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Lifetime employment in Japan: Concepts and measurements

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ABSTRACT

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This paper addresses three questions: (1) How big is lifetime employment in Japan? (2) How unique is it? and (3) How is it changing? Through the use of multiple data sets and methods, I find that no more than 20% of workers in Japan are likely to be employed under informal lifetime employment contracts, a far smaller percentage than has been reported. Job mobility remains considerably lower in Japan than in other advanced economies (particularly the US). Evidence regarding changes in lifetime employment is mixed. The share of workers in the core is declining, but the probability of job separations has remained stable for those who are already in the system. There is also evidence that the economic stagnation of the 1990s disproportionately affected females and younger workers. *J. Japanese Int. Economies* **24** (1) (2010) 1–27. Texas A&M University, Department of Sociology, 416 Academic Building College Station, TX 77843-4351, United States.

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1. Introduction

Lifetime employment has long been seen as one of the main features of the Japanese employment system. Defenders of lifetime employment have cited the many benefits that arise from stable employment relationships. Critics have pointed to the big efficiency losses associated with a labor market that cannot adapt quickly to changing demands for its products. Now, some observers say they see the system eroding – a claim that worries defenders of stable employment policy, and encourages those who push for more flexible labor markets. Yet, to date there has been little attempt to document the phenomenon systematically to reveal the extent of lifetime employment in Japan, its uniqueness in the world economy, and its rumored decline in the face of globalization.

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This paper addresses three fundamental questions about lifetime employment in Japan: How big is it? How unique is it? And, how is it changing? The first concerns the lifetime employment rate, which measures the proportion of the labor force that is covered by lifetime employment. Despite a number of significant contributions in the study of lifetime employment, hard data on the true extent of the practice are rarely reported. The question – “how big” is lifetime employment in Japan? – is perhaps one of the most frequently posed questions in empirical research on the Japanese labor market, yet few researchers have undertaken serious efforts to estimate the size with precision. Informed scholars know that its actual coverage is limited to a minority share of the Japanese labor force. Some point to 30% or one-third (Form, 1979; Hashimoto and Raisian, 1985; Schregle, 1993); but, one-third of what? What is the denominator, and what is the numerator? Lack of consensus about the empirical definition of lifetime employment has caused a lot of confusion, with discussions often muddled by conflicting or overlapping concepts.

The implicit nature of lifetime employment is the root of the measurement problem, as there is no unified survey method for estimating its size. Lifetime employment is not a contractual state (Itoh, 1991). The employment contract includes no explicit clause mentioning this policy, and employers are under no obligation to guarantee employment. Lifetime employment is better understood as a long-term commitment between workers and employers rather than as a permanent employment contract. As such, a worker survey cannot ask the question, “Are you covered by lifetime employment?” Likewise, an employer survey cannot ask the question, “What proportion of your workforce is covered by lifetime employment?” And even if these questions could be asked, there would be considerable discretion in their interpretations, which would introduce severe measurement bias.¹

Invariably, an accurate assessment of lifetime employment requires the time dimension. Researchers need information concerning past job histories to examine patterns of job mobility, but these microdata are not readily available.² Measuring lifetime employment in Japan therefore requires simplifications and approximations from which we may deduce its size and speculate on its direction of change. I review the existing literature and methods used to estimate the size of lifetime employment, evaluate their strengths and weaknesses, and present the latest available measures. I conclude that lifetime employment applies to about 20% of the working population in Japan, a much smaller share compared to those previously reported.

While estimations of lifetime employment improve our understanding of the Japanese labor market, they are more valuable if we know how this picture compares to other economies. The second question assesses the uniqueness of Japan’s long-term employment in an international context. One of the problems underlying comparative analysis of labor markets is insufficient data. Consequently, much of the existing research relies on US–Japan comparisons. However, these two countries represent two extremes in job mobility, so the findings show unanimous support for the resilience of long-term employment in Japan when compared to the US. Despite the data constraints, I attempt a comparative analysis to evaluate the uniqueness of lifetime employment in Japan relative to the US and other countries.

My third question looks into changes in the lifetime employment practice over time. This area has received the most attention, perhaps more so in policy and the media than in the academic community. The debate over the demise of lifetime employment is hardly new. It has been a recurring and

¹ Some scholars claim that a precise measurement of lifetime employment is not possible because there are too many gray areas regarding its coverage and application (Abegglen and Stalk, 1985; Schregle, 1993). Cole (1979) explains that workers will only be confused when they are asked whether they are covered by lifetime employment. Some employer surveys may directly pose the question about lifetime employment coverage, but this approach is questionable. For example, the following is an excerpt from an employer survey administered by the Center for Public Resources Development (2003): “We assume that all workers employed by your organization are covered by lifetime employment. If lifetime employment only applies to your regular workers, then please indicate the proportion covered by lifetime employment to be the proportion of regular workers employed by your organization. If lifetime employment does not necessarily apply to your regular workers, then please provide us with your own definition of lifetime employment, and the proportion covered in your organization under this definition.”

² Large scale employment surveys conducted by the central government ministries are not available as microdata, but only as published statistics. Panel data, by either government or private organizations, are non-existent. The one exception is panel data from the Institute for Research on Household Economics. But the first wave was conducted in 1993, and the sample ($N = 1,500$) consists only of women.

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