

The End of Lifetime Employment in Japan?: Evidence from National Surveys and Field Research

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Using both quantitative data from national surveys and qualitative data from our recent field research, this paper provides evidence on the recent transformation of Japan's celebrated practice of lifetime employment (or implicit long-term employment contracts for the regular workforce). Overall, contrary to the popular rhetoric of the end of lifetime employment, evidence points to the enduring nature of this practice in Japan. Specifically, we find little evidence for any major decline in the job retention rates of Japanese employees from the period prior to the burst of the bubble economy in the late 1980s to the post-bubble period. In general, our field research corroborates the main findings from the job retention rates by describing vividly that large firms in Japan have been trying to accomplish their restructuring and downsizing targets by relying heavily on transfers of their employees to their subsidiaries and related firms and hiring cuts, thus avoiding layoffs. Last, the burden of downsizing appears to fall disproportionately on young workers and middle-age workers with shorter tenure. *J. Japan. Int. Econ.*, December 2001, **15**(4), pp. 489–514. Department of Economics, Colgate University, Hamilton, New York 13346; Center on Japanese Economy and Business, Columbia Business School, New York; and TCER. © 2001 Elsevier Science (USA)

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I. INTRODUCTION

Using both quantitative data from national surveys and qualitative data from our recent field research, this paper provides evidence on the recent transformation of Japan's celebrated practice of lifetime employment (or implicit long-term employment contracts for the regular workforce).² Though traditional Japanese employment practices, such as lifetime employment, are not universal phenomena among Japanese firms, they apply to the core of the Japanese labor force, or blue-collar male employees in large firms and white-collar male workers (see, for instance, Koike, 1991). Furthermore, the employment relationship is found to be considerably more of a long-term nature in Japan than in the United States (see, for instance, Hashimoto and Raisian, 1985).³

Japanese employers have always felt a need to introduce flexibility into their employment practices. Until recently, however, employers' attempts to weaken traditional employment practices do not appear to have produced any major changes.⁴ Therefore, it is of great topical interest to find out whether Japan's prolonged economic slowdown in the 1990s following the burst of the bubble economy is finally ending these traditional employment practices. While the rhetoric of "the end of lifetime employment" is presently rampant, concrete data on changes in traditional employment practices are relatively scarce (Dore, 1996). We have been collecting and analyzing such data (including both quantitative data from national surveys and qualitative data from our own field research), and this paper presents the first main findings from our analysis of the data.

A closer look at the recent transformation of Japan's lifetime employment system is of particular public policy interest. First, the practice of lifetime employment points to an industrial relations system favorable to successful employee participation which has contributed to the postwar success to Japanese firms, in particular in

of Japanese companies who granted me the opportunities to interview them. An earlier version of the paper was presented at the joint NBER-CEPR-TCER Conference on Unemployment, December 15–16, 2000, Tokyo, Japan and at the Japan Economic Seminar, February 17, 2001, Columbia University. I benefited greatly from comments made by my discussants (Nori Hashimoto, Jenny Corbett, and Hiroyuki Chuma) and other conference and seminar participants as well as an anonymous referee, Jeff Pliskin, and Hugh Patrick. Gabe Schwartz and Justin Nonemaker provided excellent research assistance.

² The term "lifetime" is somewhat of a misnomer since, except for executives, Japanese workers have been typically subject to mandatory retirement that occurs between age 55 and age 60. A precise definition of the practice of lifetime employment is therefore an implicit long-term employment contract that ends at a mandatory retirement age of 55–60 for the regular workforce. In addition, the practice of lifetime employment does not necessarily mean that layoffs never happen in large Japanese firms. It has been documented that Japanese firms, even large ones, did lay off some of their regular employees following the first oil crisis (see, for example, Koike, 1991; Suruga, 1998; Nakata 2000; Chuma, 2001).

³ According to Higuchi (1997), however, the difference in the importance of long-term employment between Japan and Western European nations appears to be much smaller than between Japan and the United States.

⁴ See, for instance, Morishima (1992).

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