

3 The Economic Crises of 1990's

For the quarter of century leading up to the 1973-74 oil crisis, the "Swedish Model" appeared to deliver what it promised. Unemployment rates, rarely rising above 2%, remained among the lowest among the OECD countries, and inflation hovered around a modest annual average of 3%. The Swedish economy continued to grow from 1950 to the early 1970's, albeit at somewhat moderate rates. The Swedish economy was particularly hard-hit by the oil shock since it coincided with the rise of sharp low-cost competition for some of Sweden's core industries - ship-building, iron and steel, and forest products. Economic growth and real incomes stagnated until well into the 1980's. After the Social Democrats regained power in 1982, however, Sweden experienced an export-lead boom that lasted until the late 1980's.

Thus, in spite of some setbacks, the Swedish model was at least partly successful during the 1970's and 1980's since Sweden was one of the very few advanced capitalistic nations who were able to avoid mass unemployment. The unemployment rate fluctuated between 1.5 and less than 3 percent up to 1992. The growth of GNP during this period is, as mentioned, not very impressive, and the inflation rate was during part of the 1970's and 80's higher than in most other Western nations. This economic outcome is not without logic, however, considering the top political priority of the Social Democrats, as well as of the non-socialist government 1976-1982, to maintain full employment. Full employment was in the late 1970's officially defined as an unemployment rate below 2 percent. Today, the official ambition is rather to reduce open unemployment to below 4 percent before the next century; which not many believe will be accomplished.

The turning-point came with the serious economic crises starting in 1990. Whereas labor shortage were among the most serious problems at the beginning of the year, by the year's end Sweden was part of the international recession. For three years the GDP-development was negative; open unemployment exploded from 1.6 percent in 1990, to more than 8 percent in 1992. At the same time the number of persons involved in active labor market programs also increased to the highest level ever recorded. The main part of job losses in the early 1990's was found in manufacturing and construction industries. Employment fell by 30 percent in the manufacturing industry during the first three years of the 1990's. During 1994 and 1995, however, production growth has been the highest in 25 years which has resulted in a moderate increase in employment. A serious tendency at present is that although production, profit rates and also the GDP have gone up dramatically after 1993, the unemployment rate has only marginally decreased. Similar to the experience in other West European countries mass unemployment seems to have become a permanent phenomenon in Sweden as well.

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Thus, in many respects the foundation upon which the Swedish type of industrial relations rests has been profoundly shaken during the 1990's. With a high unemployment rate together with cuts in the social welfare programs, the balance of bargaining power between workers and employers has been drastically changed to the advantage of the latter. The trade union movement is presently put under pressure not only from the employers, but also from the social democratic government. The employers' organizations have since the beginning of the 1980's insisted on the decentralization of the bargaining process to the local level of the firm. They have also argued for the necessity of abolishing "the rigidities" of present labor laws - especially those that interfere with their sovereign right to hire non-regular workers and to decide who to dismiss - which they claim is necessary in order to create new jobs and lower the unemployment rate. The US labor market is seen as the ideal in these respects.

Such arguments of the employers have received support from many influential Swedish economists and, more important, leading members of the social democratic party also seem to be more and more influenced by them. The government has recently presented a proposal for changes in the labor law which will partly comply with the employers' demands. This has resulted in an open conflict between the government and LO. A second area of conflict between LO and the government concerns work hour regulations. In accordance with directions from the European Union the government plans to change the present law which prescribes 40 hours a week as the normal rule, but where exceptions can be made by central and local agreements between employers and the trade unions. In this matter as well the government is on a collision course with LO.

Hence, conflicts and tensions between the "two arms" of the Swedish labor movement- the social

democratic party and LO - have gradually increased to a unprecedented level. It has gone so far that LO now publicly is threatening to withdraw all financial support to the party, if the government does not pay attention to their views. A break between LO and the social democratic party would most likely also mean the ultimate collapse of the Swedish model.

4 The Japanese versus the Swedish Model: Some Contrast and Similarities

After this brief review of industrial relations and industrial policy in Sweden. I will conclude with describing some contrasts and similarities between Japanese and Swedish labour market outcomes. I will only mention a few of many possible similarities and contrasts.

A first, maybe superficial, similarity is that both the Japanese and the Swedish employment models have being questioned and heavily criticized during the 1990's. Both must change and adjust to meet new challenges and changing environments.

Long-term employment relationships (see Table 1). When we look at the labour market as a whole, years of employment tenure with the same company in Japan is not impressively long from a Swedish perspective. On an average it is about the same as in Sweden. If we only compare male workers in large enterprises, however, years of tenure is very long in Japan. On the other hand, Japanese women have shorter employment spells than Swedish women. Thus, the *variation* in employment stability is much greater in the Japanese labour market.

Workers' commitment towards their company. There seems to be no large differences between Japan and Sweden in this respects. I have no empirical data to present here, but results of comparative attitude surveys show that Japanese workers do not stand out as especially committed to their firm. Furthermore, they tend to be less satisfied with their jobs than workers in other countries. However, it is difficult to interpret attitude differences between cultures, and therefore we have to be very careful in our conclusions.

Micro-corporatism: Cooperation and harmony in industrial relations at the firm level. In one respect Japanese and Swedish workers seem to be very similar compared to workers in many other countries, namely that there is normally no conflict of interest representation between union and management at a local level. In other words, a worker in both Japan and Sweden who state that the local union takes care of his/her interest, also tend to think that the management does that, and vice versa, those workers who are negative towards their union also tend to be negative towards the management. Furthermore, the employees normally have a very good relationship to their closest boss or supervisor in both countries, according to these attitude surveys.

The wage Structure:

Earnings Inequality: Many American and also Japanese scholars tend to emphasize the high degree of equality in the Japanese labour market. From a Scandinavian perspective, however, this is not so, at least not in terms of earnings.

The earnings dispersion is more unequal in Japan than in Sweden, as measured by the earnings differentials between the 90th and the 10th percentile in earnings distribution. In other words, I calculated the ratio between the earnings (in hourly units) of those who earn *more* than 90 percent of all workers, and the earnings of those who earn *less* than 90 percent of all workers.

This ratio is 3.0 in Japan and only 1.9 in Sweden (Note: These are my own calculations. For Japan the data is "Chingin Kozo Kihon Chosa" of 1991 which only include "ordinary workers"; for Sweden the "Level of Living Survey" of 1991).

Furthermore, in the manufacturing industry a production worker on an average earns 75 percent of the earnings of a non-production worker. In Sweden the corresponding difference is only 83 percent.

Earnings differentials by age

The Japan-Sweden contrast in wage policy is especially strong when we compare earnings differentials by age (and seniority). As can be seen by Figure 1 and 2, and Table 2, these differences are very small in Sweden (actually smaller in Sweden than also in the US and in Germany). For Japanese men they are very large. Especially Japanese male white-collar workers have a dramatic wage progression by age. It should be noticed, however, that even male blue-collar workers in Japan have substantial wage increases when they get older, more so than Swedish male white-collar workers. Concerning women, the situation is similar in both countries, namely that the age-earnings differentials are very small.

The gender wage gap.

International comparative studies have shown that the so-called gender-wage gap (that is, the average earnings differentials between women and men) is larger in Japan than in other OECD countries. What is the explanation for this?

Figure 3 shows that in both Sweden and Japan the gender-earnings differentials are small up to about 25 years of age - women earnings are about 90 percent of those of men. After that age there is a huge widening of the gap in Japan to the 45-55 years age group within which Japanese women earn less than half of men. The gap widens in Sweden too - but only to around 75 % in the 40-60 years age group.

One reasonable explanation for the extreme difference in earnings progression by age for men and women in Japan is the "lifetime employment system". Several writers (e.g. Brinton 1993, Lam 1992) have argued that the logic behind the lifetime employment system more or less automatically excludes women from advantageous positions in the labour market, perhaps more than in other industrialized nations. A Japanese woman is expected to withdraw from the labour market when she bears children and then after some years to reenter as a part-time worker. Therefore, she typically can not have a lifetime employment contract since it is based on the requirement for uninterrupted tenure with the same employer from school graduation until retirement between 55 to 60 years of age. Thus, Japanese firms are reluctant to invest in costly on-the-job training for women since they have a much higher labour mobility than men.

In other words, there is a strong relationship between the institutional setting and women's situation in the labour market. Alice Lam (1992) argues that in many Western countries women can utilize external occupational training in order to get credentials for career development, but in Japan the emphasis on long-term firm specific training implies that Japanese women are confronted with institutional barriers for career advancement. Therefore, advancement is much more dependent on allocative rules and procedures within the company than in other countries.

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These are just a few of the similarities and contrasts which can be found when comparing the Japanese and Swedish labour markets. They should be compared to those similarities and contrasts who follow when - which is the normal procedure for many Japanese and Western scholars (although many exceptions exists) - the Japanese labour market and management system is contrasted with that of Anglo-Saxon countries. Explicitly or implicitly, the implication in many of these studies is that the US is representing *the general model* for industrialized capitalistic societies, and Japanese deviations as *particularities*. Thus, Japan has been seen as an outlier and many writers has used the term "enigma" when discussing various features of Japanese society. Moreover, also many Japanese scholars have been inclined to emphasize the uniqueness of Japanese social practices and institutions.

Comparative empirical research has, however, shown that although general trends for OECD can be discerned the between country variation is considerable. Furthermore, in some respects the US labour market practices seem to be the outlier rather than Japan. e.g. when comparing labour turnover and firm tenure (OECD 1991). When new East Asian countries join the OECD, and thereby are defined as modern industrialized countries, the variations between industrialized countries will be even clearer.

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Table 1. Average Years of Firm Tenure by Gender in Japan and Sweden

Sweden Female	Japan ^{**)}		Male	
	Male	Female		
1968/1970 ⁾	6.2	10.0	4.5	8.8
1974/1975	7.0	10.2	5.8	10.1
1981/1980	7.8	9.9	6.1	10.8
1991/1991	9.7	10.6	7.4	12.7

Sources: The Level of Living Surveys (Sweden),
The Basic Surveys on Wage Structure (Japan)
⁾ The first year refer to Sweden and the second to Japan.
^{**)} The Japanese data only includes regular employees.

Table 2. Age Earnings Differentials: Employees 50-54 Years Old Compared to 20-24 years (Wages in Age Group 20-24 = 100)

	Japan	Sweden
Male white-collar	290	161
Female white-collar	147	134
Male blue-collar	178	113
Female blue-collar	97	104

Japan: Manufacturing Industry (Chingin Kozo Kihon Chosa 1991).
Sweden: Private sector (Level of Living Survey 1991).
Earnings are measured in hourly units.

Chapter 6 The Labour Relations & the Quality of Working Life In the Structurally-Changing Economy of Japan

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Introduction

Japan has suffered from a very serious aftermath of the collapse of *the bubble economy* since the beginning of the 1990s. The impact of the collapse has been so enormous that the economic system of Japan failed to maintain itself any longer. This inevitable shift of the economic system would necessarily lead to a change in the employment system in Japan as well, which in turn forces a change in its labour relations system. Naturally enough, there is a time lag between an economic shock and a change in the labour relations system which the shock is supposed to bring about. It is, therefore, rather difficult to clearly detect the changes in the area of labour relations system at the moment. Still the changes have quite important implications for the future development not only of the labour relations system but the economic and industrial systems themselves. In other words, it is of our main concern to consider whether the change in the labour relations system is temporal or structural and long-lasting.

This paper will consist of four parts. First, it summarises the changes in the Japanese economic and industrial systems which have been observed so far in Japan (Sections 1). It then examines emerging shifts in the area of labour relations system (Section 2). To do so, available evidence is collected as much as possible and is used to judge how the expected shifts have been observed so far. Section 3 discusses possible implications of the changes of the systems for the Quality of Working Life (QWL) in Japan. Finally this paper suggests the feasible desirable directions of the future development of the labour relations system in Japan (Section 4).

1. Changes of the Economic and Industrial Systems in the 1990s

It seems that a huge change has occurred not only in Japan's social and economic circumstances but in the mentality and way of thinking of the Japanese people. One of the most conspicuous impacts of this might be a lost of their confidence in their own social and economic systems which were supposed to be a main source of Japan's post-war economic success. Perhaps it is a little bit earlier to judge whether this is true or not at the moment. But my intuition tells me this is a profound change which Japan has never experienced for these decades.

Let us see statistics first. Table 1 compares the average economic performance before and after 1990 on several macroeconomic indicators among selected industrial countries. According to it, we see all the economies except the USA have suffered from declining economic performance since 1990. But Japan seems to have suffered most severely. Real GDP, for instance, dropped to grow at an annual average rate of 1.4 % for 1991-94, which is compared to the average rate of 5.0 % for 1987-90. The latest macroeconomic indicators, however, show more comfortable pictures for the Japanese economy. As matter of fact, Japan's GDP has recovered since 1995 and grew at 3.6% in 1996, which is handsomely higher than the OECD average of 2.6%.

Table 2 indicates another aspect of the ailing economy of Japan. Using various business indicators of the manufacturing sector, it displays rather deteriorating business performance of the sector particularly for 1992-94. The discouraging pictures are well observed in the indicators of ratio of profits to net worth, ratio of internal reserve to profits, pay-out ratio (ratio of dividend to profits) for instance. The second group of indicators shows a different aspect of economic development after 1990 which demonstrates rather a rigid response of an employment index of regular employees to a rapid decrease in economic growth.

[Table 1] Economic Development in Industrial Countries

	Real GDP		Real total domestic demand		Gross fixed capital formation	
	1987-90	1991-94	1987-90	1991-94	1987-90	1991-94
United States	2.7	2.2	2.1	2.5	0.5	5.4
Germany	3.6	1.7	3.5	2.6	5.3	3.0
France	3.4	0.9	3.7	0.5	6.3	-1.8
United Kingdom	3.1	0.9	3.9	0.6	6.7	-1.7
Japan	5.0	1.4	5.9	1.0	9.9	-0.4

	Foreign balance*		Growth in employment		Growth in real per-capita GDP	
	1987-90	1991-94	1987-90	1991-94	1987-90	1991-94
United States	0.6	-0.3	1.4	1.1	1.8	1.1
Germany	0.3	-0.9	1.5	-1.7	2.8	1.0
France	-0.4	0.5	1.0	-0.3	2.9	0.5
United Kingdom	-0.8	0.3	2.4	-1.5	2.8	0.6
Japan	-0.9	0.4	1.7	0.8	4.6	1.1

[Source] International Monetary Fund, World Economic Outlook, October 1995, Tables A2-A4.

* Changes expressed as percentage of GDP in the preceding period.

This rigidity of the employment index contrasts well with the flexibility of an index of non-scheduled hours worked. As a matter of fact, the employment index of regular workers has slightly changed while indices of non-scheduled hours worked have heavily changed through the whole period observed in the table, in particular since 1991. This suggests that the flexibility of Japan's labour market is not reflected in a change in the employment index of regular employees but in a change in indices of non-scheduled hours worked.

[Table 2] Business and Labour Conditions of the Manufacturing Sector (1985-95)

Fiscal Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
<Financial and Business Ratios> (%)											
Ratio of net worth to total capital	25.7	27.1	28.2	29.1	30.3	30.6	31.2	31.6	32	32.3	
Ratio of profits to net worth	17.7	13.3	16.6	20.1	19.1	16.9	13.1	9	6.5	7.7	
Ratio of internal reserve to profits	67.9	57.4	68.8	73.7	72.4	72.9	64.4	46.1	8.1	35.9	
Ratio of dividend to capital	10.2	9.8	9.4	9.9	10.3	8.7	9	7.7	6.6	6.8	
Payout ratio (Ratio of dividend to profits)	28.2	37.7	27.4	23.1	24.3	23.8	31	47.2	80.8	57	
<Labour-related indicators> (Labour productivity: 1990cy.=100; Other indicators 1985cy.=100)											
Employment index of regular employees	96.8	97	96.9	97.4	98.8	102.3	104.7	104.9	103.7	101.4	99.5
Index of real wage	85.5	86.6	88.3	91.9	94.5	96.1	96.5	96.8	96.3	97.3	100.4
Index of labour productivity	76.4	77.8	84.4	92.8	96.7	101.6	101.3	96.1	96.2	100.4	-
Change of indices of non-scheduled hours worked	-0.7	-9.2	10.5	10	0.7	-0.6	-12.9	-23	-12.4	7.9	8.4

[Source] Toyo Keizai, Keizai Jikan Kenkyu (Economic Statistical Year Book, 1996)

Taking all of these pictures into account, we would like to examine which specific elements have operated in Japan during the recession period of the early 1990s and whether impacts of those elements are temporal and short-lived or structural and long-lasting. If the current change is deeply rooted and structural, then we are in a transitional period toward a completely new economic system which Japan has never had at least for these decades.

What are the characteristics and main reasons of the recession this time? A lot of analyses are published. *The Economic White Paper 1994*, for instance, has given the following explanations for

them.¹

The Paper characterises this recession as follows:

- 1) Capital investment drastically decreased in the non-manufacturing sector and the increase in money supply heavily slowed down.
- 2) Downside risks, which are defined as risks that the actual economy performs worse than was expected earlier, repeatedly appeared in the areas of the forecast of business performance and the confidence in business operations.
- 3) Nominal as well as real indicators deteriorated.
- 4) A cycle of adjustment of stock variables became longer. In more detail, both stock adjustments of consumer durables and of firms machinery and equipment took a longer time than before.
- 5) The ratio of profits to real assets turned to be reduced.

The Economic White Paper also stresses the importance of impacts of the collapse of *the bubble economy* that Japan experienced at the second half of the 1980s. The impacts were particularly noticed in the share price index and land price index after 1990. They have had huge damages to the real economy through the following channels:

- 1) The collapse of *the bubble economy* discouraged Japanese people's "risk-sensitivity" which is meant as the degree of people's attitude towards positive risk-taking. In other words, business people as well as financial people became more risk-averting. This dampened the level of business investment.
- 2) The collapse also had a severe consequence on the balance sheets of various economic subjects. Because of the collapse, each of them heavily suffered from deteriorating balance sheet problems. In order to improve a bad balance sheet position, each subject had to be patient to take a positive action. Thus, for instance, firms refrained to make capital investment and consumers to buy urgently unneeded durable goods. And financial people became rather reluctant to make additional loans. All of these activities reduced the level of investment and consumption.

Considering these characteristics carefully, we may notice that some of them have structural and long-lasting characters while others have temporary ones. Among the former characters, the following two types of structural factors will be of our special interest.

- 1) Factors common all over the world²:
 - a) Globalisation of economic activities
 - b) Development of information technology
 - c) Slow but steady convergence of economic systems
- 2) Factors specific to Japan:
 - d) Limitations of an industrial structure of "catch-up type"³
 - e) Impacts of high-valued yen (Hollowing-out of the domestic industry)
 - f) The arrival of the age-ing society

Since these factors are rather new to Japan, she is forced to change her economic system if she wants to continue her economic development. In other words, Japan's economic system, which has been contributing to her economic success since the end of WW II, turns to be invalid and therefore not sustainable in a completely new economic environment that faces Japan now. It is, therefore, of

¹ *The Economic White Paper 1994*, Chapter 2.

² These factors are equally observed in Japan as well as in other countries, particularly developed ones. Then arises an interesting question: have these factors improved economic performance to a meaningful extent? As is well known, the "new economic view" or the "new paradigm" has had a growing popularity in the United States. S. Weber, for instance, while focusing on the six factors: the globalisation, changes in finance, the nature of employment, government policy, emerging markets, and information technology, suggests that these factors are contributing to the dampening of the business cycle in the United States (S. Weber (1997)). However, P. Krugman criticises the exaggerations of the impacts of the above-mentioned factors on the economic performance. See P. Krugman (1997a) and (1997b). I am not entering into this issue in this paper. What I will try is to emphasise changes of the economic and industrial systems rather than the potential impacts of the systemic changes on the economic performance which is out of scope of this paper.

³ This factor is particularly emphasised by *the Economic White Paper 1996* (Chapter 2, Section 2). According to this White Paper, while the level of labour productivity of all industries in Japan was 20% of that of the USA in 1950, the level of labour productivity of Japan has almost caught up that of the USA in 1990. As is often pointed out, Japan had achieved her economic growth through catching up leading industrial economies. In this sense, no one can expect that Japan will successfully develop her economy any longer using the same strategy as has been adopted since the end of World War II. This suggests that Japan has to change her policy orientations as well as her economic system.

our main concern to know whether Japan has properly changed her economic system so far or not. We will discuss this aspect focusing on the changes in the area of labour relations system in the following section.

2. Changes of the Labour Relations System in the 1990s

The above-mentioned structural factors which faces the Japanese economy forces a change of her economic system but also employment system and labour relations system as its subsystem.⁴ Since these factors are so powerful, it seems very probable that they are indeed shifting Japan's economic and labour relations system to some extent. However, it normally takes several years before the change of the economic system is observable to every one. Considering that Japan has suffered from a huge shock of the collapse of *the bubble economy* in 1990-91, it is a little bit earlier whether the change is happening or not even if the change is very robust. This section will carefully examine what kind of changes are observed so far through available data. Before moving to the step, we will briefly describe the labour relations system which had been prevailing in Japan till recently.

2.1 The Previously Prevailing Labour Relations System in Japan

There has been a common understanding on Japan's prevailing labour relations system among scholars domestic and abroad. It is typically and simplistically understood to contain the following three basic ingredients:

- a) Seniority-based wage system
- b) Long-term employment system
- c) Enterprise unionism

Among these three, perhaps, the third ingredient will need some clarification. Enterprise unionism is understood as a unionism in which membership is restricted to a firm's employees. And this enterprise unionism has been predominating in Japan as J. Benson points out.⁵

This rather simplistic way of characterisation may not be sufficient. Let us explain the system in more detail. The Japan's prevailing labour relations system will be explained by the following characteristic features:

- 1) Long-term employment contracts and emphasis of in-house training based upon the long-term employment practice
- 2) Job assignment which is widely done and ambiguously described
- 3) Dense communication of productivity-related information between managerial staff and the shop floor (Shop-floor orientation)
- 4) Employees' commitment to production as is exemplified by suggestion systems, "zero-defect" movement, small group activities within an enterprise, process control, co-operation in TQC activities, and so on
- 5) Remuneration heavily dependent on job function as well as personal attributes such as academic career, the number of dependants, length of service, etc.
- 6) Hard rivalry of employees and promotion system within an enterprise which stimulates employees' work motivation through compensating their contribution to the enterprise by allocating prestige rather than pecuniary resources⁶

Perhaps all of these characteristic features are not necessarily unique to the Japanese system. Some of them are, more or less, observed in other countries as well. What is of our particular concern is not a comparative characteristic of the Japanese system in an international perspective but a change in the labour relations system in Japan. In other words, this paper is much more concerned with a dynamic change in Japan's labour relations system particularly after 1991.

⁴ *The Economic White Paper 1996* specifies several factors which may affect Japan's labour relations system or employment system. They are : a) A change of international business environment, b) A change of industrial structure, c) A change of "institutional complementarity" among economic sub-systems, d) A shift of the age structure of the population, e) An increase in the participation of female workforce, f) Mismatches in the labour market. (Chapter 3, - Section 2)

⁵ J. Benson (1996), p.372. There are several variations on enterprise unionism. He classifies the enterprise unionism into four types in his paper: *company unions*, *enterprise unions*, *oligarchic unions* and *independent unions* according to the degrees of structural and functional independence. See also T. Tachibanaki and T. Noda (1996) in this respect. They analyse the impact of enterprise unionism on Japan's industrial performance.

⁶ K. Odaka (1993), p.147.

We will examine a change in the Japanese labour relations system concerning the following aspects:

- a) Wage-determination mechanism
- b) Mechanism of employment-pattern determination
- c) Function of labour unions
- d) Resolution systems for individual labour disputes
- e) Labour-management communication system within an enterprise

To do so, we collect as much available information as possible, analyse it and then describe observed changes of labour relations system. Through the description and analysis, our emphases will be put on changes rather than system itself.

2.2 Wage-determination mechanism

We have found the following changes in the area of wage-determination system.

Firstly, the seniority-based wage system has scarcely changed in large enterprises in the case of blue-collar workers. While the importance of seniority as a determinant of wages increased from 1975 to 1985, it remained almost untouched from 1985 to 1993. (*The White Paper of Industrial Relations 1995*, Figure 8, p.33)

Second, the seniority-based wage system has shifted so that the importance of seniority has decreased from 1985 to 1993 for white-collar workers. This is true for almost all age groups except for the age group of over 60. (*The White Paper of Industrial Relations 1995*, Figure 9, p.33) This trend is confirmed by another data source which is presented in Table 3. This table shows the rate of wage increase over initial wage by length of service for white-collar workers. (Note that an employee's seniority which is identified by his/her length of service has a strong correlation with his/her age in Japan.) According to the table, we understand that the importance of seniority had increased from 1975 to 1985, but has decreased from then except for the length-of-service group of 35 years.

[Table 3] Change of the Rate of Wage Increase By the Length of Service

Length of Service (Years)	Rate of Wage Increase Over Initial Wage		
	1975	1985	1993
5	0.3677	0.3692	0.2662
10	0.6715	0.6814	0.5145
15	0.9114	0.9365	0.7450
20	1.0874	1.1345	0.9576
25	1.1995	1.2755	1.1524
30	1.2477	1.3595	1.3293
35	1.2320	1.3864	1.4883

Note: Male, university graduates employed by firms of more than 1,000 workers

Source: The Industrial Relations White Paper 1995, Japan Productivity Centre for Socio-economic Development, Table 14.

Third, the modification of seniority-based wage system has proceeded in the direction of reducing the importance of seniority as well as increasing the importance of personal ability, job and performance. But the speed of the modification is rather modest.⁷

Fourth, another direction of the modification is from the seniority-based wage system to the annual salary system. The number of firms which introduced the salary system jumped particularly in 1994. The percentage of firms which have introduced the salary system is 4% in the whole industry, but the percentage reaches over 10% in the finance and insurance sector and the real estate sector in 1994.⁸

Fifth, managers of firms tend to neglect the importance of seniority system (seniority-based wage system and seniority-based promotion system) in their management practice. While the percentage

⁷ *The White Paper of Industrial Relations 1995*, p.36

⁸ *The White Paper of Industrial Relations 1995*, Table 5, p.57 and *The Economic White Paper 1996*, Figure 3-2-15

of managers who mainly attached importance to seniority system was 11% in the 1993 Survey, the percentage reduced to 4% in the 1996 Survey. By contrast, the percentage of managers who mainly attach importance to ability-based system jumped from 38% to 48% in the same period of time.⁹

Sixth, this shift of thinking is also shared by the public. According to the public opinion polls, the percentage of people who thought that the seniority system was good both for firms and workers decreased from 28% to 22% while the percentage of people thinking that it was good neither for firms nor workers jumped from 18% to 30% between the 1987 Survey and the 1995 Survey.¹⁰ This results are summarised in Table 4.

[Table 4] How do the Japanese Perceive the Employment System? (%)

(A) The Seniority System:

	1987 Survey	1992 Survey	1995 Survey
A good system both for employers and workers	27.9	27.9	22.2
A good system for workers	33.9	24.5	31.6
A good system for employers	5.7	8.4	8.3
A good system neither for employers nor workers	18.0	23.5	29.7
Others	1.1	0.8	0.6
Do not know	13.3	14.8	7.7

(B) The Life-time Long Employment System:

	1987 Survey	1992 Survey	1995 Survey
A good system both for employers and workers	42.3		37.8
A good system for workers	27.8		35.7
A good system for employers	6.0		6.5
A good system neither for employers nor workers	7.3		11.1
Others	0.4		0.3
Do not know	16.3		8.4

(C) Change of Occupation:

	1987 Survey	1992 Survey	1995 Survey
I want to work at the same firm or working place as long as possible	51.5		34.0
I may change my working place if I can develop my ability more	41.6		59.9
Others	0.2		4.3
Do not know	6.7		1.8

[Source] The Prime Minister's Office, The Monthly Opinion Poll, April 1996, Tables 6, 26 and 27.

2.3 Mechanism of employment-pattern determination

We have observed the following changes in the field of mechanism of employment-pattern

⁹ *The Report on the Employment Management Survey 1996*, Table 20, p.25

¹⁰ *The Public Opinion Poll Monthly* April 1996, Table6, p.13

Chapter 7 Supply and Demand of Qualified Labour for Small Business in Sweden

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1 The Demise of Traditional Large-scale Manufacturing

From the beginning of the century into the 1960s Sweden was the fastest growing economy in the world, a position that was then taken over by Japan. The Swedish economic expansion was to a large extent led by export oriented companies in the engineering sector which created a world market for themselves by selling products based on advanced technological developments. Examples of these companies are Swedish Match, SKF, AGA, Atlas Copco, Ericsson, Sandvik, Scania, Volvo, and SAAB.

From the mid-1970s the Swedish economy has been in a state of transformation, if not crisis. First, most of the ship-building industry disappeared and then the steel industry was restructured in the 1970s. In the crises in 1991-92 a good deal of the manufacturing sector had to close. The construction industry which all along had been an economic motor fuelled by government subsidies came suddenly to a standstill. As a result unemployment climbed abruptly from a few percent to about 15 and has since then remained at a high level.

The large export-oriented firms are still the back-bone of the Swedish economy. However, they do not generate very much new, direct employment but and their share of the Swedish work-force is actually declining. The reasons behind this changing trend is that less labour is needed for products based on electronic rather than electrical engineering, that the production processes are becoming less labour intensive through the use of information technology and modern methods of organisation, that non-core activities are being divested, and that a larger part of the labour force becomes employed abroad.

2 The Advent of the Hi-Know Firm

Studies of the development trends on the labour market between 1983 and 1996 (Davidsson et al, 1994 and 1996; Olofsson & Stymne, 1997) give clear indications that the growth is nowadays created by small and middle sized firms. During the period 1984-93 the number of larger firms (>500 employees) decreased at a rate of 5% per year. During the same period, the number of small firms (<9 employees) grew with 1.5% per year. The expansion rate was especially high among such firms in the service sector that could be called *High-Know* which grew by 11% per year in number. The High-Know firms are to a large extent based on university trained labour like software firms, engineering services, consultancies and undertakings specialised on research and development.

Since such Hi-know firms need to recruit university graduates it is no surprise that they are mainly to be found in the major university towns. Therefore the areas of Göteborg, Malmö-Lund, Linköping and Stockholm/Uppsala are among the most economically expansive regions in the country, while other areas are more severely hit by unemployment.

3 A Changed Political Rhetoric

Against this background, it has dawned on politicians that small enterprises may be the future source for employment in Sweden. The political system recognises that new industrial and labour market policies may be needed to permit growth of the smaller companies.

Still there is no consensus about the content of such new policies. Change has mostly been confined to utterances in the debate and to trying out various *ad hoc* measures of providing support to SME, for example under the aegis of EU-projects. The lack of a clear direction of policy change can be linked to both value systems and institutions. During the heyday of growth, politicians came to believe that economic expansion and large scale production could be equated. All along, the part of the

entrepreneurial spirit which strives for personal and family wealth has been looked upon with deep distrust. It has been said about the dominating political power in Sweden, the Social Democrats, that they would like to see rich companies but poor owners. The system of industrial support in the form of joint development, strategic purchases, tax breaks and regional support has to a large extent favoured the large companies. Tax policies have actively discriminated against small business. The labour laws have been designed to provide power for union representatives in large companies but have not at all been designed to provide for the more flexible functioning needed by the smaller companies.

In addition, regional support and most other types of public subsidies paid to industry has until recently been designed to provide financing of machines and physical facilities rather than financing investments in immaterial capital like marketing, intellectual property and knowledge.

4 The Modern SME

Above, we have described some of the main development trends in demand for labour and also the institutional inertia in adapting to these trends. In this section we will provide a small theory of the type of SME that is emerging. The theory is based partly on the work cited above, partly on an ongoing project in the European Commissions ESPRIT-programmed called COMPETE. The project studies the potential of an increased use of technology for business processes (TBP) in SMEs. The project has mapped what is happening in a fairly representative sample of firms in the Swedish manufacturing sector (Andersson, 1997)

The typical manufacturing SME is changing its strategy. It moves away from being a "Mädchen für alles" or a general workshop for servicing the different industries found in that town or region. Instead it specialises in one or a few products where it has developed a distinctive competence. Examples from the COMPETE-sample are firms producing safes, boots for alpine climbing, technology for recycling heavy-metal alloys, and titan-electrodes for industrial use. Each of these companies is a leading actor in the country and some even in Europe. The firms have searched out market niches in which they attempt to provide world class products and services. Most of the firms have already sophisticated systems for controlling manufacturing. Now they are on the outlook for information technology that could help them in getting market information and in keeping contact with both suppliers and distributors. They tend not to talk any longer about "markets" but they talk about customers, distributors, and suppliers as their "partners". Sometimes, even the union is mentioned as a partner. The modern SMEs have also well-developed contacts to consultants and to universities. Together with the partners the modern SME is building a efficient industrial system able to develop, produce, market, and deliver the products and services needed by the customer when they are needed. A case investigated in the COMPETE -study was a small firm specializing in quick delivery of custom made containers used in sales promotion campaigns. The head office was located in Stockholm close to major customers, which require frequent, personal contact. Design is sourced from a studio based in Northern Italy, templates are produced by a small firm in Gävle (a city on the Swedish east coast about 200 km north of Stockholm) and sent from there to the factory located in Ljusdal, a small community in central Sweden, from where the final products are shipped directly to customers.

As the SMEs strategy changes, so does its competence structure and composition of its work-force. The proportion of blue-collars decreases while the proportion of professional employees like engineers increases. All personnel should be able to make use of information technology and to apply a customer perspective to their actions in the company. This new composition of the work-force represent other, and higher skills, than those that have been demanded traditionally from industrial workers. Personal productivity differences grow in an information economy. The result is that the traditional work-force has difficulties in finding a job while lack of skilled labour may hinder a faster development and expansion of the emerging type of SME.

5 The Problem

The general problem that the Swedish labour market faces is that it has difficulties in providing the type of employees which is a prerequisite for the new type of SMEs described above. In particular, the problem is prominent outside the knowledge intensive metropolitan areas and leading university towns. To be able to discuss possible solutions we will first dwell upon the shortcomings of the demand side and its possible remedies and then on the shortcomings of the supply side.

6 Lack of Demand for Labour from Entrepreneurs

The number of small companies is growing. But once founded the small company does not continue to grow and does not create as many jobs as commonly thought. Several investigations have found that entrepreneurs do not want to see their firms grow larger. We interpret this lack of drive as a potential serious impediment which could explain why it is difficult to channel the competence needed for the modernisation of the SME-sector: There is not enough pull from the demand side. As a consequence, Sweden may be loosing in competitiveness in relation to a country like Italy with its much higher rate of SMEs.

One main reason for the lack of drive towards creating more employment is the labour laws and collective labour contracts that make it very costly to reduce the labour force during slumps. These institutions also hinder flexible working hours that vary with market demand for the firm's products. The risk and cost in recruiting a new person is very high. Since the cost of highly qualified labour is higher than for unskilled labour, the risk in employing the highly skilled people is higher than it was with the traditional work-force. Therefore the resistance among SMEs toward job creation can be expected to increase rather than decrease during the coming years.

The general recipe often suggested against the malaise of lacking will to expand among entrepreneurs is to reform the labour market laws to make it easier to fire people. We think that some movement in that direction is possible but that such changes will not be very far-reaching. The "ownership" of the job is a deeply entrenched institution in the Swedish society.

Another possibility to increase the propensity to employ among entrepreneurs is to see to that the profitability level for such firms could be increased (from the mid-sixties the general return on capital invested in small firms is reported to be less than that of risk-free bonds). The easiest way of accomplishing an increase in profitability would be to decrease the taxation of both the owner's capital and the owner's work (today the tax rate could attain more than 70 percent of the income while income from risk-free bonds is taxed only to 30%).

Still another possibility would be to encourage the differentiation of service firms that would employ specialists of different types which could be rented for longer or shorter periods by the SME. Already, the legal changes that make renting out of labour possible have been enacted. The establishment of small consulting firms and service firms could be further encouraged by taxing such activities more leniently during at least their first few years of existence. However, it would be possible to create a varied supply of specialist services only if there is enough demand for such services in a given geographical area. Such a demand can not be created in sparsely populated areas. Therefore regional policies should be changed that a smaller number of larger commercial and industrial centres are created. Such a policy runs partly counter the present regional policies which tend to target the more resource-thin areas rather than the more resourceful agglomerations.

A last possibility to be mentioned here of coping with the entrepreneurs' resistance to employing skilled people is to provide access to such services by improving communication with specialists in more differentiated service-centres. Improved communication could be created through the facilitation of both social and IT-based networks.

In summary, labour market policies today tend to decrease the propensity of SMEs to employ qualified labour. Of the measures discussed in this section, a reversal of tax policies and a changed regional policy seem to be the most useful and least politically controversial remedies to take of the measures discussed here.

7 Lack of Will to Seek Employment in Small Companies

There is also a lack of supply of labour for smaller companies. There is no tradition among highly educated labour in Sweden to look for employment in small companies. One reason is of course that a SME seems to be a riskier choice than a larger company. Since the risk is smaller in a differentiated metropolitan area, it is easier for companies in such areas to recruit qualified labour. As was pointed out above, it is mainly in those areas where the knowledge-based SMEs propagate. The problem is graver in more distant and less differentiated areas. In addition to the risk of accepting a job in such a resource-thin area, comes the difficulty in finding a job for one's spouse.

The two main measures suggested for boosting the demand for qualified labour seems to work also for increasing the supply of such labour. If enough resources are committed to create secondary commercial service centres of sufficient size in different regions instead of spreading support thin over

the whole region, the risk of accepting a job for a SME there would be lowered and the probability of finding a job for the spouse would be higher. In addition, such larger agglomerations would be able to provide the kind of service that qualified labour demand: good schools, culture and a differentiated social life.

Lower taxation on SMEs would also convince more qualified people to start such firms themselves rather than seeking employment in a larger firm.

Also a lowering of the high tax rate on qualified labour would increase supply. First of all, more people would go to higher education and be willing to engage in competence development. Second, it would be less economically rewarding for skilled labour to engage in household work and instead find it more economically advantageous to outsource that household work. As the economist Ann-Marie Paulsson has pointed out, such a measure could increase the supply of qualified labour resulting in an economic growth of more than ten percent in GNP. In addition a correctly designed tax reform of this type would result in a considerable demand for people that are today unemployed - she mentions a static effect of about 10% of the labour force.

8 Conclusion

The traditional large industrial companies are not any more able to provide full employment of the Swedish labour force. Even the labour movement represented by the unions and the ruling Social Democratic Party which has been developed in synergy with large-scale industry, is pegging its hope to small firms as job creators of jobs in the future. We find many indications that small companies are indeed increasing in number and in importance. Small firms provide a substantial share of highly skilled services to industry. In addition, partnerships of small specialised firms form virtual organisations providing advanced industrial products. However, there are indications that the small firms do not grow sufficiently to become real important providers of jobs.

We suggest that the lack of growth in size of most SMEs does not have to be explained as a matter of lack of will to grow among entrepreneurs. Instead, we point to a number of factors in the Swedish labour market institutions, tax policy and regional policy that tend to limit the demand for labour among SMEs. Since a larger amount of money is risked by employing highly skilled labour, the tendency of not demanding labour may be accentuated as the economy get increasingly knowledge-based.

The problem of non-expansion of small firms is not entirely due to their ability to demand labour but also to lack of supply of labour. Institutional factors can be found that partly explain why people are reluctant to go to smaller firms. Again, tax policy and regional policy are among the factors.

The Swedish model of alignment between labour and big industry that paved the way for impressive growth of the economy up to the mid 1960s has since long been non-operative. However, most of the institutions of that model survive. We argue that these institutions counteract the expansion of labour demand from smaller firms that all parties on the Swedish labour market wish and hope would happen.

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Chapter 8 Internal and External Labour Markets in Japan as Sources of Good-Quality Labour

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1 Introduction

This paper aims at providing Symposium participants with some information about aspects of Japanese labour markets. It includes descriptions of the recent state of internal and external labour markets. Small and medium-sized firms and large firms will be contrasted with each other as places to work and places to develop human resources. Many large Japanese firms may have overinvested in their employees in the form of systematic on-the-job training and well-organized off-the-job training. Small and medium firms, in contrast, spend far less on training and education than large firms. Medium and small firms might gain in competitiveness if they developed their employees further. Thus, Japanese employers are in search of an appropriate mix of in-house and external human resource development activities. The Japanese government has played important roles in human resource development. Its vocational training and education activities will be dealt with. How to mix public and private endeavors is the current issue when the government faces severe financial deficiencies. Both public and private sectors face the need for structural adjustments. We first look into employment in medium and small firms.

2 What are "small and medium-sized firms?"

The term "small and medium-sized firms" usually refers in Japan to firms meeting three different sets of criteria, depending upon the industry: in retail and service, corporations employing less than 50 employees or those capitalized at ten million yen or less (approximately 590,000 Krone); in the case of wholesale, corporations employing less than 100 employees or having a capitalization of less than thirty million yen (1.8 million Krone); in the case of manufacturing and all the other industries, corporations employing less than 300 employees or capitalized at less than 100 million yen (5.9 million Krone).

Classified by the size of their labour force, most establishments in the manufacturing, wholesale and retail industries are small or medium-sized (Tables 1 and 2).

3 What roles do they play in the economy?

Labour productivity differs considerably, depending on establishment size (Tables 1 and 2). The smaller the size, the lower the labour productivity. Even though the medium and small establishments are less efficient than large ones, they play an important role as suppliers in the case of the manufacturing industry (Table 3). They provide about a third of intermediate products to other medium and small firms, and about a quarter to large firms. Their contributions have gradually increased over the two decades surveyed.

Medium and small firms are concentrated in certain industries. Flows of inputs from medium and small manufacturers to large ones are predominant in such industries as the garment, furniture and wood products, paper, metal, precision machinery, motor, and electric/electronics industries as of 1995¹.

The medium and small establishments provide the economy with job opportunities. They employ about 72, 83, and 85 per cent of the labour force in the manufacturing, wholesale, and retail industries, respectively (Tables 1 and 2). Medium and small firms keep increasing their employment, while large firms trim back their employees (Figure 1). The former started to slow down expansion when the economic downturn began in 1991, while large firms were not prompt to respond to the economic cycle, starting late to downsize and continuing to do so.

¹ Annual Report on Medium and Small Firms-1997, p. 302

4 Where are jobs?

The Bank of Japan publishes a Diffusion Index (DI) on the employment level after asking employers whether they find their employment redundant, or short. Recently, large firms tend to find redundancies more often than medium and small firms, indicating that new jobs are not likely to be found in large firms². Looking at the DI by industry, we find that the manufacturing industry tends to find some redundancies, while the other industries find a balance or some shortage in recent quarters³. Existing firms contributed to create new jobs until the end of the 1980s. However, the economic downturn in the 1990s has made them busy downsizing to decrease job opportunities (Figure 2). Needless to say, business closures reduce jobs. It is the new firms that create employment. Let us look at some characteristics of the founders of new businesses.

5 Who are entrepreneurs?

The Bureau of Medium and Small Firms conducted a survey on "Creative Business" in 1996. The term "Creative Business" refers to entrepreneurial efforts made by medium and small firms to produce new products or to provide new services by applying novel thoughts, the findings of research and development, proprietary ideas, and so on. About 1900 enterprising efforts receive promotional financing, tax exemption and other assistance from the government. Here are some findings concerning "Creative Business."

The majority of entrepreneurs used to found new firms when they were under 40 years of age. Nowadays, however, they tend to do so when they are older (Table 4.1). Among the new firms that started up in the late 1980s through the 1990s, the ratio of young entrepreneurs (in their twenties or thirties) was far less than for new firms that were organized in the 1960s and 1970s. A drastic increase in senior entrepreneurs (in their fifties or older) was seen among the new firms that started in the 1990s. Some of these senior business-starters might have been forced out of previous employment by right-sizing exercises, though entrepreneurship nowadays may require more work experience than it used to.

About a third of entrepreneurs came from large firms before they started a new business in the 1990s, while the rest came from medium and small firms (Table 4.2). The ratio of business starters who once worked for small firms has increased gradually among those involved in "Creative Business." In contrast, the ratio of business starters who once worked for large firms is higher among recent starters when we include non-creative businesses⁴. Are creative business ideas more likely to come from working for small firms? Or is it simply due to the fact that employment in small firms is less stable than in large firms? One reason could be that economic losses suffered by leaving from small firms are far smaller than leaving from large firms.

If we look at the work backgrounds of entrepreneurs, we see that their previous jobs include sales (42% of entrepreneurs), production (20%), research and development (14%), administration (10%), and business planning (8%). They started their new businesses in particular areas where they could apply existing technology and know-how (60%), where they found possibilities untapped and promising (55%), or a situation changing due to innovations (47%), or a conventional situation but with high growth potentials (32%), and so on⁵. The fundamental ideas and technologies for starting a new business are credited to the entrepreneurs themselves (78%). Other sources include research and development or product planning staffs (25%), and networking with entrepreneurs in other industries (17%), with universities (13%), with state research institutions (12%), with large firms (12%), and with customers (10%)⁶.

Not all of the entrepreneurs are men: a small fraction, 3.1 per cent, are female founders, 8.7 and 2.1 percent of them in the service and manufacturing industries, respectively. Some successful ventures started recently by women appear to be good at identifying market needs that women tend to understand better than men; for example, health care services for mothers right after child birth, the designing and producing of toys for infants, diet confectionery production, editorial services for

² Annual Report on Medium and Small Firms-1997, p. 71

³ Annual Report on Medium and Small Firms-1997, p. 71

⁴ Annual Report on Medium and Small Firms-1997:322

⁵ Survey on Creative Business-1996

⁶ Annual Report on Medium and Small Firms-1997:349

journals, and market research services. There are labour force supply companies run by women. They claim that their success is owing to their commitment to look after their female work force. These examples show that often women know the trade better than men on the basis of day-to-day ideas or work experiences.

6 Are medium and small companies good employers?

New firms create jobs and contribute to the economy. However, in the case of the manufacturing industry, the smaller the firm size, the less stable their businesses. Small establishments were started up the most and closed the most, followed by medium-size establishments. Start-ups and closures of large establishments had the lowest figures (Figure 3). Looking at the entries made in 1985 in all the industries, we see their survival rates as of 1991 ⁷. On average, about 70 percent have survived. The smaller establishments (having less than nine employees) experienced the lowest survival rates. Eighty percent or more of the establishments with more than ten employees survived for the six-year period. Small starters may need to learn how to grow in size and become stable.

There are big differences in the cash earnings of employees among different sized firms across industries: employees in small firms receive about half the salaries of those in large firms. (Pay differentials, however, could be smaller if workers' length of service and productivity differentials by firm size were controlled appropriately.) Medium and small firms in manufacturing, bear fewer welfare costs (pension plans, unemployment benefits, medical care programs, OSHA expenses, and other welfare contributions) than large firms do. Also medium and small firms spend less on training and education of employees than large firms (Table 5).

Medium and small firms provide their employees with lower earnings and fewer welfare benefits than large firms. The formers invest less on their employees than the latter. The former tend to rely on external labour markets when it comes to human resource development, while the latter rely on their internal labour markets. Furthermore, employment in the former tends to be less stable than in the latter. Employment opportunities in large firms appear to be preferable to those in medium and small firms.

7 Human Resource Development in the Private Sector

Investment in training and education in industry brings about accelerated growth in labour productivity. A regression result for the manufacturing industry, for example, is shown by:

$$Y = -4.411 + 21.428 \times X^2$$

(-2.158) (4.226) R = .63 (t values in parentheses)

Where Y stands for the rate of growth in labour productivity (i. e., real GDP per labour force), and X for the ratios of training & education expenses to regular salaries. The average figures for the years 1985, 1988 and 1991 are used ⁸. Employers easily see why it is good to spend more on the education and training of their employees.

Still, Japanese firms spend less on training and education in industry than European firms. The ratio of direct costs of education and training to regular salaries in Japan was 0.4 percent, while they were 1.7, 1.5, and 1.3 in France, Germany, and the UK in 1988, respectively. The direct costs in Japan include honoraria for trainers, fees, and tuition for attending training and education programs. They exclude salaries for trainees and staffs in training departments ⁹. On the average, firms spent on training and education about 100 Krone a month per a "regular" employee, which amounts to 20,000 yen a year ¹⁰.

8 Why Japanese Firms Spend Less?

The small fraction of training expenses does not necessarily mean that Japanese firms invest less

⁷ Annual Report on Medium and Small Firms-1997,p. 312

⁸ Annual Report on Labour-1996:119

⁹ Annual Report on Labour-1996:339

¹⁰ Survey on Pay Systems and Working Hours-1991

in their employees than European firms do. Rather, Japanese firms save on direct training costs by placing emphasis on "on-the-job training (OJT)," whose costs could be treated as sunk costs. A total of 86.2 percent of establishments provided their employees with training and education in 1994 ¹¹. If the training and education is classified by the two categories of off-the-job training (Off-JT) and systematic OJT, 62.7 percent of establishments implemented Off-JT and 63.5 percent, OJT. The banking and insurance industries invested the most in Off-JT and OJT. The sales (wholesale and retail), restaurant, and service industries tended to place slightly more emphasis on Off-JT than OJT, while manufacturing, transportation, and communication put more emphasis on OJT. Off-JT programs in 1994 were taken by 53.7 percent of male employees and 42.6 percent of female employees.

A comparison between Japan and the USA reveals the features of Japanese Off-JT: 80 to 74 percent of Japanese employees took Off-JT, regardless of their length of service. In contrast, Off-JT opportunities were relatively limited in the USA, especially for employees whose seniority was short (Table 6.1). The majority of Japanese white-collar and blue-collar employees were given Off-JT, and differences in opportunities among job groupings were not large. In the USA, however, better paying white-collar jobholders enjoyed far better training opportunities than others. American blue-collar workers received far less Off-JT than Japanese did (Table 6.2). (OECD's Employment Outlook does not publish comparable figures on European countries. Their figures refer to training performed for a period of four weeks up to and including the survey period.) Japanese tendencies to accumulate human resources at the enterprise level are a core source of competitiveness ¹². Next let us look at examples of human resource development in internal labour markets.

9 Examples of Human Resource Development in Japanese Firms

Japanese employers prefer to have flexible work organizations in which employees bear broader work responsibility, rather than narrowly specialized jobs, and in which they have an enterprise-wide view that goes beyond a narrowly defined functional perspective. Japanese formal education is not likely to produce graduates who sufficiently meet such business expectations. Thus employers have to develop their newly employed work force.

Let us take an example of the Off-JT that a large iron and steel firm provides its male employees ¹³. New employees spend their first year as trainee, taking orientation programs, basic training, and education courses, and working on projects. Their second-year programs include a short period of Off-JT programs and longer, systematized OJT. Separate programs for white-collar and engineering jobholders are periodically given throughout the second year. Later, all candidates for supervisory jobs take preparatory training and education. And, finally, newly promoted supervisors and managers take training courses relevant to their new assignments. Female employees on career tracks are also eligible for the same training and education opportunities. However, recent downsizing in administrative departments of large firms means those firms do not hire women for career track jobs.

The Off-JT for production and maintenance workers is that maintenance and operative jobholders take specialized programs after an initial three-month introductory orientation. Programs for supervisors are timed with employees' advancement within the firm. They receive a series of Off-JT, combined with OJT, much as white-collar employees do ¹⁴.

Job Clusters

Systematized OJT usually includes job rotation in which workers are moved from one job to another. In the case of college graduates in an iron and steel firm, white-collar employees and

¹¹ Survey on Training and Education in Industry-1995

¹² See for example, John P. MacDuffie, 1995, "Human Resource Bundles and Manufacturing Performance," *Industrial and Labour Relations Review* 48(2):197-221; J. P. MacDuffie and J. F. Krafcik, 1992, "Integrating Technology and Human Resources for High-Performance Manufacturing," in T. A. Kochan and M. U seem eds., *Transforming Organizations*, Oxford University Press; Kazuo Koike, 1996, *The Economics of Work in Japan*, LTCB International Library Foundation; Shozo Inouye, 1994, "Human Resource Management and Industrial Relations Strategies in Japanese Multinational Corporations," *Nanzan Management Review*, 8(3):457-495

¹³ Shozo Inouye, 1985, "An Empirical Study of An Internal Labor Market: The Case of A Japanese Iron and Steel Firm," Ph. D. Dissertation, The University of Illinois, pp. 41-48.

¹⁴ *Ibid*, pp.48-56

engineers tend to move the most frequently within a functional department¹⁵. Their mobility, however, is not confined to the functional department they initially belonged to. Job clusters are found in three broad groupings of administration, production, and engineering departments. Many engineers started as engineers, but some also came from production jobs. When employees broaden their job-related skills and knowledge, they climb up job ladders within their specialized function and across related functional areas in the firm. In other words, job enlargement (which is defined as assigning workers additional same-level activities so as to increase the number of activities they perform) is followed by job enrichment (which makes the workers experience feelings of growth, achievement, responsibility, and recognition within the firm).

Maintenance and production jobholders are no exceptions to systematic OJT programs. Their job mobility chains tend to cluster around jobs within a shop floor, reflecting the priority of making workers versatile at closely related jobs first.¹⁶ Team members are trained to advance their skills and knowledge by job rotation that involves working on different machining equipment. OJT is an economical way of developing team members' occupational skills. Occupational licenses the government regulates are combined with in-house license requirements to motivate all personnel to advance themselves. Thus, teams are composed of members who can assist junior members and make up the absence of other team members. Blue-collar workers, who have invested in training are entitled to an upward-rising earnings profile as they accumulate length-of-service, just like white-collar employees.

Employees become good at coordinating cross-functional activities thanks to job assignments across departments within a firm. "Horizontal coordination" in an organization, rather than "vertical coordination," makes Japanese firms competitive¹⁷. This "horizontal coordination" is possible because employees develop networks within a firm by regular job rotations.

Combinations of jobs, or routing of job rotations, may make employees "firm specific," although the occupational skills and knowledge they acquire would include "general skills." Firm-specific skills make employees more valuable to employers than would-be applicants in external labour markets. Employers may wish to hoard their employees when an economic downturn is a cyclical one. Thus, employees enjoy stable employment thanks to investing in firm-specific skills.¹⁸

Employers make efforts to economize on training and education expenses in response to recent changes in the business environment¹⁹. Not all new recruits in large firms may go through the same programs as provided in the iron and steel firm or the machine shop. Separate in-service training and education programs may be devised to meet divergent needs of employers and employees. For example, women in administrative supporting jobs are likely to be given short, functionally specialized programs so that they become speedily productive.

10 Roles of Government in Human Resource Development

Financial Inputs

Not all Japanese firms develop their human resources by themselves. In order to assist firms and individuals, the Ministry of Labour provides them with subsidies and reimburse their training and education expenses. "Human Resource Development Subsidies" are available for employers who aim at advancing employees' occupational capacities. Priorities are given to medium and small firms, and to programs that develop older employees. Medium and small firms can make up training expenses for developing their human resources so they can engaged in a new venture or high value-added products, too. "Self-development Assistance Plans" ran by employers are also eligible for government subsidies. For example, employers who support their employees' enrollment in courses

¹⁵Shozo Inoue, 1985, "An Empirical Study of An Internal Labor Market: The Case of A Japanese Iron and Steel Firm," Ph. D. Dissertation, The University of Illinois, p. 68

¹⁶ A case of a machine shop in a large firm is shown in Shozo Inouye, 1994, "Human Resource Management and Industrial Relations Strategies in Japanese Multinational Corporations," *Nanzan Management Review*, 8(3):474.

¹⁷ Masahiko Aoki, 1988, *Information, Incentives, and Bargaining in the Japanese Economy*, Cambridge University Press

¹⁸ A summary of the working of Japanese internal labour markets is found in N. G. Hatvany and V. Pucik, 1982, "An Integrated Management System Focused on Human Resources", in Nadler and others, eds., *Managing Organizations*, Little Brown.

¹⁹ Annual Report on Labour-1996:133