

# On the Lifetime Employment System-Seniority Rule in Japan-

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# On the Lifetime Employment System —— Seniority Rule in Japan ——

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## 1 Foreword

The Lifetime Employment System in Japan is famous in the world. When I attended the international conference of labor law and social security held in Europe, foreign professors or lawyers asked me about the lifetime employment system in Japan. They seemed to take a strong interest in it.

The lifetime employment system in Japan doesn't cover all Japanese workers and is limited to the workers of the firms which set age limit.

The workers can retain their employment till the age limit, but must retire at the age limit.

The lifetime employment system with the seniority rule and the workers' love for company and their loyalty to company, has contributed to prosperity of a company and the country.

Later besides seniority-based pay system, efficiency or ability is considered.

In this conotructive recession the age limit is losing power,

In the case of the age limit of 60 years, the company shall not discharge 50 years old persons, but it may urge to retire strongly on some fair terms. 50 years old persons are almost supervisors or managers and do not organize a trade union. They are so weak as to accept the company's propose.

In this recession many supervisors or managers retired before the age limit or were discharged. They organized a trade union outside company recently.

The workers will become less loyal to their company if the employments are not secured. They rather will take interst in their work.

There are on the other hand numerous temporary workers. The employers hire them by low wages.

The labor shortage in the future will give much and new light for lifetime employment system.

## **2 Root**

Japanese lifetime employment system existed before the World War II in Japan.

But its birth year is uncertain. Probably we can find its model in a feudal lord system of the warlike ages.

A feudal lord guaranteed the the lifetime living of his warrior (Samurai) and family.

Before the World War II, "loyalty to the Emperor" "love for the country" "faith to the parent" were inspired above everything else. Emperor was living god and his order was absolute. Government official worked under Emperor's absolute order and by way of compensation.

Their lifetime status, wage and leave of absence were protected by Emperor.

Employers of private enterprises were generally dictators. Wage was not right but

favor. It was an allowance at the master's discretion and very low. Wage was payed according to age and family number.

Employers hoped that the employees worked for lifetime. Employees too hoped to work in the same company for lifetime, because changing company was deemed to be shameful.

### **3 Coverage-Three Pillars**

After the World War II Japanese companies have assumed a posture of lifetime employment system.

Lifetime Employment system is closely and deeply connected with three elements.

#### Lifetime Employment

Japanese lifetime employment continues until a specific age in case of a regular workman.

The employers guaranteed the employees' employment in the period. The employers requested workers to make a team and work for company.

The employees worked hard and faithfully for their companies without regard to family cares. The employees loved the companies and pledged loyalty to them. Love and loyalty played a significant role for many companies which achieved steady business growth. Selfless devotion to the country which was used in Japan before the World War II, has been used to the companies after the World War II.

The executive director of Nissho Iwai, Mr. Shimada committed suicide on February 1, 1971. His suicide note was as following.

"The life of company is eternal. For the eternity we shall serve. Though our service term is only twenty years or thirty ones, the life of company is eternal. For protecting it we shall be dignified as a man. The late suspicion for me gave the company its image down. I apologize. I take the responsibility for this"

The company members eyed him with suspicion, but after his suicide and suicide note their mind changed suddenly for the death dying at his post of duty.

There is another case. Tokyo district court gave a decision of guilty upon Wakasa,

former president of Zen Nikku for committing unmoral crime of secret money making for political maneuver and false testimony in the Diet on January 26, 1982. He was sentenced to three years in prison with a stay of execution for five years. One of the reasons for which he was granted a stay of execution was his motive of false in the Diet. It was not for him but for the company.

Mr. Shimada and Mr. Wakasa received a education “loyalty to Emperor” “Love for the Country” before the World War II, but their mind changed from “Love for the Country” to “Selfless devotion to the Company” after the World War II. They were the models of “Company Persons” (KaishaNingen-in Japanese).

Recently the love for work or home instead of company has sprouted in the minds of workers in this recessin including discharge.

#### Seniority Rule-Seniority Based Wage and Promotion

Under the lifetime employment system wage was paid and promotion was obtained on the basis of school career, age, family or service term without regard to ability.

This seniority rule was later changed. Employers began to adopt and add ability and efficiency as the standard of wage and promotion.

For instance Tokyo Metropolis introduced age 15 percent, service term 10 percent and, duty and ability 75 percent as standard of promotion in 1970.

#### Company Union

Lifetime employment system has taken with Japanese company unions for about fifty years after the World War II.

Japanese trade unions are company unions. They are not necessarily company dominated unions, but they are cooperative for company.

In the case of company union the union leaders knows well the company’s management and the union member’s mental struggle, and can bargain collectively and effectively.

But the unions cooperated with the companies in making young age limits of females and discharging them, although their discharges were invalid by cout on accout of

discrimination between female and male.

The three pillars of lifetime employment system, seniority rule and company union are the features of Japanese labor management.

They have created love for company and have promoted workers' team or group labor.

They contributed to company and national economy. But they had various dark sides which appeared in the recession.

#### **4 High Economic Growth**

The lifetime employment system worked well when the economy was growing steadily.

In the Iwato prosperity (1958-1961) after the World War II Japanese economy developed and was promoted to its high degree growth. Goods well sold like fun.

Employers requested workers to extend the working hours to make goods. Employers also requested workers to make a team with group labor and love for company because the improvement of employees' living depend upon the prosperity of the company.

Some unions and workers were against this way of thinking. But most workers cooperated with the companies

In the Heisei prosperity (1986-1991 • 3) the prices of stockes and lands rose suddenly, and money or securities scandals occured continuously. Top leaders of the companies apolozised in the Diet for taking precedence of the companies profits and strongly requesting workers their efficiency. Some workers committed a crime for their employers.

But lifetime employment system was maintained in economic growth, though it was changed somewhat in contents.

#### **5 Recession**

In the recent recession the lifetime employment system faced difficulties.

First Oil Shock

(1973. 11-1975. 3)

In the recession of the first oil shock employers took measures of wage cut, suspense of promotion, temporary lay off and personnel decrease of supervisors or managers.

In the case of supervisors or managers they didn't organize their trade unions and employers carried out their plan without meeting any strong resistance.

Employer shall pay allowance equivalent to more than 60 percent of the worker's average wage for the rest day caused by reason for which the employer is responsible (Labor Standards Law article 26. )

If closing of business come under article 536 II of civil law, employer shall pay wage of 100 percent.

Government subsidize a part of wage for employers to close the firms, transfer or train on account of recession if they come under article 62 of Employment Insurance Law, article 102 III of Enforcement Ordinance of Employment Insurance law.

Workers, supervisors or managers have a way to raise suit against wage cut or personnel decrease.

But they have not used such way.

#### second Oil Shock

(1980. 2-1983. 2)

In the recession of the second oil shock, the similar and more unhappy facts came into existence.

#### First High En

(1985. 6-1986. 11)

Since 1985 Japanese companies were faced to the dizzy changes of industrial structure and international competition. They ordered to transfer forty or fifty years old persons without new skill or ability to a subsidiary company with a position of a parent company.

On the otherhand the companies employed the persons with new skill or ability from other companies.

The tendency is different from old lifetime employment and seniority rule.

New year view 1988 "In Pursuit of Renovation of Action principles" proposes boldly.

According to Moroi vice representative secretary, company person or group labor is available only in the period of Japanese highly economic growth, but the company person without individuality is not useful in the rapidly developing soft new field (January 15, 1988 Asahi newspaper)

On the point of achievements, ability is more seriously considered than company loyalty or company love.

## **6 Crisis in Lifetime Employment-Bubble collapse**

The recession of Heisei (bubble collapse 1991. 5-1994. 12) is the most serious. Its duration is the longest and its character is the most constructive.

### Second High En

The yen rose higher and the dollar fell below ¥100. Small export manufactures became insolvent and big ones began to escape from Japan to east south asia, China, Malaysia, Vietnam etc. and employed the cheap workers there. On the other hand the big ones decreased the personnel in Japan. Their subcontractors and workers lost works.

These created a big cave in Japan's industry and casted dark shadow on lifetime employment

### Price and Wage

The prices which were generally higher in Japan than in U. S. and European countries, did not fall as expected, though recession and high En were called and imported articles were cheap.

Certainly prices of dress, shoes, drinks, house or land fell fairly.

On the contrary many service fees increased and the hikes of highway fees, non-life insurance premiums, public housing rents and national univesity tuition may be open to debate before government decide them.

The latest prices are lower than in past Japan. They are called "price destruction" or "price revolution", but the prices are still higher in Japan than in other nations. The



consumers in Japan are increasingly choosing low priced commodities. The trend is a normalization of prices to the international level.

The government has to check prices increasing.

Unless too high prices in Japan are lowered to the common sense line in world or the income tax is drastically lowered, the wage increase will be demanded by workers.

But workers wages declined in real terms. Regular increases in pay of supervisors or managers were suspended. About 20 percent of 1000 companies did not raise starting salaries for 1994 school graduates.

Wage hike is useful for dealing successfully with recession. But owing to recession, jobless has increased and wage hike has not succeeded though trade unions have requested it. Employers asked trade unions to select either wage hike or discharge. Employers averted discharge if possible, but did not accept wage hike in this serious recession and requested price down for the government.

#### Jobless Figure

The Management and Coordination Agency conducted the survey on employment in February, 1994. The survey shows the jobless figure was the highest since 1984, when the agency began the annual survey on the employment situation (May 29, 1994 The Japan Times).

The number of the graduate this spring which can not find a job is about 150,000 and more than 130,000 in the High En recession.

Especially in the case of the female graduate the chances of finding job are worse.

#### White Collar

##### – Supervisors and Managers

In this recession, major companies stop to promote supervisors and send them to subsidiaries or related companies. Such transfers are allowed to be permanent if the affected workers agree.

They expect to reduce the number of elderly “white collar” in high-paying middle-management positions.

“According to the Management and Coordination Agency, company employees aged 45 and over comprised 40.5 percent of the nation’s total corporate workforce between 1991 and 1993, and 45 percent of the white-collar workers in this age group were discharged during this period.

At present, there are reportedly an estimated 2 million madogiwa zoku, a euphemism for older employees who are given no real responsibilities, in Japan. The road to re-employment is bumpy” (June 3, 1994 The Japan Times).

In this recessions of Heisei they organized outside companies.

## **7 Dispute on Lifetime Employment**

This threatens the collapse of the lifetime employment system.

The nation’s top corporate managers are divided over whether the traditional lifetime employment system should be maintained amid the prolonged recession.

One side support the system, while another side want a radical overhaul in the future.

Labor Ministry, Federation of Employers Association (Nikkeiren) and other public agencies are reexamining the Lifetime Employment System.

On reexamining this the following is noticed, especially about middle-aged.

- (1) Temporal closing of business on account of recession is responsible for employer or government, but not for employee.(See p.6 of this thesis)
- (2) The current redundant workers, particularly the population of white collar workers aged over 45 swelled to 12.18 million in 1993, 18.8 percent of the entire workforce, from 6.07 million, or 11.5 percent, in 1973.

Japanese companies may no longer sustain employment.

But the responsibility of redundancy lies on employers, because they employed too many workers in order to increase the production in the economic growth.

Discharging excess workers in recession is selfish, inhuman and irresponsible.

- (3) Particularly the middle-age white collar workers were once lauded as corporate warriors.

When they were ill-treated by the employers in recession though they worked as hard

as they could and loyally for company, they thought that they were betrayed by their employers.

They have to work hard to pay their childrens' educatinal expenses or loans for housing.

If they are in such case redundant and discharged, they are reduced to poverty and despair for future.

Lifetime Employment System does not cover all Japanese labor management relations, but generally Japanese workers, except the workers with a definite period for instance part-timers, works in hopes of lifetime employment.

Japanese employers did not carry out personnel cut without rational reason and method.

## **8 Discharge of Workers on Account of Recession or Business**

Employer may discharge workers because of their breaching of contract or violation, but he shall not as a rule discharge workers on account of recession or business because worksers are not responsible for recession or business.

ILO adopted Convention (No, 158) and Recommendation (No. 166) concerning Termination of Employment at the Initiative of the Employer in 1982.

Some countries ratified them and established the law requiring proper reason for discharging workers.

Japanese case laws have been created for about near fifty years. They varidate the discharge of workers on account of recession or business on the four following conditions.

(S. Matsuoka, Right of Mangement and personnel and Labor Law pp. 303-317)

(1) There shall be necessity of discharge. What is necessity? In old case laws it shall be just before the bankruptcy (January 21, 1954 Saikō Sai (一) Decision. Ikegai Tekko Case)

Later it was somewhat relaxed to business crisis of high digree (April 3, 1980, Saikō Sai (一) Decision. Toyo Sanso Case)

(2) Before business discharge, every voluntary quit, transfer or the other measures shall be taken.

(3) Employer shall consult with trade union or employees on recession or business discharge (October 17, 1983 Saikō Sai (一) Decision. Asahi Nursery school Case)

- (4) Business discharge standard shall be objective and reasonable.

## 9 International Document

The prohibition of distinction made on the basis of age has been found in the international documents.

ILO adopted the Convention Concerning Discrimination in Respect of Employment and Occupation on June 25, 1958. Japan has not ratified this treaty yet.

ILO adopted the Older Workers Recommendation on June 4, 1980. This recommendation stipulates the principle "retire is voluntary" (Paragraph 3 and 21).

The provisions making mandatory the termination of employment at a specified age, go against the principle.

The representatives of Japanese Government, Employers and Employees declared for the Recommendation.

Later in 1982 ILO adopted Convention (No. 158) and Recommendation (No. 166) concerning Termination of Employment of the Initiative of the Employer. According to paragraph 5 (a) of the Recommendation, age shall not be "valid reason" of discharge.

European workers want to spend their free life after retirement age, but a majority of Japanese people wish to continue working as long as they are healthy. Most people cite income as their main reason.

According to the three international documents, mandatory retirement age shall be abolished. But in Japan the retirement 60 years age is going to be mandatory on April 1, 1998 according to the Amendment to the Older Employment Stabilization in 1994.

## 10 Conclusion—Present and Future

### lifetime employment

In the recession of Heisei, the number of the companies which have maintained the lifetime employment system and succeeded, is no small. But in this case Japanese workers must retire at the age limit. Therefore in the strict sense the Japanese employment is not

lifetime one. Even if they retire at 60 age, many must work at any other company.

In the recession and High En of Heisei, many companies became insolvent and on the verge of bankruptcy. Some companies escaped from Japan in High En to east south Asia. Japanese transference and jobless figures increased.

Though workers' jobs are guaranteed until the specific retirement age, companies ask workers voluntary early retirement in the recession.

In the recession of Heisei the population of white collar aged over 45 swelled. The companies tried to reduce the number of elderly white collar in high-paying middle-management positions.

Many middle-management accepted the companies' proposes before their retirement age.

But they recieved a deep impression that the company ran counter to their expectation. They lost job and love for their company. They made an effort to look for a new job.

In the future japanese workers must have knowledge useful for not only one same company but also the other firms.

Government commitee concluded the same idea. The idea is rather different from the lifetime employment system.

Labor ministry's edition 1994 "Labor White Paper" proposes a long term employment including change of occupation without unemployment.

When times become good and labor shortage continues, lifetime employment or a long term employment seems to be comparatively healthy figure.

If employers conduct with sincerity, do they regain employees' love for company which lost in the recession?

Probably in the future Japanese workers will work in the plural companies for their lifetime and have more love for worke and home life than love for company.

Younger generations are already less loyal to their companies than the older generations.

In the future the temporary workers will increase. The love for company shall not be looked for them. Rather they will have much interest for wage and work.

## On the Lifetime Employment System

### Seniority Rule

Lifetime employment system is considered in relation to seniority rule. Seniority rule elements are school career, length of service and age. Under such seniority workmen work with their colleague in a team without anxiety till retirement age.

Later on the wage increase and promotion efficiency and ability are added corresponding to the feelings of young worker's and able working persons.

The companies' estimation for workers' efficiency and ability became high since about 1985 soft new field developed rapidly. It stimulated workers to compete each other and was an obstacle to a team work. Competing and working too hard may breed "Karoshi" also in this case.

Some companies began to adopt annual system for special lines, management, profession or business. The firms which adopted annual system increased to 11.6 percent, by 1993, Romu Gyosei Kenkyu Syo. Annual system attaches importance to the results of works.

The other companies adopted wages attached to a post at the chief of a section or department and abolished the regular salary rise system.

### Supervisors' union

In the recessions the employeers decreased their supervisors' wages and bonuses. Some supervisors and managers organized the trade union in the company.

In the recession of Heisei middle-management workers lost faith for company. The supervisory union, comprising workers in supervisory posts and former supervisors was organized for the purpose of maintaining and improving the conditions of work. In this recession 250 thousands managers were discharged. Their union's object was to fight against discharge and get new job. The union was organized outside the companies.

In conclusion an intelligent foreign scholar cites that Japanese companies employ labor surplus, so their competitive powers become weak and lifetime employment loses out.

But the nearest future the elderly people increase, the adult decrease and the total workforce gradually decrease. Especially since the year 2000 labor shortage become more and more marked. The trend of maintaining lifetime employment or at the least longterm one will strengthen.

But the chief standard of wage-up and promotion will be from seniority rule to ability or duty more or less.

The expectation for the supervisors' union outside company with common unions, is large for the future labor management relation.