Unemployed	1,270	1,410	1,350	1,240
"non-unemployed"	330	420	370	310
Not in the labor force, total	32,190	32,250	32,800	33,110
of whom,				
have a job to report to	830	830	840	860
within one month;	740	730	740	740
after one month	100	100	100	120
looked for work during March	1,060	1,080	1,090	960
currently available				
for work;	510	560	490	430
not currently available	550	520	600	530
did not look for work during March	6,520	7,910	8,260	1,470
think cannot find work,	1,850	2,220	2,220	1,880
of whom currently available for work	490	610	610	560

Sources: The Prime Minister's Office, Bureau of Statistics, Rōdōryoku chōsa tokubetsu chōsa hōkoku (Report on the Special Survey of the Labour Force Survey), each year, 1977-80.

¹All numbers here are rounded to the nearest 10,000 (Japanese unit: man). Rounding errors exist at this level.

²Not available.

Table 2. The Adjusted Labor Force and its Components, 1977-1980
(in thousands of persons).

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
I. Labor force, adjusted (A)	53,950	54,530	55,140	55,490
Employed, conventional ¹	52,160	52,830	53,420	54,130
less layoff, closed down family workers working fewer than 15 hours a week	- 100	- 140	- 140	NA
Employed, adjusted (A)	51,660	52,110	52,790	53,390
Unemployed, adjusted (A)	2,290	2,420	2,350	2,100
Unemployed, conventional less "non-unemployed" layoff, closed down have a job to report to within one month	1,270	1,410	1,350	1,240
Looked for work during March and currently available for work	- 330	- 420	- 370	- 310
	100	140	140	NA
	740	730	740	740
	510	560	490	430
II. Labor force, adjusted (B)	55,090	55,760	56,450	56,630
Employed (A)	51,660	52,110	52,790	53,370
Unemployed, adjusted	3,430	3,650	3,660	3,310
Unemployed (A) Have a job after one month	2,290	2,420	2,350	2,100
Looked for work during March, but not currently available "Discouraged" ² currently available for work	100	100	100	120
	550	520	600	530
	490	610	610	560
III. Unemployment rates (in percent)				
Conventional	2.38	2.60	2.46	2.24
Adjusted (A)	4.24	4.44	4.26	3.79
Adjusted (B)	6.23	6.54	6.48	5.84
<u>Compare:</u> U.S. rates	7.1	6.1	5.8	7.1

Sources: Same as Table 1.

¹"Conventional" means the labor force concepts of Table 1.

²Economists' designation of those not in the labor force who do not look for work because they do not think they can find work. See Table 1.

Table 3. Distribution of jobseekers who made their "last request or application" in February or earlier, by principal jobseeking methods during the last week of March, 1977-1980 (in thousands of persons)

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
"Totally unemployed", total	1,270	1,410	1,350	1,240
Unemployed who made "last request or application" in February or earlier	520	640	600	540
Principal jobseeking methods during the survey week:				
1. Application of Public Employment Office	180	230	210	150
2. Application at prospective employers	10	50	40	40
3. Request with schools or acquaintances	140	140	120	120
4. Studying want ads, or consulting with acquaintances	140	160	190	170
5. Preparing to start a business	10	30	20	10
6. Other	40	30	--	30
"Non-unemployed" (1+2+3)	330	420	370	310
Net "totally unemployed"	940	990	980	930

Sources: The Special Labor Force Survey.

Table 4. Unemployment rates by sex, 1977-1980

	<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>1980</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
Conventional	2.44	2.26	2.74	2.44	2.50	2.40	2.19	2.32
Adjusted (A)	2.95	6.25	3.34	6.24	3.01	8.65	2.75	5.20
Adjusted (B)	3.63	14.81	4.00	10.49	5.18	13.03	3.48	9.21
<u>Compare:</u>								
U.S., white	5.5	7.3	4.6	6.2	4.5	5.9	6.1	6.5
U.S., black and other	12.3	13.9	11.0	13.0	10.4	12.3	13.2	13.1


Sources: The Special Labor Force Survey.

Table 5. Unemployment rates among Japanese men by age group, 1976-1980 (percent)

<u>Year</u>	<u>Average</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>	<u>30-34</u>	<u>35-39</u>	<u>40-44</u>	<u>45-49</u>	<u>50-54</u>	<u>55-59</u>	<u>60-64</u>	<u>65+</u>
1976	2.2	5.5	3.2	2.3	1.5	1.5	1.5	1.5	1.8	3.3	4.4	2.4
1977	2.1	5.6	3.6	2.1	1.5	1.4	1.3	1.3	1.6	3.3	4.6	2.2
1978	2.4	6.8	3.8	2.4	1.7	1.6	1.7	1.6	1.9	3.5	5.3	2.3
1979	2.2	5.4	3.2	2.4	1.6	1.3	1.2	1.3	1.8	3.7	5.4	2.3
1980	2.0	5.5	3.6	2.0	1.7	1.3	1.0	1.3	1.5	3.1	4.6	2.2

Source: Ministry of Labor, Rōdō tōkei yōran (A Handbook of Labor Statistics) (1981), pp. 34-35.



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