Title	AN ANALYSIS OF JAPANESE EMPLOYMENT SYSTEM AND YOUTH LABOR MARKET
Sub Title	
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Publisher	Keio Economic Society, Keio University
Publication year	1979
Jtitle	Keio economic studies Vol.16, No.1/2 (1979.) ,p.1- 16
JaLC DOI	
Abstract	
Notes	
Genre	Journal Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-19790001-0001

AN ANALYSIS OF JAPANESE EMPLOYMENT SYSTEM AND YOUTH LABOR MARKET*

HARUO SHIMADA and SHUNSAKU NISHIKAWA

I. INTRODUCTION

In this paper, we present a new interpretation on the working of Japanese employment system and youth labor market. The conventional and popular view is that the Japanese employment system, which provides easy and direct job accesses to young school leavers, has been chiefly responsible in minimizing youth unemployment in Japan during the serious and prolonged recession in the wake of the first oil crisis. We will examine the empirical validity of this view and propose an alternative interpretation. On the basis of our new interpretation, we try to present speculative assessments about the future developments in Japanese youth labor market.

II. YOUTH UNEMPLOYMENT AND EMPLOYMENT SYSTEMS

Ever since the first world oil crisis of 1973, many of the advanced economies have suffered from painful problems of unemployment. The most serious of all is perhaps the problem of youth unemployment. Tables 1 and 2 present recent trends in unemployment for selected advanced nations: Japan, Germany, United Kingdom and the United States.

The rates of total unemployment for these countries, as shown in Table 1, increased sharply after the oil crisis. Although recently some signs for improvements are visible in countries like Germany and the United States, in view of the overwhelmingly high level of unemployment such signs appear only marginal.

More serious is the problem of youth unemployment. Youth unemployment increased much more greatly than total unemployment during the recession both in Europe and in the United States, as shown by Table 2. Although youth unemployment, too, has been declining somewhat in Germany and in the United States recently, the great bulk of the idle youth labor force who have emerged and stayed in the labor market since the first oil crisis will continue to pose serious economic and social problems to societies. Unemployment is economically costly

* The earlier version of this paper was read at the Seventh Japan-Germany Cultural Exchange Seminar held at "Seven City," Shinjuku, Tokyo; September 25th to 27th, 1979. The authors are grateful to Professor Michihiro Ohyama of Keio University for his helpful comments and criticism in revising the manuscript.

TABLE 1. UNEMPLOYMENT RATES FOR SELECTED COUNTRIES
(unit: percentage)

	1965	1970	1975	1976	1977	1978
Japan	1.2	1.1	1.9	2.0	2.0	2.2
Germany	0.5	0.6	4.0	4.1	4.0	3.9
U.K.	1.4	2.4	3.6	5.1	5.5	5.5
U.S.	4.4	4.8	8.1	7.5	6.9	5.9

Sources: OECD *Labor Force Statistics*, 1960–1974.
OECD *Labor Force Statistics*, Quarterly Supplement, January 1979, OECD Unpublished Estimates of the Secretariat.
Note: The 1978 figures for Germany and UK are the averages for the first three quarters.

TABLE 2. YOUTH UNEMPLOYMENT: AGE 15 TO 24
(units: thousands persons, percentage)

	1965	1970	1975	1976	1977	1978
Japan	130	210	240	240	260	270
	1.2	1.9	2.9	3.1	3.5	3.8
Germany	11	18	288	257	268*	245*
	0.2	0.3	5.8	5.2	—	—
U.K.	66	150	344	615	607**	679*
	1.2	2.7	7.4	13.1	11.9**	—
U.S.	1,431	1,969	3,581	3,371	3,220	2,984
	9.1	9.9	15.2	14.0	14.0**	—

Sources: The same as for Table 1.
Notes: (1) Figures in upper tier are youth unemployed in thousand persons, and those in lower tier are the rate of unemployment in percentages.
(2) Figures with * are the figures for the third quarter and those with ** are the average figures for the first two quarters of the respective year.

both in terms of forgone production and unemployment compensation, and socially costly in terms of increased frustration and social unrest. Above all, youth unemployment is particularly costly in the long run since it will destruct human capital which would otherwise be built up in the cohort.

In contrast to Western countries, Japan has shown quite different patterns of unemployment.[1] Japanese unemployment did not increase as drastically after the oil crisis as in European countries. Compared to the United States, the rate of unemployment remained at a much lower level. In other words, in sharp contrast to Western nations, Japanese unemployment has been stable and minimal even in the face of a dramatic impact of the oil crisis. This appears curious since it does not conform with what economic theory would predict in the face of adverse economic

[1] Although we present here only a few selected countries as examples, many of European countries have experienced serious deterioration of unemployment after the oil crisis.

conditions. Why only Japan among other advanced economies did not suffer from serious youth unemployment problem?

It is often pointed out that the important factor responsible for this lucky situation is the Japan's unique employment system. In the latter half of the 1970s, Japan has shared with most of Western advanced nations similar economic conditions which were after all unfavorable: a sharp drop in the aggregate demand and only sluggish recovery, a drastic decline in investment and consequent stagnation in the manufacturing sector, deterioration in employment and a substantial increase in overall unemployment, etc. In spite of these similar economic trends Japan has been unique in one aspect, namely, low youth unemployment. Since the background factors of Japanese economy have not been all that much different from other countries, the argument goes on to say that this unique labor market outcome should be explained by some unique factor existing within the Japanese economy, namely, the Japanese ideosyncratic employment system.

This kind of reasoning seems to enjoy a popular support among both Japanese and Western observers.[2] In its essence, this view would explain the situation in the following way: The Japanese firm with its traditional "lifetime" employment system recruits a new group of workers only from the pool of fresh school leavers who have no specific occupational skills before joining the firm, and then promote them within the firm through internal training under the familiar "nenkō" personnel management system until they reach the age of compulsory leave. Since the fresh school leavers are the sole source of new recruits, they hardly get unemployed. This is why youth unemployment is low in Japan even in times of bad economic conditions.

On the countray in Western countries, occupational skills, experiences or some kind of vocational preparations are crucial prerequisites for young workers to get jobs. Employers are concerned, unlike Japanese counterparts, not so much with age or freshness as with skills or qualifications. Therefore, young school leavers without skills or experience have to go through a long and difficult process of search until they finally obtain suitable jobs. This is why youth unemployment increases unproportionately high in Western countries in bad years. In short, Japanese young workers enjoy easy accesses to jobs while Western counterparts struggle with poor and narrow accesses primarily due to the institutional difference of employment systems.

This explanation sounds so straight-forward and self-evident that it seems to be taken for granted without its empirical validity being questioned. However, whether this hypothesis holds or not has rather important implications.

If this hypothesis is correct and valid, then there would be little to learn with each other between Japan and Western advanced economies by exchanging mutual experiences. This is so because the functioning of the Japanese labor market and

[2] For details on this point, see our discussion in Section II.

employment system is governed by some unique traditional factors and there remains little room where foreign lessons can be applied. By the same token, Japanese traditional experiences will be unexportable to countries with different cultural background. If, on the contrary, this hypothesis is not empirically valid, and the performance of labor market is explainable by economic factors, mutual exhange of experiences would be meaningful and useful since economic factors are commonly applicable in spite of cultural differences. Furthermore, to the extent that we can predict future changes in background economic factors, we should also be able to predict future labor market outcomes.

As a first step toward examination of the validity of the conventional institutional hypothesis, let us present in the next section a conceptual model of Japanese employment system and its implications for the working of youth labor market.

III. THE CONVENTIONAL CONCEPTUAL MODEL OF JAPANESE EMPLOYMENT SYSTEM

During the last two decades, the Japanese employment system has been one of the important foci of Westerners. The Japanese employment system has attracted attention of foreign observers because, as one of the forerunners in the field stated, Japan presented an intriguing case in which Western modern industrial technology fitted effectively into a non-Western context.[3] As Japan successfully demonstrated a phenomenal and sustained economic growth, foreigners' interest on the functioning of Japanese employment system has grown remarkably and voluminous research findings have been accumulated on a variety of aspects of the system.[4] In spite of this appreciable development in research, one would be impressed by the fact that popular perceptions about the Japanese employment system have shown hardly any development during the last twenty years. This point may be illustrated by a comparison of two publications in the field. Twenty years ago, Abegglen underlined lifetime employment and nenkō (seniority) wage system as the two outstanding institutions which characterize the complex of Japanese employment system.[5] Recently, a widely sold OECD publication on Japanese industrial relations still acknowledges similar points with heavy emphasis on unique cultural peculiarities.[6] Moreover, many visitors, who spend some time

[3] James C. Abegglen, *The Japanese Factory: Aspects of Its Social Organization*. Glencoe, Ill.: Free Press, 1958, p. 3.

[4] Just to name a few, Robert Cole, *Japanese Blue Collar: The Changing Tradition*. Berkeley, Calif.: University of California Press, 1971, Koji Taira, *Economic Development and Labor Market in Japan*, N.Y.: Columbia University Press, 1970, and Ronald Dore, *British Factory-Japanese Factory: Origins of National Diversity in Industrial Relations*, Berkeley, Calif.: California University Press, 1973.

[5] Abegglen, *Ibid.*

[6] OECD, *The Development of Industrial Relations Systems: Some Implications of Japanese Experience*, Paris: OECD, 1977.

in Japan, keep stressing cultural difference when they return home while unfortunately overlook functional equalities.[7]

With a large body of data and detailed information already available today on various aspects, why do most of foreign observers still seem to be preoccupied by cultural peculiarities and unduly stress traidtional institutions? Perhaps they may have had an intention from the beginning to find something exotic. If this is so, then, traditional peculiarities may be the best fit to their interest and objective. However, it seems to us that Japanese informants have been equally or perhaps more responsible for this culturally biased conceptualization. While most of literature in this field written by the Japanese in foreign languages explain institutional details of the Japanese employment system and stress its cultural peculiarities, very little has been done in elaborating its functional aspects.[8] Most of the Japanese, practitioners, government officials and scholars alike, tend to characterize Japanese practices as being something "special" or "unique" without trying to explain them using common analytical tools and terminologies.

Let us now describe these dominant and prevalent concepts briefly in the form of a simple conceptual model. The most popular version of the model is that the Japanese employment system is made up of the three peculiar institutional components: (1) lifetime employment system, (2) seniority wage system, and (3) enterprise unionism. The lifetime employment system implies that the employer provides his worker with employment security throughout the worker's occupational life just like a father recognizes his child as a permanent member of his family and the worker in return offers unlimited loyalty and commitment to the employer. The seniority wage system is the system by which the worker enjoys wages which increase with his seniority (length of service) and age. Since wages under this system roughly satisfy the life cycle needs of family expenditures, the worker is motivated to work without worrying about competition with his fellow workers. Enterprise unionism is interpreted to mean a docile unionism which is cooperative with the management being primarily obliged by the structure of the union which organizes employees, both blue and white collars, solely of each particular enterprise. These institutions are the building blocks of the Japanese employment system which reinforce with each other in the process of operation and jointly make the complex system work effectively.

Having described the conceptual model of the employment system, let us discuss in the next step its implications for youth employment, which is our immediate concern.

[7] Even such an expert in labor problems as ex-US Secretary of Labor and ex-ambassador to Japan, Mr. Hodgson, places a great emphasis on cultural peculiarities built in Japanese industrial relations, when he explains labor problems in Japan to American audience, without putting due emphasis on functional equalities. See "The Wondrous Working World of Japan" a speech delivered by James D. Hodgson in November 1977 at the American Enterprise Institute.

[8] See, for example, Okochi and others eds. *Workers and Employers in Japan: The Japanese Employment Relations System*, Tokyo: University of Tokyo Press, 1973.

First, what does lifetime employment imply for youth labor market? Two things are implied. One is that since for every worker the first job he chooses is the job for his entire career, every worker is presumably inexperienced when he is recruited. This also means that a young worker does not search around for a suitable job on a trial and error basis. In other words, a young worker is employed directly as a permanent member of a firm right after leaving school without having an occupational skill. This is one of the logical consequences of lifetime employment. The other implication is that all employees of a firm are trained and retrained constantly to keep up with technological changes since no one may be dismissed under the lifetime employment system for such reasons as technological obsolescence.

Second, what would be the implications of nenkō wage system? Wage rates actually observed have two conspicuous patterns: one is the low starting level and sharply rising profile with the length of service, and the other is very small differentials among workers with similar qualifications such as age, duration of service and education. The former patttern is interpreted to reflect in the context of nenkō wage system the principle of wages which are paid to meet life cycle pattern of expenditures of a worker's family, while the latter the dominance of "groupism" in distributing rewards. Both aspects are compatible with the aforementioned fact that young new entrants are inexperienced and thus ranked at a low rung in the wage schedule. Their wages increase as they acquire experience and higher skills while staying within the firm.

Third, let us explore implications of enterprise unionism. Enterprise unions, which organize all types of employees of a company, do not have craft demarcations unlike craft unions. Consequently, there are no barriers of entry due to the union against young inexperienced workers. Enterprise unions do not stress seniority rights unlike industrial unions since employment of all the members are presumably guaranteed. However, to secure employment opportunities for all the members within the enterprise, the union needs to cooperate to the maximum extent with the management in allocation and assignment of jobs in adjusting to economic fluctuations and technological changes. These implications are consistent with the practices of youth employment discussed earlier.

In summary, the conventional model of Japanese employment system implies that Japanese young workers are recruited immediately after leaving schools to get permanent jobs and stay on the job while receiving constant training and retraining to adjust to external economic and technological changes.

IV. RE-EXAMINATION OF CONVENTIONAL MODEL AND AN ALTERNATIVE INTERPRETATION

Let us examine the empirical validity of the conventional conceptual model of the Japanese employment system.

The model implies that Japanese young workers enjoy easy and direct accesses to permanent jobs. If this were true, then young workers should enjoy low

TABLE 3. UNEMPLOYMENT RATES BY AGE CLASSES

(unit: percentage)

	Males						Females					
Year	1965	1970	1975	1976	1977	1978	1965	1970	1975	1976	1977	1978
Total	1.5	1.2	2.0	2.2	2.1	2.4	1.1	1.0	1.7	1.7	1.8	2.0
Age 15–19	0.8	2.7	4.7	5.5	5.6	6.8	2.1	1.3	2.3	2.5	2.7	2.5
20–24	0.5	1.8	3.1	3.2	3.6	3.8	1.2	2.1	2.6	2.8	3.1	3.3
25–29	0.5	1.2	2.0	2.3	2.1	2.4	1.5	1.4	2.6	2.6	3.0	3.3
30–39	0.5	1.1	1.4	1.5	1.5	1.7	1.4	0.9	1.9	1.6	2.0	2.3
40–54	0.5	0.7	1.5	1.6	1.5	1.7	1.0	0.5	1.2	1.1	1.2	1.4
55–65	0.7	1.8	3.1	3.8	3.8	4.2	0.6	—	1.2	1.1	1.1	1.3
65 and over	—	0.6	1.7	2.4	2.2	2.3	—	—	0.5	0.4	0.3	—

Source: Prime Minister's Office: *Labor Force Survey*.
Note: Figures of 1965 and 1970 are not directly comparable since there was a major revision of survey method in 1967.

unemployment rates and turnover rates relative to other age groups. Is this really true? To check this point, let us look at unemployment rates by different age classes.

The data are quite contrary to our theoretical expectation. Young workers, particularly teenage males, are suffering from the highest unemployment rate. Those in early twenties also suffer from high unemployment; the highest unemployment for females and more or less comparable rates with old workers for males. Although the general level of Japanese unemployment is considerably lower than that of Western countries, the pattern of unemployment differentials by age is quite similar to those of other countries. On this ground it is hard to believe that Japanese young workers enjoy specially advantageous positions relative to workers of other age classes in the labor market. Since most of the young unemployed eventually find some kind of employment, high youth unemployment suggests that many of them do go through a process of job search before they finally settle down.

This point is confirmed by the mobility data presented in Table 4, which show separation rates for different age classes. Clearly, mobility for young workers is much higher than average. Especially, workers in their early twenties exhibit high mobility. The data of separation do not exactly meet our purpose, however, since they include such dropouts from the labor market as young women preparing for marriage and old retirees. This drawback of data is supplemented by the fact that the accession rate of halfway (experienced) workers is also higher for young age classes, although this information is available only for 1970. These data imply that young workers do move around in the Japanese labor market searching for suitable jobs. Indeed, a survey of the mobility of all the middle and high school graduates registered at the file of the Labor Market Center of the Ministry of

Labor reveal that more than 50 percent of male and 40 percent of female middle school graduates who had been employed in 1973 left the initial jobs within three years, and 37 percent of male and 43 percent of female high school graduates left the initial jobs during the same period.[9] Although the figures for females are inflated by their leaving the labor market due to marriage, the high mobility of young male workers does provide evidence that many of them search around until they finally find permanent jobs.

One may want to reject this assessment, however, on the ground that the aforementioned conventional model of employment system applies typically to large firms while the evidence mentioned here is the average picture of entire labor market. To put it more specifically, one may suspect that mobility patterns are so different between large and small firms that they are uncomparable. To see if this criticism is appropriate, let us look at separation rates for firms of different sizes. The data in Table 5 reveal that there are certain systematic differences in mobility between large and small firms. Separation rates for males are low for large firms and high for small firms, while the differentials are the other way around for females. However, important is the fact that large firms too experience considerable mobility.

TABLE 4. SEPARATION RATES BY AGE CLASSES

(unit: percentage)

	1965	1970a	1970b	1975	1977
Total	11.3	21.5	(13.1)	15.9	14.9
Younger than 20	14.7	26.2	(20.3)	17.6	18.3
20–24	16.3	34.7	(13.4)	21.9	21.5
25–29	11.5	22.2	(10.5)		
30–34	8.4	15.2	(9.5)		
35–39	6.8	14.6	(8.3)	10.2	9.9
40–44	7.4*	12.9	(8.7)		
45–54		14.1	(9.8)	11.1	21.7
55 and older	11.0**	20.5	(13.1)	23.4	14.9

Source: Ministry of Labor: *Koyōdōkō Chōsa* (Survey on Employment Trends).

Notes: (1) Figures in column 1970a are separation rates while figures in column 1970b in parentheses are accession rates of halfway workers who presumably had occupational experience somewhere else prior to entry.

(2) Figure with * is the average figure for age range 40 to 59, and figure with ** is that for age 60 and older.

[9] Unpublished data compiled by Labor Market Center, Ministry of Labor. See a quotation in Haruo Shimada, "The Qualitative Organization of the Labour Potential in Japan," paper presented at the Sixth German–Japan Cultural Exchange Seminar held in October 1977 in Dusseldorf, p. 27. Incidentally, the German translation of this paper was published as "Berufserziehung und betriebliche Ausbildung in Japan." in Kraus, Willy ed. *Humanisierung der Arbeitswelt*. Tübingen: Horst Erdmann Verlag, 1979.

In summation, these observations indicate that Japanese young workers do change jobs more frequently than those in other age classes. For many of them, therefore, the first job they choose is simply a stepping stone in their continued process of job search. In this respect, the actual functioning of the Japanese youth labor market is quite different from what would be anticipated from the conventional stereo-type concept. The working of labor market is essentially not different, or even analogous to that in Western advanced countries.

The fact that mobility is considerable also implies that the permanency of employment is limited. How limited the permanency is of course depends upon how high the mobility is. As mentioned earlier in discussion of the stereo-type model in Section III, the maintenance of permanency of employment inevitably requires constant retraining of all the employees since their skills always need to be updated. If, on the contrary, firms did not preserve lifetime employment and kept employment relationship flexible, they would not have to place as much emphasis on retraining of old employees as they stress initial training for new entrants since they could always substitute new adaptable workers for old obsolete employees. In fact, Table 6 indicates that retraining receives much less emphasis compared to initial training for new school leavers. This difference is particularly pronounced for small firms, which implies that the permanency of employment is more limited and thus there are less needs and merits of retraining for small firms. In contrast, large firms exercise more retraining, implying their employment relationship is more permanent. However, it is worth stressing that large firms too give relatively less emphasis on retraining compared to initial training for new comers.

This means that a worker who joins a company without much occupational preparation typically receives an intensive training at the beginning of his career but then experiences much less opportunities for effective retraining for the rest of his career. It is not surprising, therefore, that older workers become obsolete as production technology changes. Even in large firms, where retraining is carried out more intensively than small firms, this kind of obsolescence is unavoidable. We suspect that this is one of the crucial reasons why employers of large firms are quite

TABLE 5. SEPARATION RATES BY SIZE OF FIRM

(unit: percentage)

	Total		Male		Female	
	1971	1976	1971	1976	1971	1976
Total	19.6	15.2	14.8	11.1	28.5	23.2
1,000 and more	16.8	11.3	10.0	5.9	32.9	24.8
300–999	21.7	14.2	16.0	9.6	32.2	26.4
100–299	22.8	18.0	18.3	13.8	31.3	26.6
30– 99	22.0	17.8	18.5	14.9	27.4	24.2
5– 29	21.3	18.6	19.3	16.7	24.1	19.9

Source: Ministry of Labor: *Survey on Employment Trends*, 1978.

TABLE 6. PREVALENCE OF INITIAL- AND RETRAINING FOR DIFFERENT TYPES OF EMPLOYEES

(unit: percentage)

Size of Firm	Total	1,000 and more	100–299
Initial Training			
New School Leavers	64.8	86.6	57.0
Halfway Workers	26.0	61.9	28.0
Retraining			
Production Workers	22.2	62.5	24.6
Technical Workers	24.5	58.7	23.6
Clerical and Sales Workers	10.4	54.0	21.5
Managerial Workers	21.1	60.8	24.0

Source: Rōdōshō (Ministry of Labor): *Jigyōnai Kyōikukunren Jisshi Jōkyō Chōsa* (Survey of Intra-Firm Vocational Training and Education), 1974.

Notes: (1) Figures are the percentage of respondents who answered that they are providing the types of training asked by the questionaire.
(2) The size of firm is measured by the number of employees.

reluctant in extending the age limit of compulsory leave from the company. It follows logically that this reluctance would be stronger, the faster the pace of technological progress perceived by employers.

Nevertheless, firms keep obsolete workers on the payroll when certain conditions are met. The most important condition is that demand is expanding. When demand decreases, therefore, firms will dismiss them in one way or another. Quite contrary to the rigid employment security implied by the stereo-type model, the observed statistical data around the mid-1970s, as shown by Table 7, reveal that the sensitivity of employment reductions in response to output reductions in Japanese industry was not significantly different from those of European countries.

The foregoing discussions may be summarized in the following points:

(1) Japanese young workers are quite mobile and it is suspected that many of them do engage in job search activities on a trial and error basis.

(2) Employers' employment behavior is not as rigid as implied by the stereo-type model. The observed data of employment fluctuations hardly suggest evidence of the strong influence of the lifetime employment upon the functioning of labor market.

(3) Training is concentrated on young workforce. Reluctance of employers, particularly of large firms, in extending employment opportunities for old workers by means of postponing the age limit of compulsory leave, even in spite of recent increases in social pressure for extension and also declines of wage rates for older workers relative to young workers, suggests that intra-firm retraining of old workers is not as effective as is implied by the stereo-type concept.

(4) Unions do not seem to have been successful in securing and improving

TABLE 7. ELASTICITIES OF EMPLOYMENT TO PRODUCTION

(unit: percentage)

	Employment Elasticity					Labor Input Elasticity				
	Japan	U.S.A.	U.K.	West Ger-many	France	Japan	U.S.A.	U.K.	West Ger-many	France
From Nov. 1973 To June 1974	0.09	0.43	—	—	—	0.32	3.00	—	—	—
Sept. 1974	0.13	0.26	0.04	0.19	—	0.69	1.23	0.58	0.33	—
Dec. 1974	0.19	0.79	0.16	0.32	0.07	0.59	1.14	0.46	0.52	0.60
Mar. 1975	0.25	0.87	0.34	0.36	0.18	0.85	1.14	0.81	0.91	0.64
June 1975	0.38	0.85	0.43	—	0.23	0.66	1.07	0.82	—	0.66
Sep. 1975	0.49	0.97	0.58	—	—	0.86	1.20	0.91	—	—
Dec. 1975	0.51	—	—	—	—	0.89	—	—	—	—

Source: Shimada, Haruo. "Kajōkoyō o Kangaeru (The Issue of Surplus Employment within the Firm Reconsidered)," in *Nihon Keizai Shimbun* (Japan Economic Newspaper), April 11 and 12, 1976.

employment opportunities for older workers. On the other hand they have been quite cooperative with company policies of reshuffling and reallocating workforce across different branches of the company organization. This kind of union attitude has been conducive to make employment opportunities for young new entrants more favorable relative to those for older workers since young workers are deemed more adaptable to technological and organizational changes. This attitude may have been helpful too to stabilize employment in the long run.

These observations suggest that the employment system of Japanese firms is quite adaptable to changes in external economic and technological conditions. The allocation of workforce is not dominated by the rigid instituional rules as firmly as is implied by the stereo-type model.

However, with this kind of economically responsive employment system, why then Japan was able to maintain remarkable employment stability of youth labor force during the last severe recession? Why did young workers not suffer from high unemployment? Why did they enjoy relatively easy job accesses even during the period of depressed demand? We speculate that these questions are answered by the following factors.

The primary factor is the organizational or institutional inertia remaining in the employment system. Even though the employment system is essentially responsive to external economic conditions, it takes some time-lags before it changes. The institutional inertia persists longer, the stronger the reinforcing effect in preceding experiences which helped to routinize and institutionalize a certain pattern of behavior. In the case of employment behavavior, there existed two important background factors which reinforced the pattern of relying heavily on youth labor force.

One is the rapid rate of industrial growth which continued for nearly two decades up to early 1970s. This phenomenal growth has been waged on the one hand by the rapid development of large scale firms centering around heavy and chemical industries, which had been accelerated by extremely vigorous and sustained investment activities, and on the other, the rapid pace of technological changes which accompanied the industrial expansion. Since most of large firms have kept increasing their employees at substantial rates for nearly two decades, the most important task for personnel or labor-management divisions has long been to recruit the desired number of workers. Employment reductions and dismissals had disappeared as routine tasks of personnel divisions. Under such circumstances, it was only natural that all employees enjoyed *de facto* employment security. We must note here that this remarkable employment stability was maintained as a consequence of a sustained increase in demand rather than the rules of employment security agreed upon between management and workers, which after all did not really exist. Also, the rapid technological progress induced employers to look for young and fresh labor force since young workers are more adaptable to new technology than older ones. Continued expansions of large firms coupled with rapid technological progress thus provided abundant employment opportunities and widely open accesses to jobs for young inexperienced workers. However, this factor seems to be withering away after the first oil crisis, and the employment system will react to new circumstances sooner or later.

The other is the demographic structure of working population. As you can see in Table 8, the age structure of Japanese working population during the 1960s was such that a large proportion of labor force belonged to young age classes. This meant that employers were able to take advantage of abundant supplies of young and fresh labor force. Because of supply pressures of young labor force due chiefly to this age structure, employers were also able to enjoy relatively cheap wages for young workers in addition to high technological adaptability. In other words, relaying on young labor force has been much more profitable than using older

TABLE 8. AGE STRUCTURE OF LABOR FORCE FOR SELECTED YEARS

	The Size of Labor Force (unit: 10 thousand)			Proportion by Age Classes (unit: percentage)		
	1960	1970	1978	1960	1970	1978
Total	4,511	5,133	5,532	100.0	100.0	100.0
Age 15–24	1,054	1,108	719	23.4	21.6	13.0
25–39	1,635	1,882	2,131	36.2	36.7	38.5
40–54	1,135	1,408	1,824	25.2	27.4	33.0
55 and older	691	756	857	15.3	14.7	15.5

Source: Prime Minister's Office: *Labor Force Survey.*

workers both in terms of costs and quality. This factor therefore reinforced employers' preference for young workers to older workers and helped to aggravate job opportunities for them even at the expense of opportunities for older workers.

However, this condition also has changed substantially during the 1970s, as can be seen in Table 8. The changes are a rapid and sizable decline in young labor force and a steady increase in middle aged labor force. Young and fresh labor force is getting no longer abundant or cheap. The response of employers naturally will have to change accordingly with reasonable time lags caused by organizational inertia.

V. LOOKING AHEAD

In contrast to the conventional institutional model, our interpretation of Japanese employment system emphasizes its reasonable responsiveness to external economic and technological conditions. It is in fact the persistent economic rationality and efficiency which govern the functioning of Japanese business organizations. Lifetime employment, seniority wages, and easy access to jobs for young inexperienced workers are not the fixed components of the employment system itself but rather mere market outcomes of the optimal operation of the system in response to certain external conditions. We have suggested earlier that these practices are the results of optimal choices of business firms made in the face of the rapid and persistent economic growth and the demographic structure of labor force at the time. Viewed in this way, the Japanese employment system, if it exists, should be regarded as the business organization which allocates labor force most efficiently from the standpoint of long-run economic rationality rather than the system equipped with fixed and outdated traditional institutions. In the minimum, the system conceived in this way would be more meaningful as a concept by which to understand and predict labor market outcomes.

We have seen a curious fact earlier that the labor market outcomes during the persistent recession after the first oil crisis appeared to deviate from what would logically be expected from rational economic responses in that remarkable employment stability and easy job accesses to young workers were maintained. Indeed, this provided the ground on which the stereo-type concept claims its validity. From our viewpoint, however, this phenomenon is explained largely by time lags in organizational adjustments. The lags remained for a considerable period even during the recession since organizational arrangements of business firms and unions had been so firmly adapted to and used to the prolonged experience of the rapid postwar economic growth. No matter how strong the organizational inertia may remain, however, our interpretation suggests that new arrangements will nevertheless be made to meet the new external conditions.

In fact, when we look at Table 2 more closely again, we will find that the rate of youth unemployment has been worsening substantially in Japan in recent years in spite of an appreciable recovery in aggregate demand of the economy. This recent

trend may suggest that the effect of organizational adjustments, namely, reduction of employment and increase in productivity, has finally begun to take place in the labor market after a considerable time lag. In view of the general insensitivity of unemployment figures in Japanese labor market where there exists a large room of underemployment in the form of family businesses and family workers, this conspicuous increase in unemployment suggests pronounced changes in employment policies of firms. These changes, however, reflect changed behavioral patterns of business firms rather than changes in the rational principles of their employment system.

The pattern of job accesses for young workers will also have to change accordingly. Due to the relative decline in recruitment of large industrial firms, whose employment system is closest to the stereo-type model, an increasingly large number of young new entrants to the labor market cannot enjoy as easy and direct accesses to jobs as they have enjoyed in the past. This tendency, has been reinforced by a substantial secular increase in the proportion of employment of service industries, where employment relationship is more fluid and flexible and intra-firm training is less emphasized than large scale manufacturing industries. In other words, there is an increasing need for young people to acquire marketable skills on their own before getting jobs in firms.

Unfortunately, however, most of regular schools are not quite prepared to fulfill this need since they have long emphasized general and unspecified education to meet the need of large industrial firms. Public vocational training facilities are of not much use, either. Indeed, in spite of a general increase in social needs for vocational training, capacity utilization ratios of public facilities as measured by enrolled trainees relative to enrollment capacity have remained quite low.[10] Thid is because their curriculum and locations do not suit the social demands. On the other hand, in spite of rapid increase in service industries, which consist mostly of small firms, service industries do not provide comprehensive internal training programs as large firms in manufacturing industries.

This widening gap between the needs and the offered training services seems to be bridged by the large enrollment in so-called miscellaneous schools (kakushu gakkō) and technical schools (senshū gakkō) in recent years. Tables 9 and 10 show the size of enrollment of these schools. There are more than 1.2 million students attending to more than 8,000 schools of these types in the country. Since the length of courses vary from 1 to 3 years, and it is possible that the same students register with different schools at the same time, the number of students of the same age cohort attending these schools should be much smaller than this aggregate figure. Nevertheless, even if the number were a half or a third of this aggregate figure, one may still find that it is a very large proportion of the same age cohort. For reference, the total number of students graduating from high schools in 1978 is

[10] The data for the mid-1970s reveal that the utilization ratios of public training centers are about 80 percent for middle school graduates and 40 to 70 percent for high school graduates. See for details, Shimada H., *Ibid.*

about 1.4 millions. Since many of these technical and miscellaneous schools are day-time schools, it is not easy for full-time workers to attend their courses. This implies that these schools are utilized by high school graduates, college graduates or parttime workers who are seeking better and more desired jobs using these schools as a stepping stone or spring board.

The total figure of enrollment has not changed much during the last decade. However, we may note the fact that the number of enrollees in courses directly related to marketable skills in such areas as paramedical, health and eductational services and certain branches of industries has been increasing steadily. The development of these schools have been promoted by basic structural changes in industries and in labor force: an increase in employment in service industries, increase in young people having higher education and increase in women's participation to labor market. Since these structural changes are expected to continue more or less secularly for the foreseeable future, this phenomenon would seem to proceed further, which would in turn result in further changes in youth labor market. In other words, Japanese youth labor market would no longer be immune to such problems as difficulties in securing job accesses, prolonged job search, increased frictional unemployment through increased gross flow of young labor force, etc if the aggregate demand of the economy would decline seriously again.

TABLE 9. THE NUMBER AND ENROLLMENT OF TECHNICAL AND MISCELLANEOUS SCHOOLS

	Technical Schools		Miscellaneous Schools		Total	
	Schools	Students (Persons)	Schools	Students (Persons)	Schools	Students (Persons)
Private	1,670	329,523	5,860	850,020	7,530	1,179,543
Public	272	27,726	242	20,049	514	47,775
Total	1,942	357,249	6,102	870,069	8,044	1,227,318

Source: Ministry of Education: *Survey on Technical Schools*, 1977.
Note: "Public" includes national schools.

TABLE 10. THE NUMBER OF HIGH SCHOOL GRADUATES IN MARCH 1978

	Total	Males	Females
Total	1,391,468	694,251	697,217
Going to College	456,177	221,277	234,900
Getting Jobs	576,496	271,176	305,320
Going to Training Schools	247,536	128,885	118,651

Source: Ministry of Education: *Basic Survey of Schools*, 1978.

VI. CONCLUDING OBSERVATIONS

Our examination revealed that the stereo-type model of the Japanese employment system was not really supported by the observed data. The data suggest possibilities of alternative conceptualization or interpretation. Our alternative interpretation is quite different from a commonly held image of a rigid and traditional institution. Our view is that it is an economically highly rational system which is reasonably responsive to external economic and technological changes. Although this interpretation is preliminary and speculative, it suggests an important policy implication.

That is, it will predict a quite different prospect for the future performance of youth labor market from what would be predicted on the basis of a model of rigid and traditional institutions. What is predicted, in short, is increased probabilities of mismatch, turnovers, job search, underemployment and unemployment for the youth if the aggregate demand of the economy would decline seriously again. This underlines the need to prepare adequate labor market policies for youth labor force before these problems grow real and serious.

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