

Precarious Employment and the Transformation of the Japanese Labor Market (1980s-2010s)

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The core institutions of the Japanese labor market

The Japanese labor market and employment system have been categorized as diverging from the liberal model. Their core historical institutions are framed by a dual labor market shaped by the firm size rather than the occupation and job categories, the establishment of a seniority wage system for the regular employees, the enterprise unionism prevailing over industry-wide and craft unions, the gender division of labor that gives the primacy to men workers, and the development of firm-specific skills and internal labor markets favoring intra-company labor mobility over inter-company's. From the time Japan was seen as an ascendant economic power and a threat to America's in the late 1970s, until the collapse of its 'bubble economy' in 1991, these institutions were celebrated both in the mainstream Japanese and American economic and sociological literature as an alternative model that triggers long-term economic growth and harmonious social development.

However, the continuous economic growth came to an abrupt end in the first half of the 1990s, which shed light on the deep transformation that Japan underwent since the mid-1950s, and the exclusion forces that structured two different social worlds. In that view, the most distinctive evolution of the Japanese labor market since then has been the rise of 'non-regular' employment that accounted for nearly 40% of all employees in 2019. Many labor economists and sociologists pointed out the transformation of the dual labor market, with the decline of the differences between large enterprises and small and medium-sized enterprises, and the growing importance of the distinction between regular and non-regular workers. Besides, the increase of a gray zone in the informal sector (Kabayashi, 2017), and the growth of 'non-regular regular' employment

(Gordon, 2017) is a second tendency that excluded many Japanese adults from the core labor market. Indeed, the salary men and the Japanese enterprises were able to propel socio-economic development at the expenses of a less included part of the population. Therefore, the economic, social and political dimensions of the inclusive wage labor nexus in the case of Japan are largely discussed.

This article aims at examining the evolutions and permanence of the Japanese labor market between the 1980s and the 2010s. In the next section, it investigates the historic institutions that structured the dual labor market. Then, it analyses the forms of precarious employments that swelled between the 1980s and the 2010s, and the social forces behind them. The last session is dedicated to the survey of the two main forms of precarious employments and their causes: the women non-regular employees in four service sectors, and the growth of non-regular employees in large firms.

The Japanese working population: a historic and demographic perspective

The salary men (men regular employees in large firms, either blue or white collars) and the large enterprises (especially in the manufacturing and finance industries), as core pillars of the Japanese social order, have been carving the social model of the urbanized, educated, inclusive middle class, with extensive perspectives of upward social mobility since the period of high economic growth (1955-1964). Above all, Japan achieved it within a period of time that was unseen previously, the so-called compressed modernity era. The salary men are the archetypical regular employees (full-time workers with no-fixed term labor contracts, and benefiting from the seniority wage system and many other advantages associated to their statuses) hired by large firms. They account for roughly 30% of the Japanese employee population. During the 20th Century, they molded the social representation of upward social mobility, the middle class lifestyle, and the gender division of labor. Those workers accumulated sufficient income and capital to give birth to a new urban social class distinct from the rural social class whose economic capital was declining but political influence is still important (Oguma, 2019). From an industrial perspective, large firms especially in the electrical machinery and textiles industries were the main job providers throughout the 1960s and 1970s.

The postwar high economic growth and especially the 1955-1964 period deeply transformed the Japanese society. First, it marked the generalization of the education at high schools. The advancement rate to upper secondary education rose from less than 50% in 1955 to 70% in 1965, and more than 90% in the late 1970s (Brinton, 2011, p.47). Second, the family structure was also greatly affected with the transition from the three-generation family (larger extended family) to the nuclear family. Third, with more and more people seeking jobs in the Japanese big three metropolitan areas (Tokyo, Nagoya, Osaka), the urbanization of the population was underway. The yearly migration to these metropolitan areas increased from less than 800 000 people in 1955 to more than 1,2 million in 1970, its historical peak (Tani, 2000, p.2). Finally, the structure of the working population also changed significantly.

The most remarkable trends are the transition from the primary sector to the secondary and tertiary sectors, and the expansion of the employees population (*shain, juugyouin*) at the expense of the self-employed and family workers (*jieigyounushi, kazoku juugyouin*). The agricultural sector felt down from roughly 38% of the working population in 1955 to 8% in 1990 (Nomura 1998, p. 52). Similarly, Japanese working as self-employed and family workers that once composed the largest part of the Japanese labor force (57% in 1955) were replaced by employees during this period (35% of self-employed and family workers in 1970) (Koike 2005, p.5). Most of the self-employed and family workers were in the agricultural sector, which saw the greatest population decline with more than 10 million family workers and more than 5 million self-employed workers in 1955, to respectively 4 million and 3,5 million in the early 1970s (Nomura 1998, p.63). Many moved to large metropolitan areas. It turns out that in 2020, there is less than 4 million self-employed workers. This population also considerably changed in nature with the replacement of 'traditional self-employed' (in the agricultural, wholesale and retail trade, drinking and eating services, manufacturing, or carpenters) by the so-called *koyoutekijieigyounushi* such as insurance agents, system consultants, salesmen, architects, 'independent contractors', and designers that deliver services to firms. They represent over 40% of the self-employed population, roughly 1,64 million people in 2015 (Yamada, 2015). For the first time in 1958, the population of employees overtook that of self-employed and family workers, and this tendency was at its very early stage.

However, the population of salary workers is far from being uniform during the industrialization era (1955-1970). The labor market could not provide regular jobs to everyone, and the large firms faced problems in delivering mass production for the market. Though some male workers experienced upward social mobility, a peripheral working force, mostly male and female workers who migrated to large cities to find jobs in the manufacturing and textile industries during the so-called era of collective recruitment (*shuudanshuushoku no jidai*) (Kase, 1997), was formed in large firms and SMEs. Labor shortage was a core issue. Japanese firms hired married housewives as part-time workers. These women were mostly family workers. The husbands were the breadwinners, employed as permanent workers. They were given seniority wages and employment stability, but could hardly move to other firms during their careers, and were frequently assigned new jobs in different regions. In the small and medium-sized enterprises, hereafter SMEs, the wages also increased constantly but the wage differentials with large firms kept substantially high. Moreover, the social security system was designed to bring strong advantages to the core workforce, blue and white-collar employees, in large firms. The expansion of the dual labor market, whose roots can be traced back to the Meiji era (Gordon, 1985), structured the Japanese working population during the second half of the 20th Century.

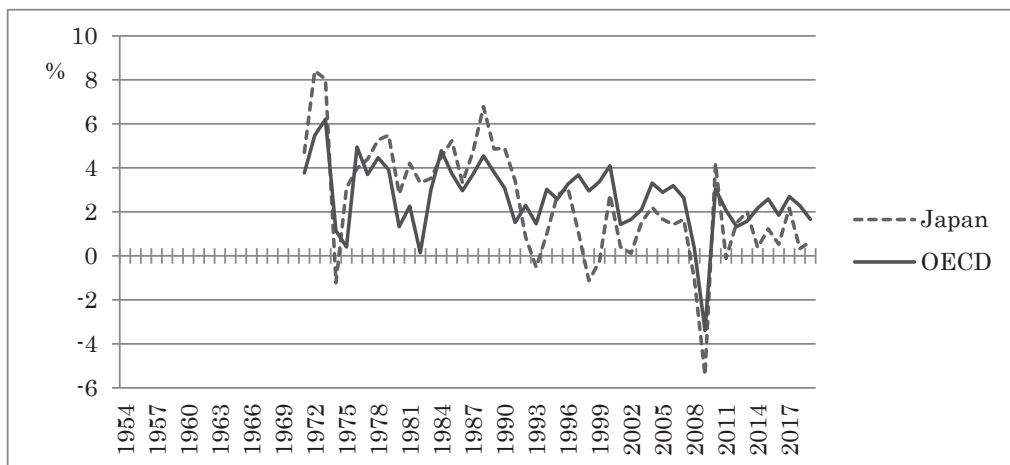


Figure 1. Real GDP Growth Rate (1970-2019)

Source: author's calculation based on IMF data

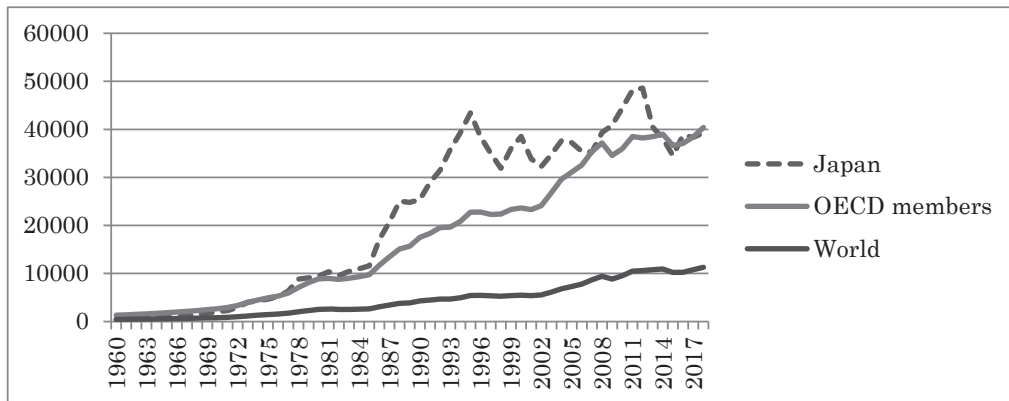


Figure 2. GDP per capita (current price US\$)

Source: author's calculation based on World Bank data

These changes are caused by the economic growth patterns (*see* Figures 1 and 2) and the continuous growth of the working age population (15-64 years old) until the first half of the 1990s. During 1955 and 1995, this population grew constantly from about 55 million people to 87 million people, accounting respectively for 61% and 70% of the Japanese population. Since the mid-1990s, this population has been keeping declining down to 76 million people in 2017, 60% of the Japanese population (*see* Figure 3). Besides, the working population is also ageing (*see* Figures 3 and 4), and the number of men workers tends to diminish.

This is explained by two parallel factors. First, the generation of baby-boomers born between 1947-1949 (6,2 million births) and those born in the first half of the 1950s became aged over 65 years old during the first half of the 2010s, and in general the Japanese population has been keeping ageing since the postwar period, and especially after 1995. Second, during the postwar period (1945-1955), Japan experienced a demographic transition with the shrinking fertility rate from 4,5 in 1945, to 2 in 1960, and except a second period of birth increase between 1967 and 1974, it was continuously declining down to 1,36 in 2019. Coupled with the export-led growth regime running out of steam following the burst of the financial and estate bubble in 1991, the emergence of China, South Korea (especially in the automotive industry), and Taiwan (microelectronics) at the global stage, the Japanese firms found themselves in a highly competitive economic environment.

As a consequence the access conditions to the labor market for new entrants differed

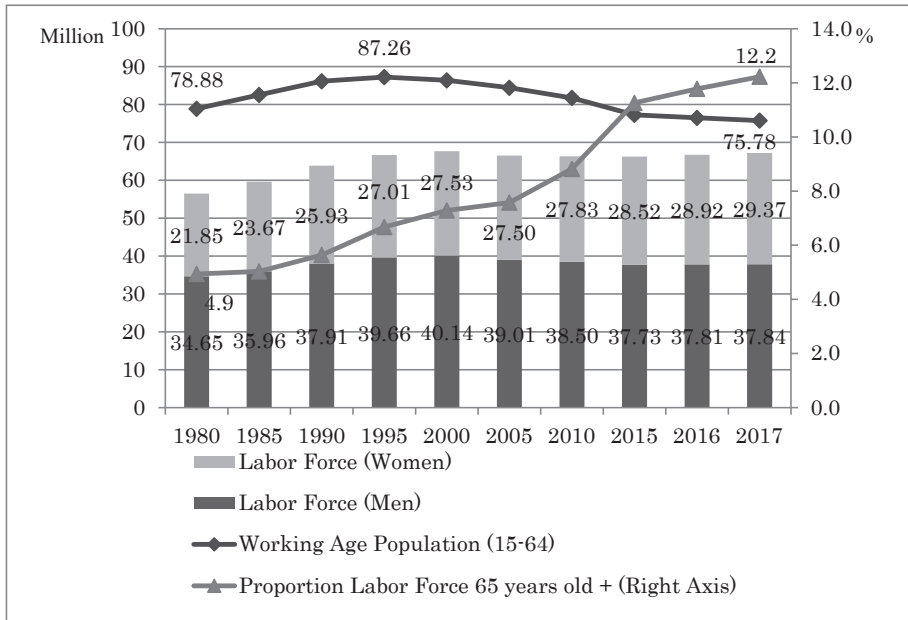


Figure 3. Evolution of the Japanese Working Population (1980-2017)

Source: author's calculation based on the Statistics Bureau of Japan (Labor force survey), Ministry of Internal Affairs and Communications (National population Census), and the National Institute of Population and Social Security Research (Population projection for Japan, 2017)

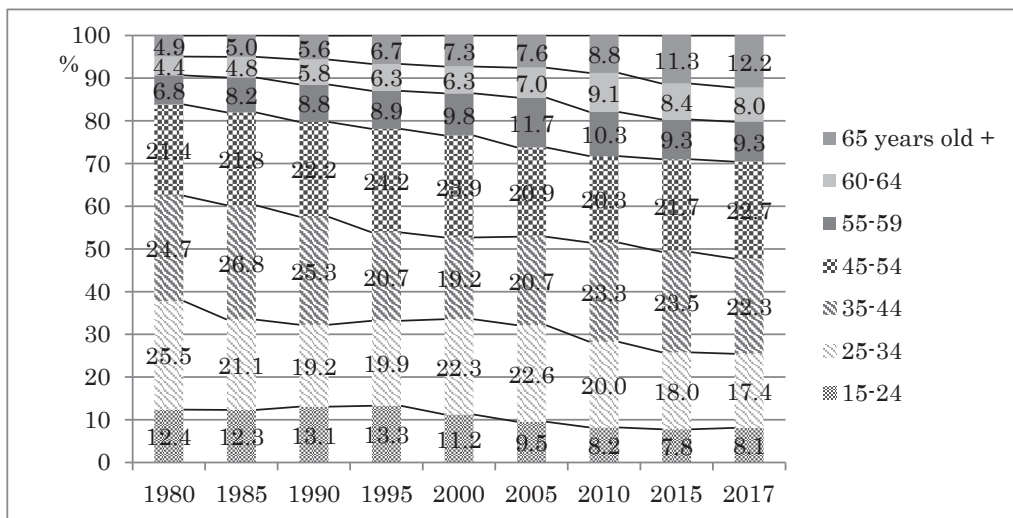


Figure 4. Age Structure of the Working Population (1980-2017)

Source: author's calculation based on the Statistics Bureau of Japan, Labor force survey

considerably during the second half of the 20th Century. The ratio of job offers to job applicants reached a historical peak close to 1,8 in 1973 before the October 1973 oil crisis, with a constant growth since 1965 (0,65). It especially favored the first generation of baby-boomers and those born in the first half of the 1950s when they entered the labor market in the 1960s. Between 1975 and 1987, this ratio varied between 0,6 and 0,8, and the 'bubble economy' (1987-1991) proved efficient for the jobseekers (1,4 in 1991). The situation worsened significantly for the second generation of baby-boomers (8 million births between 1971 and 1974) and the following generations, from 1991 to 2005, period referred to as the 'employment ice age period' (*shuushoku hyougaki*). The 1991 Japanese Financial and the 2008 Global Financial Crises affected badly the labor market, but since 2012, Japan has been experiencing again a period of labor shortage.

Those are the historical roots of the Japanese dual labor market, characterized by a primary labor market (composed of regular employees in large firms whose wages growth is determined by the age, the job seniority, and the level of education) and a secondary market (regular and non-regular workers in small and medium-sized enterprises, whose basic wages are lower and less bound to the level of education, age and seniority). According to Ishikawa and Dejima (1994, p.203), in the early 1990s, 32.3% of men, 20.5% of women, and on average 28% of both men and women formed the primary labor market, and the secondary market consisted of 46.4% of men, 63.9% of women, and on average 52.9% of total employees. Nomura (1998) also divided the Japanese working population into three categories: the Large Firm type, the Self-employed type and the Small and Medium-sized Enterprises type. In his view, regular employees in large firms having a seniority wage cover 30%, self-employed and family workers that became often non-regular employees 40%, and regular employees in SMEs 30% of the working population in the 1970s and 1980s.

The dual nature of the Japanese labor market is mostly caused by the firm-specific skills and career systems, preferred in Japanese large firms to the position-based system to promote workers prevalent in U.S. for instance (Koike, 2016). In turn, these practices created not only strong barriers to the workers transfer (*tenshoku*) between large firms and SMEs, but also across large firms. The two labor markets are strongly segmented, and the transfer from one to the other is quite impossible. Another important feature is the way large firms designed their promotion systems. This was

not the result of a uniform, national or industrial-level negotiation process, but rather firm-specific ranking systems of positions. Each firm defining its own jobs classifications, statuses and promotion criteria and ladders, it is pretty difficult in the midst of a career to find an upper-level position in another firm than the one that hired the worker after his, her graduation. For a similar job, the wages vary intensively between firms. The harmonization of the wage structures was a major concern in the 1980s, however the practices did not evolve much. This is mainly due to the lack of a national qualification system that assesses the level of education and experience. On the contrary, there are several distinct 'labor markets' in Japan with high socioeconomic inequalities.

Meanwhile, a new pattern appeared in the composition of the working population.

Permanence and evolutions of the dual labor market: regular and non-regular employees

The structuration of the primary and secondary labor markets is largely caused by the labor shortages in the 1950s-1960s. The State played a minor role compared to that of the large firms throughout the process. In contrast, in the 1980s the Japanese governments established several guidelines, and enacted laws to promote more flexibility and to counterbalance the growing labor costs. The Japanese government revised in 1985 the Law for Special Tax Exemption for Spouses (the system was first designed in 1961), and the Equal Employment Opportunity Law, and in 1986 a reform of the Pension System so that the spouses earning less than 1,03 million yen and 1,3 million yen per year receive special taxes deductions, and the Ordinance for Dispatched Workers (*hakenroudousha*). How did the 1980s reforms impact the Japanese labor market? They were officially designed to promote gender equal treatment and help encourage women to join the primary labor market. In reality, firms used them as incentives to employ women as part-time workers, to reduce their wages, and to employ more non-regular employees than regulars', especially in the service industry. They institutionalized this dual labor market regime, and consolidated a socio-political representation of the household, where married couples, housewives part-time workers, middle-agers men full-time workers (30-44 years old and 45-60 years old) are the core

categories. However, the postindustrial Japanese society shifted away from this model, with the rise of divorces, single-parent families, and adult celibacy. As a consequence, the historical political construction of the Japanese social security system does no longer fit with the current social structure.

Furthermore, the official categorization of regular and non-regular employees was introduced in 1982, and the causes of the non-regular employments are widely discussed (Tarohmaru, 2017). Based on these regulations, the two populations followed a diversification path. In the 1990s and 2000s, the Japanese labor market underwent two critical changes. The primary labor market was relatively stable (in terms of population and employment, working conditions of regular employees in large firms), while the peripheral workforce substantially increased and changed in nature (*see* Table 1). As a matter of fact, the social inequalities' roots grew deeper, and the downward social mobility of some middle class workers created a sense of insecurity in the population.

Table 1. Structure of the Japanese Employed Population (Million, %)

	Employees (excluding self-employed, family workers, and executives of companies or corporations)							
		Regular	Non-regular					Others
			Part-time workers	Temporary workers (<i>arubaito</i>)	Dispatched workers	Contract · commissioned workers		
1990	43,69	34,88	8,81	5,06	2,04		1,71	
	100	79,8	20,2	57,4	23,2		19,4	
2000	49,03	36,30	12,73	7,19	3,59	0,33	1,62	
	100	74	26	56,5	28,2		12,7	
2010	51,38	33,74	17,63	8,52	3,44	0,96	3,30	1,37
	100	65,7	34,3	48,3	19,5	5,4	18,7	7,8
2019	56,69	35,03	21,65	10,47	4,72	1,41	4,19	0,86
	100	61,8	38,2	48,4	21,8	6,5	19,4	4

Source: author's calculation based on the Statistics Bureau of Japan, Labor Force Survey

Overall, every category of workers was affected by these regulations, with a substantial and continuous expansion of non-regular workers. In details, young and old men and women, and women between 40 and 60 years old saw their employment conditions worsening (see Figures 5 and 6). Young men (25-29 years old) that encountered difficulties to find a regular job became a critical social issue between the mid-1990s and 2008, while young women have been facing similar barriers since the second half of the 1980s. More important, it affects especially high school graduates, whose opportunities to enter the primary market reduced constantly. Even though throughout the period the ratio of job openings to job applicants is higher for high-school graduates than university graduate students, they have less chances to hold the same job three years after they obtained it. This mainly explains the reason why most families encouraged their children to enter universities, with the hope to give them higher chances to join the primary labor market. The relative low amount of the retirement pensions and allowances explain that old people have a high labor participation rate, and are excluded from the primary labor market.

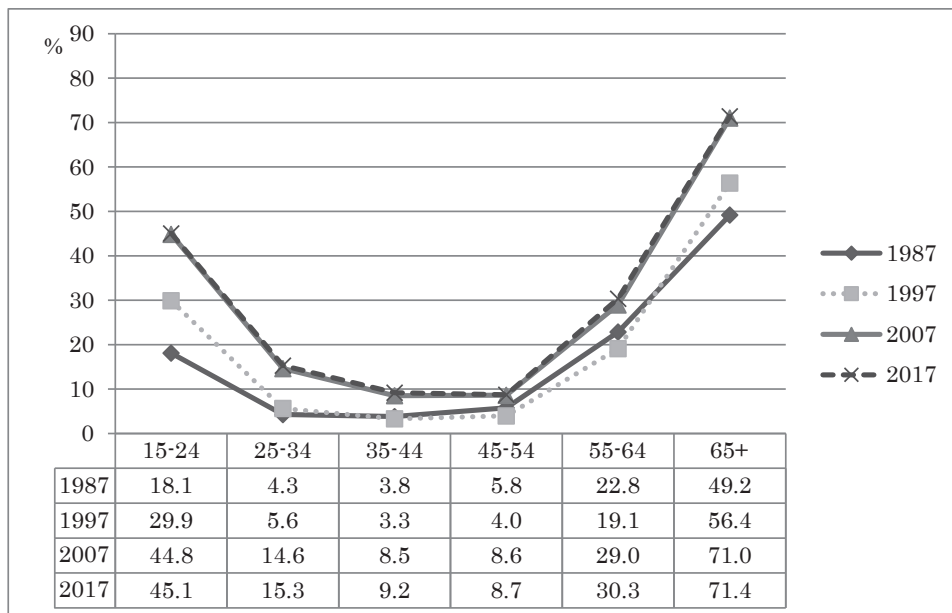


Figure 5. Ratio of non-regular employees on total employees (1987-2017) (Men)

Source: author's calculations based on the Statistics Bureau of Japan, Labor Force Survey

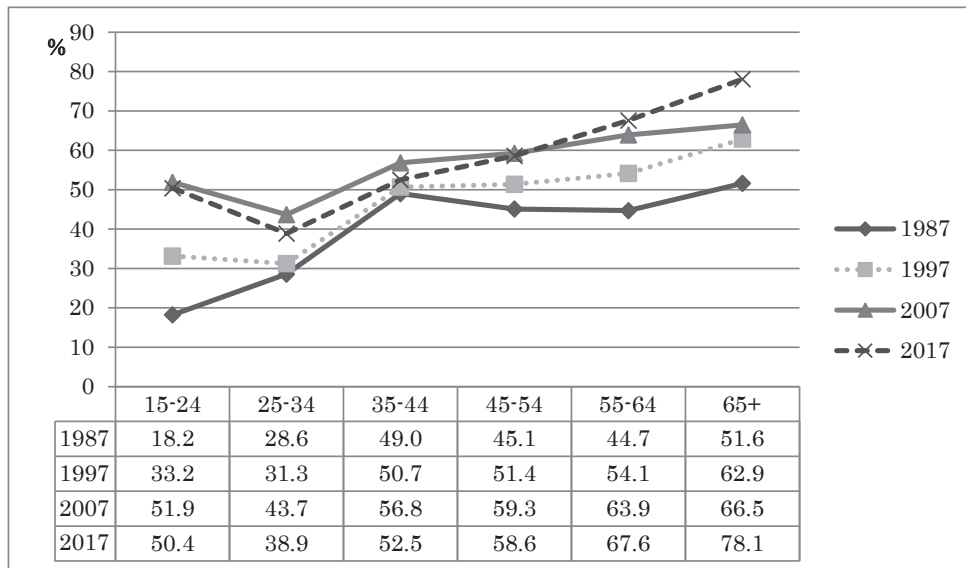


Figure 6. Ratio of non-regular employees on total employees (1987-2017) (Women)

Source: author's calculations based on the Statistics Bureau of Japan, Labor Force Survey

Finally, when looking at the gender division of labor, the most noticeable change that occurred during the past thirty years is the worsening of the employment conditions of women aged between 40 and 60 years old. After 40 years old, women face more difficulties to find a regular job in 2020 than in the late 1980s. The labor market became more competitive for these women in the 2000s. The two promotion tracks and two different categories of occupations for the regular employees defined by the 1985 law, the 'professional occupations' (*sougoushoku*) and the 'regular occupations' (*ippanshoku*), can be interpreted as a signal of the institutionalization of the gender division of labor. The first category basically covers managerial positions with high potential of career promotion, while the second encompasses administrative, clerical and assistant jobs with few promotion perspectives outside the occupation ladder and scope. A survey of 118 firms held by the Ministry of Health, Labor and Welfare between April 2014 and March 2015 shows that 22,2% of employees hired as 'professional employees' and 82,1% of newly hired 'regular employees' were women in April 2014 (Ministry of Health, Labor and Welfare, 2015, p.3). The same survey also highlights that among women hired as 'professional employees' in April 2004, only 7% became subsection chief (*kakarichou*) or section chiefs (*kachou*) (22,4% of men), and 33,1% moved to 'regular occupations' (38,1%

of men) ten years later. This clearly indicates that this dual system of employees hiring and promotion does not follow a gender-equal treatment. Even if women are hired as regular employees in large firms, they still occupy subaltern positions with fewer promotion perspectives than their men colleagues.

That being said, how did these evolutions affect the dual labor market? Basically, in large firms, several incentives (as described above) shaped closed internal labor markets, men regular employees staying in the same firm for a long period of time. As for the non-regular employees, whatever the category they fall into, the job tenure is shorter and they are expected to change frequently occupations and firms. The stability of the primary labor market is contrasted by the high volatility of the secondary's. In the first half of the 1990s, the number of workers who changed firms (labor turnover) was about 2,5 million people per year, and it gradually expanded to reach around 3,5 million workers in 2007. Between 2007 and 2012, the labor turnover declined, but mostly women employees kept a high labor turnover, still after the period of labor shortage starting in 2012. From 2,8 million in 2012, it reached again the 2007 peak of more than 3,5 million people in 2019. For the young generations (15-34 years old), from the 1990s until the mid-2000s, this high turnover rate is explained by the difficulty to find an adequate job just after the graduation, and then the willingness to accept other jobs with the hope to get hired in a firm or for a job that corresponds to the freshmen's expectations few years later. This is indicated by the diminution during that period of the retention rate of high school graduates after three years of job tenure (more than 55% to less than 50%), and university graduates (71% to 64%). Shedding light on the gender differences, they are very obvious. Men whose first jobs were regular ones have a far lower risk than those having a non-regular job to change firms more than once in their careers. On the contrary, whether a woman is hired as a regular or non-regular employee, the turnover rate is high and not significantly different regarding the employment category. This is related to the fact that women who found a regular job can hardly get another one again when they try to re-enter the labor market after having given birth to one or more children (Cabinet Office, 2019, pp.76-97). Moreover, in 2019, it is still tough to move from a non-regular job to a regular one (less than 400,000 workers, 1,1 million from non-regular to non regular within one year).

From the early 1990s to 2005, the growth of non-regular employees coupled with the
Kyoto Journal of Sociology XXVIII / December 2020

decline of job offers and difficulties in entering into the labor market for the second baby-boomers generation, exacerbated the divide between the primary and the secondary labor markets. Moreover the primary labor market did not evolve much in terms of employment and wage conditions, while the secondary saw a diversification of the precarious employment statuses. The next section inquires the principal causes of these evolutions.

Socioeconomic inequalities and precarious employment

Large firms played a major role in the establishment of the dual labor market. How did the evolution of the firm demographics and dynamics, and the development of the service industry, alter the Japanese labor market? First, one should consider the distinction between firms based on their sizes as a sociopolitical construction that can hardly reflect the real nature and differences of firms in different industries. In Japan, the official definition of small and medium-sized enterprises relies on the type of activities and the industry sector (*see* table 2). In 2016, 11,000 large firms (0,3%), 530,000 medium firms (14,8%) and 3,048,000 small firms (84,9%) were reported. The employees are distributed as follows: 14,6 million employees (31,2%) in large firms, 21,7 million employees (46,5%) in medium firms, and 10,4 million employees (22,3%) in small firms. Overall, roughly 69% of the Japanese employees work for SMEs.

Table 2. The definition of small and medium-sized enterprises

Industry	Small and medium-sized enterprises		Small-scale enterprises
	Capital (million yen)	Employees	Employees
Manufacturing & others	Less than 300	Less than 300	Less than 20
Wholesale trade	Less than 100	Less than 100	Less than 5
Services (others)	Less than 50	Less than 100	Less than 5
Retail trade	Less than 50	Less than 50	Less than 5

Source: Small and Medium Enterprise Agency, 2019 White Paper on Small and Medium Enterprises in Japan

One major transformation is the growing number of people working for larger firms

(see Figure 7). Since the end of the 1970s, the firms have been growing bigger, and since 2008 more than half of the Japanese employees work for firms with more than 100 employees. This evolution suggests at first glance that most of these workers find stable jobs in the primary labor market in large firms. However, a new tendency characterizes the labor policies of large firms: they tend to hire a larger number of non-regular workers than in the 1980s. The role of the firm size is then less determining in the clear-cut division of labor framed in the 1950s-1980s. This is mainly due to the diversification of firms' employment policies and practices, and the deindustrialization that characterizes the recent Japanese economic growth pattern. Indeed, the manufacturing industry that embodies the Japanese employment system is no longer the main provider of jobs in Japan.

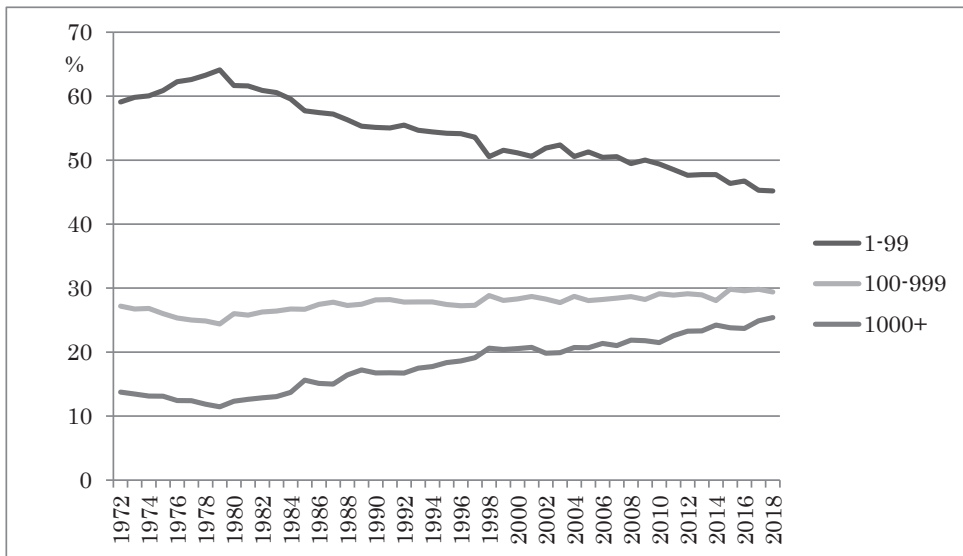


Figure 7. Evolution of employees population by firm size (1972-2018)

Source: author's calculation based on METI, Census of Enterprises

The manufacturing sector still employs more than 10 million workers, but it is followed by the wholesale and retail trade sector (25,4% of Japanese total firms, and 20,8% of Japanese employees), the accommodation, eating and drinking services (13%, 9,4%), the construction (9,2%, 6,5%), the living-related, personal services and amusement (8,8%, 4,3%) and the medical and social welfare services (8%, 13%). The tertiary sector accounts for respectively 81,6% of the total number of establishments

and 77,3% of the Japanese employees. Taken together, the wholesale and retail trade, the accommodation, eating and drinking services, the living-related, personal services and amusement, the medical and social welfare services represent roughly half of the firm population and the employees population (55,2% and 47,5%). These four industries employ 24,3 million people, among which 12,6 million are non-regular workers, roughly 61,2% of the total non-regular workers in Japan. Besides, in general, the enterprises in these four sectors, whether small or large, have a lower average number of employees compared to the national average (*see* Figures 8 and 9).

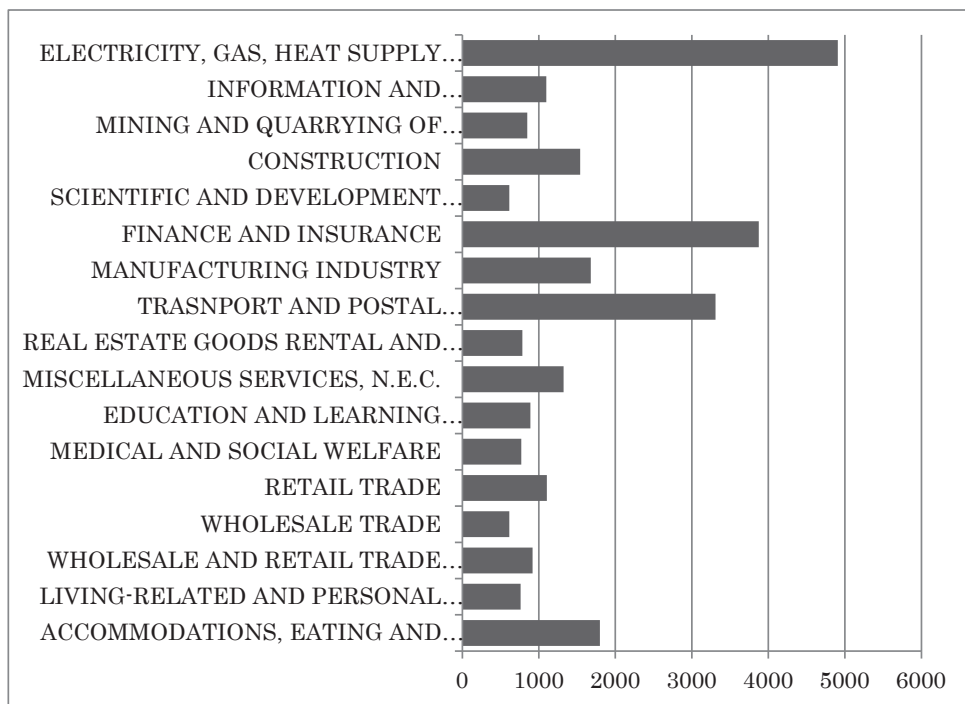


Figure 8. Sectorial comparison of the average number of employees in large firms

Source: author's calculation based on METI, Economic Census for Business Activity, 2017

Moreover, they have a high proportion of non-regular workers (*see* Figure 10), higher than the national average. The growth of those industries is a first explanation of the ongoing worsening of the Japanese employment conditions during the past three decades. They employ a high proportion of women, which are mostly non-regular employees (*see* Table 3). On the contrary, the proportion of men regular employees is very low in these sectors. Compared with the construction, manufacturing, transport

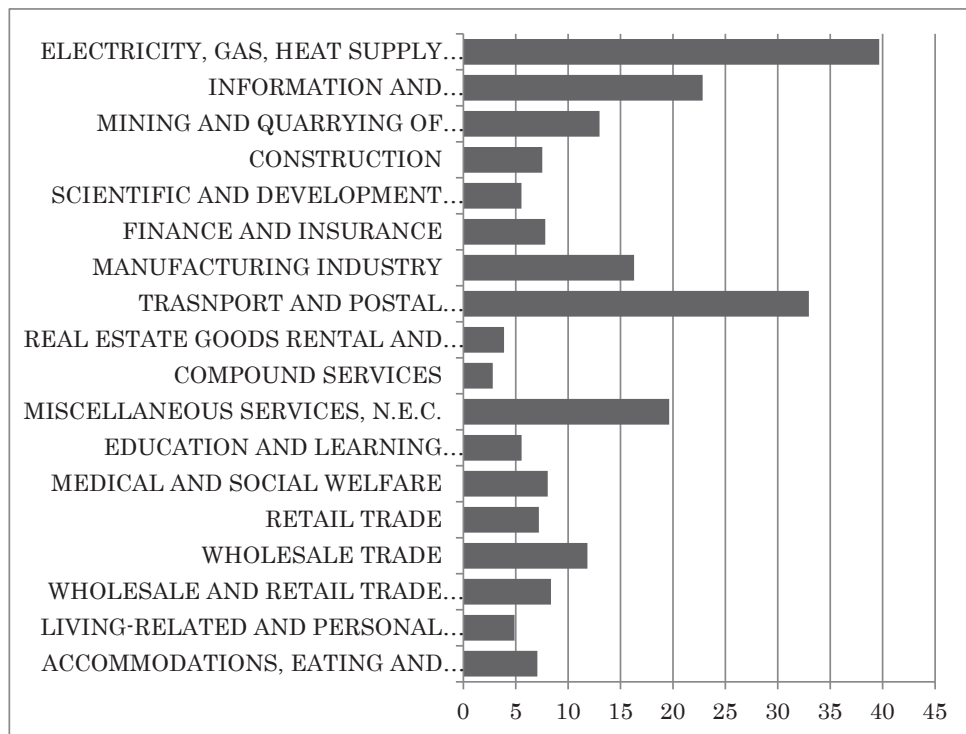


Figure 9. Sectorial comparison of the average number of employees in small firms

Source: author's calculation based on METI, Economic Census for Business Activity, 2017

and postal activities, information and communication, and the scientific and development research institutes industries, where the men regular employees still constitute the core labor force (the proportions of regular employees on total employees in each industry vary between 50 and 70%), the salary man as the main employment model is marginal in those service industries (not higher than 22% except for the wholesale and retail trade). Those industries are not only characterized by a high level of non-regular jobs, but also by the large majority of women in these positions (between 71 and 87%). Only the finance and insurance industry has a highest level (roughly 82%), but it should be reminded that in this sector there are much fewer non-regular jobs, and the average wage is the second highest after the gas industry (respective average yearly income, 6,31 million and 7,59 million yen). The third characteristic of the jobs in these four service industries lies in the low annual average incomes (National Tax Agency, 2019, p.17).

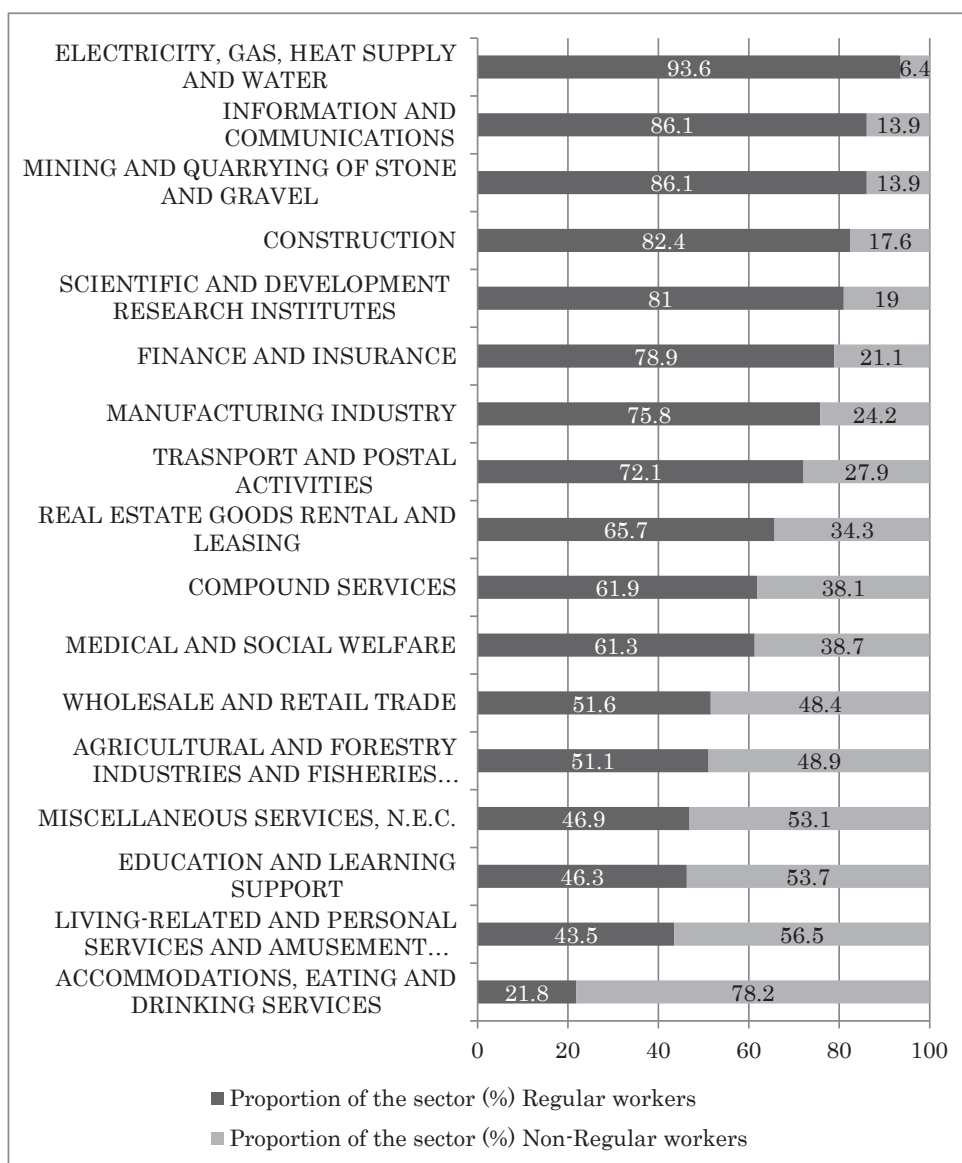


Figure 10. Structure of Regular and Non-Regular Workers per Sector (2016)

Source: author's calculation based on METI, Economic Census for Business Activity, 2017

Table 3. Sectorial comparison of precarious employment (2018)

Industry	Precarious employment (%)	Feminization (%)	Men regular employees (%)	Women non-regular employees (%)	Non-regular employees split (% women)
Construction	17,8	17,6	70,8	5,8	32,0
Manufacturing	26,3	29,8	59,2	15,6	60,0
Wholesale and retail trade	49,7	52,2	33,6	37,3	75,0
Medical and welfare	38,7	76,9	17,3	33,7	87,2
Accommodation, eating and drinking services	74,9	64	15,6	55,6	74,2
Living-related and personal services	57,7	61,1	21,1	41,1	71,3
Transport and postal activities	30,3	21,2	61,6	13,1	43,3
Education and learning support	39,5	56,3	31,3	27,5	69,6
Information and communication	17,3	26,2	65,0	9,1	52,9
Scientific and development research institutes	24,2	36,2	52,7	15,2	62,5
Finance and insurance	21,3	54,0	40,6	17,4	81,8
Real estate goods rental and leasing	38,0	39,7	41,3	19,6	51,4
Miscellaneous services, N.E.C.	50,1	40,9	37,0	29,2	58,3

Source: author's calculation based on METI, Census of Enterprises, Small and Medium Enterprise Agency, White Paper on Small and Medium Enterprises in Japan, Statistics Bureau of Japan, Labor Force Survey

Note: Precarious employment is the proportion of non-regular employees on all employees in the industry; the feminization indicates the proportion of women on all employees in the industry; Men regular employees and Women non-regular employees are respectively the proportion of men regular employees and women non-regular employees on all employees in the industry; non-regular employees split indicates the ratio of women non-regular employees on all non-regular employees in the industry.

The growth of the medical and social welfare sector and the re-composition of the wholesale and retail trade sectors notably transformed the nature of employment, the wage structure, and the labor relations. This cannot be eluded to explain the worsening of the employment conditions in Japan. Andrew Gordon clearly depicts this situation. “In these service industries (i.e. wholesale and retail trade), as well as in restaurants and bars, non-regular jobs *replaced* regular ones, with women gaining more non-regular posts and men losing more regular jobs. This differs not only from the simultaneous manufacturing story in which non-regular jobs did not come close to replacing regular ones. It also differs sharply from earlier experience in manufacturing, where ‘temporary workers’, including part-time women, were hired *in addition to* a growing force of regular employees. It matches the common sense notion of what has changed in Japan in recent decades: non-regular employment has increased at the expense of regular jobs and self-employment” (Gordon, 2017, pp.20-21).

The second noticeable development is the growth of non-regular employees, and the evolution of the wage structure in large firms. This tendency is even more decisive, since it implicates a fundamental change in the nature of labor relations in large firms. One should first notice that, even though an outsourcing process was underway in Japan in the 1990s (Hisamoto, 2003, pp.27-30), it mostly concerned firms with more than 100 employees at the cost of smaller ones (*see* Figure 11). Japan is well known for having established early on a system of subcontracting, which is from many perspectives different from the U.S. internalization and concentration process during the first half of the 20th Century (Fligstein, 1990). Due to a lack of internal capacity to meet the market demands during the high growth economic period, many large firms in the manufacturing industry outsourced different important parts of their production to subcontracting firms (*itaku seisan*). The most striking example is to be found in the automotive industry with the subcontracting of the final assembly of cars (Shioji, Nakayama eds., 2016). Outsourcing production, but also jobs and working processes, may affect the employment conditions of workers. This is especially true in Japan where there are few sectorial collective negotiations and agreements to determine standard wage scales, working time and other insurance allowances.

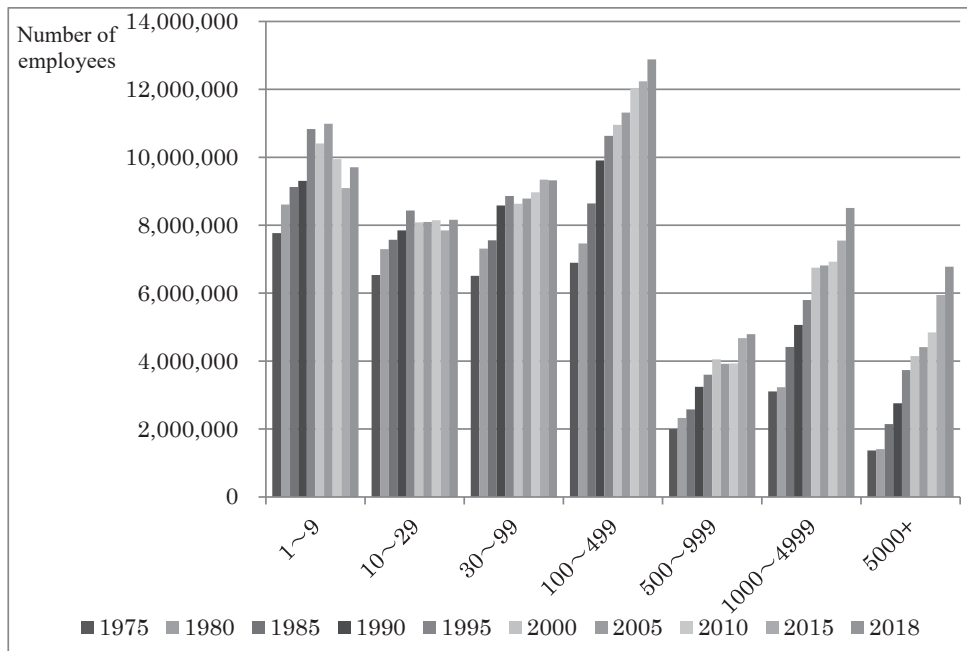


Figure 11. Evolution of employees' distribution by firm size (1975-2018)

Source: author's calculation based on METI, Census of Enterprises

Not only did Japanese firms outsource production processes, they also outsourced the unskilled jobs, and then kept in-house a highly-skilled core workforce. Since the 2000s, this 'employment implicit contract' has been threatened by the generalization and institutionalization of flexible employments and non-regular jobs in large firms. In firms with more than 500 employees, between 2002 and 2016, the number of non-regular employees increased by roughly 3 million workers. During the same period it slightly (roughly 200,000 employees) declined in firms employing 1 to 9 employees, and rose by 2,3 million workers in firms employing between 10 and 499 employees. One should also notice that in firms employing less than 99 workers, another overall trend is the shrinking number of regular employees (1,5 million regular jobs' decline) while it is stable in firms employing between 100 and 499 employees (roughly 6,8 million jobs). In large firms, a substantial augmentation is to be found in the population of part-time workers and dispatched workers (smallest firms employ less than 1% of dispatched workers). Overall, there is more than a two-fold increase of non-regular workers in large firms, and the growth of regular workers is not higher than 36% (Eguchi, 2018,

pp.43-46). In other terms, non-regular jobs are no longer confined to small firms; they became a new stratum in the division of labor in large firms.

This process had also a strong impact and pressure on the wages. Though the wage gap between large and small firms has been constantly decreasing since the mid-1980s (see Figure 12), it does not mean that wages grew substantially in small firms, but rather that the wage structures in large firms changed consequently. As noticed by many scholars (Arita, 2016; Genda ed., 2017), a recent paradox appeared in Japan. On the one hand, Japan entered again a period of labor shortage in 2012, period that might be pretty long due to the decline of the labor-age population, on the other there is no clear signal of wages increase in the labor market (see Figure 13). This paradox can be explained from several different perspectives, but the most determinant one is the role played by large firms in contributing to the development of a grey zone in the labor market.

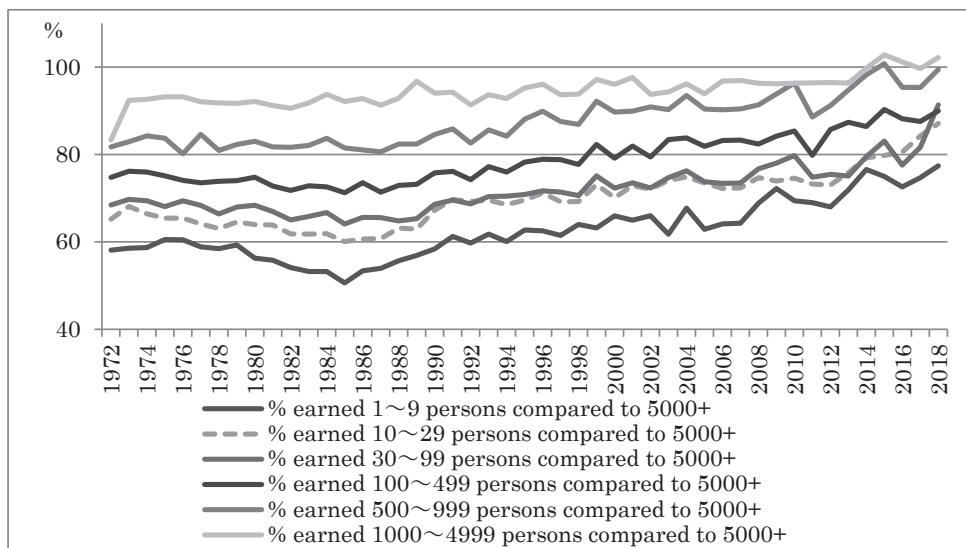


Figure 12. Evolution of the wage gap by firm size (1972-2018)

Source: author's calculation based on MHLW, Basic Survey on Wage Structure, 2019

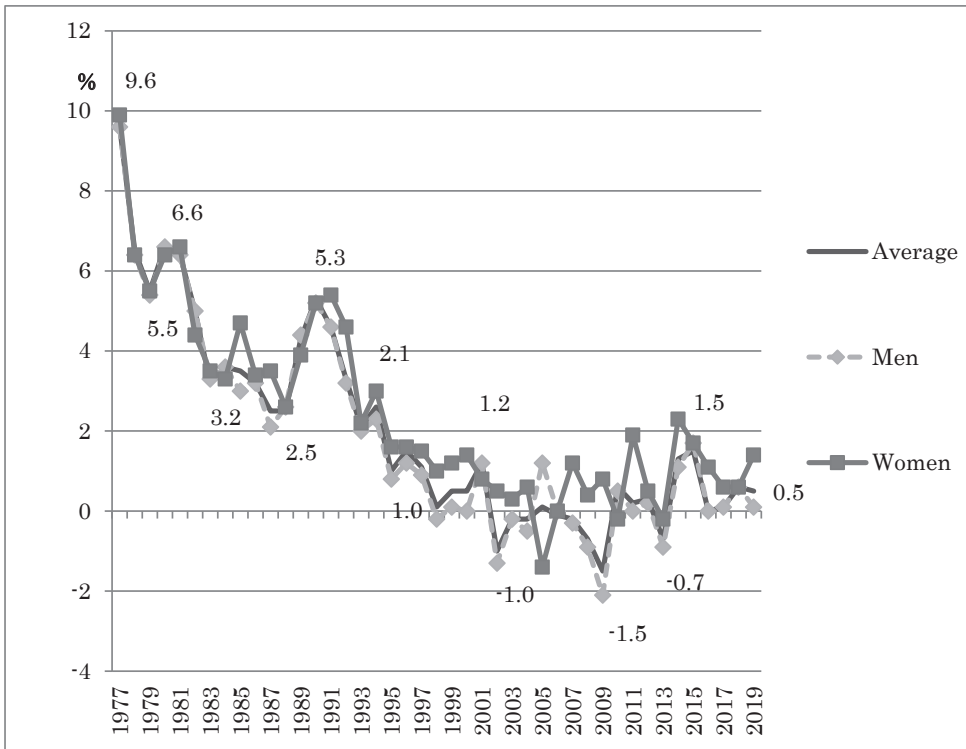


Figure 13. Wage Evolutions 1977-2019
 (Basic Wage YoY change, Firms employing 10+ workers)
 Source: author's calculation based on MHLW, Basic Survey on Wage Structure, 2019

First, one core element of the Japanese wage is the repartition between the basic wage (and allowances) and the bonus. In the 'traditional industries' (manufacturing, gas, information and communication, finance and insurance), the regular employees receive a basic wage and twice per year bonuses that are not related to their performances but to their job qualification. This bonus accounts nowadays for 19% of the total wages of the employees in these industries, while it reached a peak in the second half of the 1970s (*see* Figure 14). Regular employees especially in those industries still benefit from such specific incentives. In the labor-intensive service industries and the above-mentioned four industries that have seen a large increase of the working population, on average the bonus amounts vary between 7 and 15% of the yearly average income. For some non-regular employees who can receive bonuses, it does not exceed 5%. If one considers these different wage regimes, in order to reduce the labor costs, while the average working age is constantly growing, one important

tool is to keep the two labor markets (primary and secondary) well segmented. When hiring more non-regular employees for clerical jobs, favoring the turnover of this semi-peripheral labor force, the labor costs can be controlled and the highly skilled workers or the core workforce enjoy the same stable employment conditions than in the past. This is the story of the second major evolution of the Japanese employment system between the 1990s and 2020.

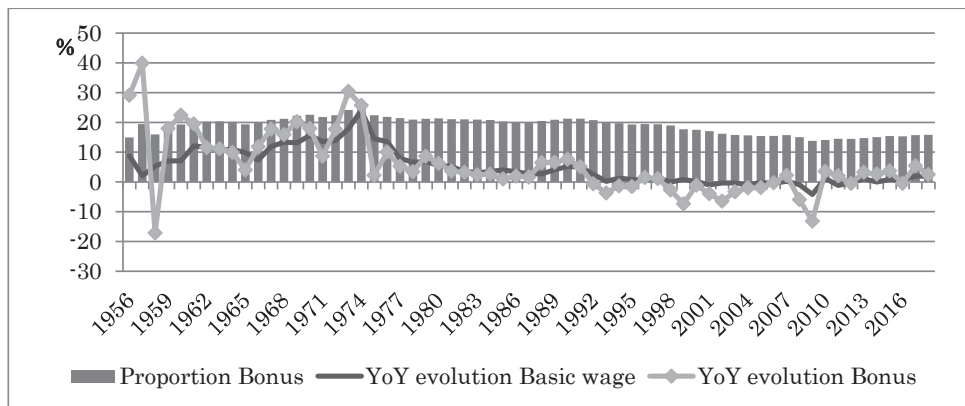


Figure 14. Evolution of wage structure (1 year employees)

Source: author's calculation based on MHLW, Basic Survey on Wage Structure, 2019

In addition, large firms created a new semi-peripheral workforce with specific employment conditions and wages. In firms with more than 500 employees, the number of employees with yearly income below 2 million yen skyrocketed between 2000 and 2018. From about 1,7 million workers, it jumped to 3,8 million (*see* Figure 15). In the same time, this population grew in firms with less than 99 employees, but not as intensively as in large firms. At the beginning of the 2010s, for the first time, this population became larger in big than in small firms. Moreover, this trend was remarkably significant in the biggest firms, between 1000 and 4999 employees, and more than 5000 employees (*see* Figure 16). This is the principal cause of the average yearly wage decline from 4,67 million in 1997 to 4,05 million in 2009, and the proportion of people earning less than 4 million yen growing from 52,2% in 1993 to 60,2% in 2009. In a period of labor shortage since 2012, the average wage increased again up to 4,4 million yen and the population earning less than 4 million yen diminished down to roughly 55% in 2018. However, those are economic cyclical changes that cannot hide the

fact that large enterprises tremendously impacted the segmentation of the labor force. By hiring more and more cheap non-regular workers to perform tasks that are not complex, and non-regular workers with lower wages that perform quite similar tasks than their 'regular' coworkers, they introduced a new layer of workers who can be referred to as 'regular non-regular employees'. Though there is no significant evolution between 2009 and 2019 regarding the ratio of non-regular employees' wages to regular ones', it is evident that the treatment of non-regular workers is more unequal in large firms for both women and men than in smaller ones (*see* Figures 17 and 18). This is more specifically true for middle-agers (39 to 59 years old) whose wages fall down between 65% and 47% to that of regular employees. In the smallest firms (less than 99 employees), it varies between 78 and 65%. It is also important to notice that within these ten years, the wage gap between non-regular and regular employees in SMEs decreased, for both men and women. It means that this category of non-regular employees in large firms became a core issue that needs to be taken into consideration to understand the future challenges facing the revitalization of the Japanese labor market, alongside the issue of women, young, and old workers.

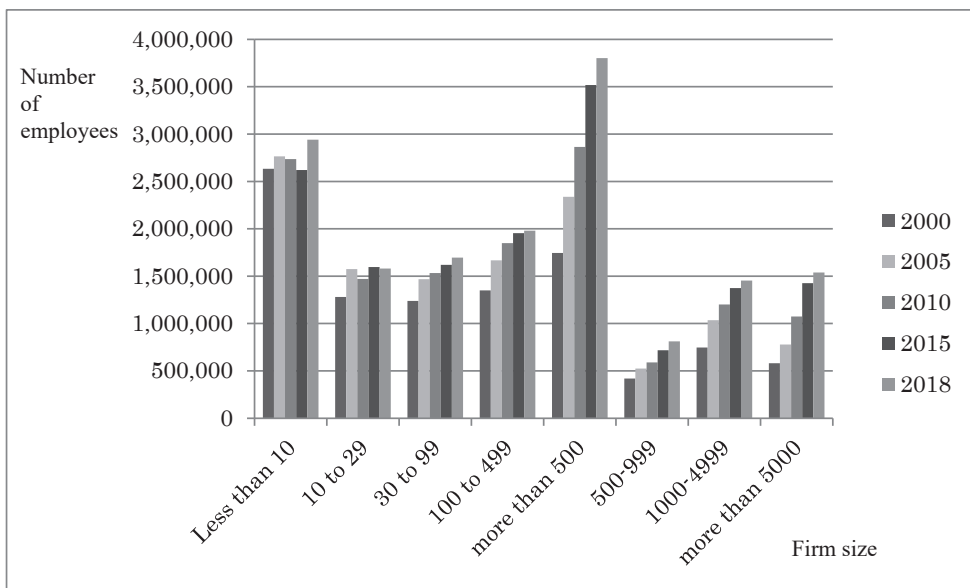


Figure 15. Repartition of employees earning less than 2 million yen per year

Source: author's calculation based on the National Tax Agency, Statistical Survey of Actual Status for Salary in the Private Sector

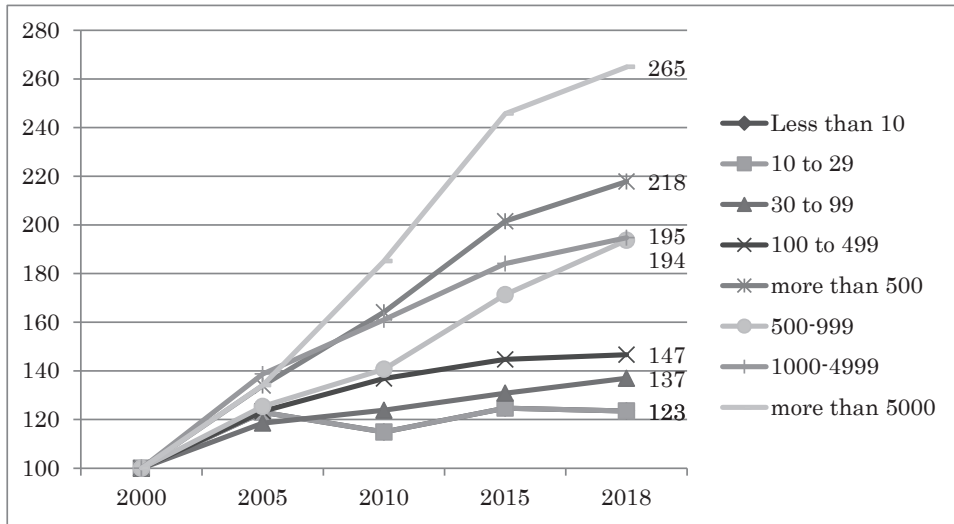


Figure 16. Evolution of the employees earning less than 2 million yen per year by firm size (100 in 2000)

Source: author's calculation based on the National Tax Agency, Statistical Survey of Actual Status for Salary in the Private Sector

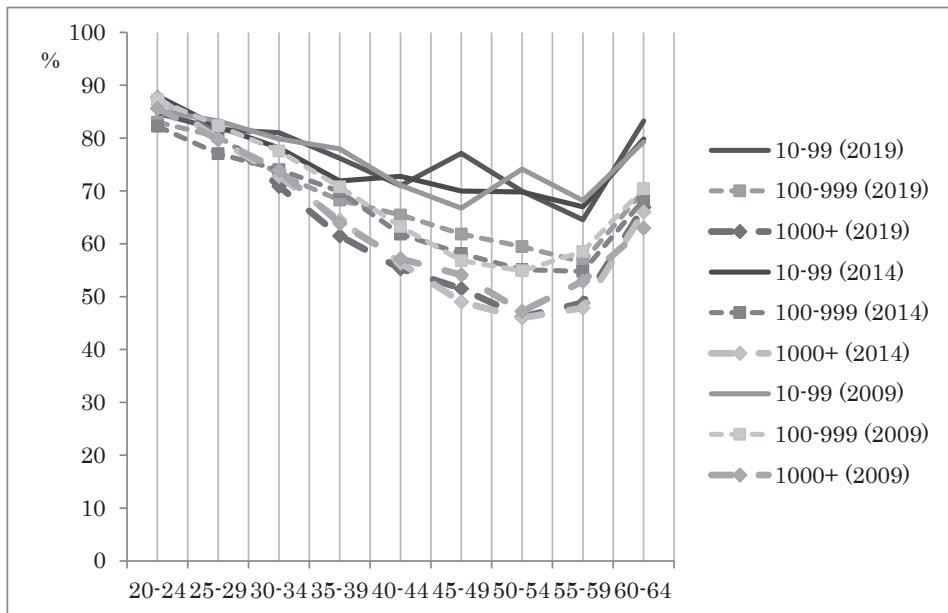


Figure 17. Ratio of income plus bonus, non-regular worker/regular worker (Men)

Source: author's calculation based on MHLW, Basic Survey on Wage Structure

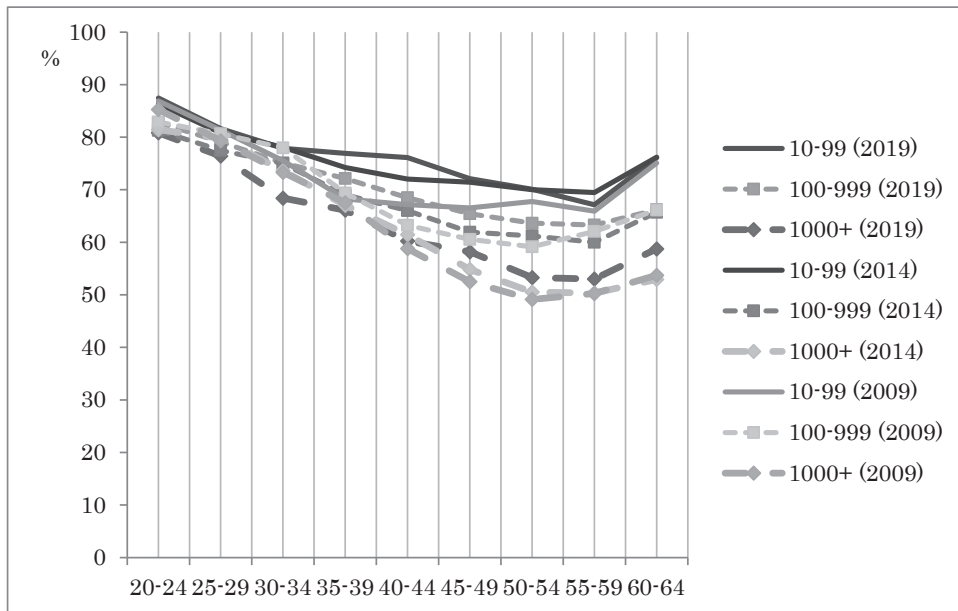


Figure 18. Ratio of income plus bonus, non-regular worker/regular worker (Women)

Source: author's calculation based on MHLW, Basic Survey on Wage Structure

Conclusion

Between the mid-1980s and 2020, the Japanese dual labor market has not significantly changed for the regular employees in large firms, but a diversification of the peripheral and semi-peripheral workforces occurred. The total number of regular employees has been pretty stable, between 32 and 38 million people and their employment conditions and wage regime have not much evolved. These firm-specific and closed internal labor markets are still a core institution of the Japanese labor market for the regular workers in large firms. In the same time, the decline of the self-employees and family workers (15 million in 1984, 6 million in 2018) cumulated with the expansion of the non-regular workers (6 to 21 million), especially in four sectors of the service industry, is one of the most remarkable trend observed in the labor market. The second main evolution is to be found in the large firms that, in the 2000s, began to hire more non-regular employees. This contributed not only to the blurring of the frontiers between large and small enterprises, but also to the appearance of a new semi-peripheral workforce. These workers do not have the same socio-economic statuses

than the regular employees, but share several common features with the 'traditional' non-regular workers: their wages are relatively low, they have higher labor turnover rates and shorter lengths of services in the same firm than regular employees, and finally they do not have the same access to the Japanese social security system.

In other words, the dual labor market has indeed evolved from its firm size centrism to a dualism between regular and non-regular workers both in large firms and SMEs. Less than one third of the Japanese working population enjoys the status of core workforce, and the socioeconomic inequalities are in the 2010s more diffuse in the Japanese society than in the 1980s. This worsening of the employment conditions in Japan coupled with the decline and ageing of the working age population is a major threat to the stability of the Japanese social security system, and the Japanese social structure.

That being said, this article especially sheds light on the transformation of one core institution of the Japanese society, the large firm and its working regime. Since the mid-1950s, large firms have both been a tool of social inclusion for a part of the society (the regular employees and their families), and of social segmentation by dividing the labor markets into two distinct groups. In the 2000s and 2010s, social exclusion became also a role for those firms, with the growth of non-regular employees whose socioeconomic treatment is close to that of the peripheral labor force. Does it mean that Japanese large firms have fundamentally and structurally changed over this period? This question needs to be assessed from other perspectives taking into consideration (alongside with the employment relations) the productive organizations, the structures of governance, the economic growth regime, and the internationalization trajectories of the Japanese biggest firms.

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