Comments on “Labor Market Adjustment to Globalization: Long-Term Employment in the United States and Japan”, by Henry Farber

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Main Contribution of the Paper(1)

1 - Empirical analysis on most recent changes of labor markets of both U.S. and Japan in a comparable way
   - Very precise empirical analysis by utilizing various variables to compare among different cohorts, using large individual dataset for the U.S.

2 - Clear-cut conclusion for the U.S. analysis, which contains a lot of policy implications
Possible change in long-term employment is an issue of concern for Japanese researchers, as well as policymakers. Limited number of studies deal with international comparison, covering very recent trends in the markets.
Japanese Labor Market after 1990

Paper points out...

- Young workers enter long-term employment at an earlier age than in the U.S.
- Lower mandatory retirement ages are set.
- Workers are shifting to non-regular jobs, especially female workers.

Other possible changes in market structure...

- Increase in job changes (both voluntary & involuntary)
- Young workers tend to search appropriate jobs more than before, after taking their first jobs.
Recent Trends of Long-term Employment in Japan (Permanent, Male)

- Average tenure falls among the young, while it rises among the elderly.
- Coefficient of variation declines for full-timers, grows for part-timers.

Source: Shimizutani & Yokoyama (2006)
Backgrounds for Japanese Long-term Employment

- Firms
  - High firing costs
  - (development and maintenance of firm-specific skills)
  - (transaction costs with labor unions)
  - Transfer or secondment to other firms

- Workers
  - Fairly large penalties for job changes

- Both firms & workers
  - Cultural factors (loyalties etc.)
Factors to promote to change long-term employment (1)

- The paper focuses on the growing competitive pressure for firms from globalization.

(Other possible factors)
- ICT substitutes regular workers to non-regular workers? (Uncertain impacts)
Factors to promote to change long-term employment (2)

- Changes in industrial structures lead to greater share of employment by service sectors, whose turnover is much higher than manufacturing.

- In the end, average tenure in Japan is (1985-2005); 45+ growing, 35-44 unchanged, 30- declining
Some Facts (Average tenure and share of part-time workers)

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Share of Parttime Workers (Male, Permanent)

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<td>0.7</td>
<td>1.2</td>
<td>1.9</td>
<td>2.6</td>
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Source: Basic Survey on Wage Structure
Recent Developments of Young Workers (1)

- More Active Job Search
  Prominent Growth of Young People (Age 15-34) who are looking for “Appropriate Job”
  3.72 million are currently employed (around 2/3, 2004)

One in every 5 young people (exclude those in school) are looking for “Appropriate Job Opportunities”.

⇒ They would find a “life-time job” at later ages.

Recent Developments of Young Workers (2)

- Separation rates are quite high among part-timers below 24. They become smaller (around 10%) for 35+.

Data: Employment Trend Survey (Ministry of Health, Labor, and Wealth)
Recent Developments of Young Workers (3)

- Background for the decline in average tenure (young workers)
  1. Higher educational achievement
  2. Increase in career-changers
     - Changes in preference
     - Severer work conditions
     - Decline in full-time job opportunities for new graduates
Recent Developments of Young Workers (4)

- Rapid decrease in the proportion of full-time workers among new school graduates
  - University graduates 98.0%(1994) → 89.0%(2004)
  - High school graduates 85.6%(1994) → 64.1%(2004)

- More young workers wish to change jobs simply because they are hard.

Recent Developments of Young Workers (5)

- Voluntary separation rates remain high (or even growing) among full-time workers.

Data: Employment Trend Survey (Ministry of Health, Labor, and Wealth)

The paper points out that:
Firms depend on worker transfers or secondments to avoid dismissals.

Data shows that:
Around 20% of small and mid-sized establishments have executed dismissals.
(1991-2001 Pooled data of establishments)
Recent Development of Firms (2)

Data: Employment Trend Survey (Ministry of Health, Labor, and Wealth)

Separation Rate (Involuntary Reasons)

Recent Development of Firms (3)

- Senior workers have been dismissed as well as young workers.

**Average Age of Dismissed /Current Workers**
(1991–2001 Average)

<table>
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<th>Establishment Size</th>
<th>Dismissed Workers</th>
<th>Current Workers</th>
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<tbody>
<tr>
<td>Large (800–1,200 employees)</td>
<td>42.9</td>
<td>39.6</td>
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<tr>
<td>Middle(1) (170–220 employees)</td>
<td>41.5</td>
<td>40.6</td>
</tr>
<tr>
<td>Middle(2) (50–60 employees)</td>
<td>39.2</td>
<td>41.0</td>
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<tr>
<td>Small (10–15 employees)</td>
<td>36.9</td>
<td>39.7</td>
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Data: Employment Trend Survey (Ministry of Health, Labor, and Wealth) Special Tabulation
Additional Facts of Firms

- Only 15% firms feel the necessity of fundamental review of lifetime employment. (Will basically maintain the practice...36%, Partial adjustment is inevitable...40%)

  source: Survey on Corporate Human Resources Strategies and Workers’ Attitudes Toward Work (2003), The Japan Institute of Labor

- Almost all firms replied they employ mandatory retirement system in 2003 MHLW survey.

  Source: Survey on Employment Management 2003, Ministry of Health, Labor and Wealth
Summary (Japanese Long-Term Employment)

- Remains unchanged, while some parts of the market have started to shift to short-term employment.

- Firms sometimes do use dismissals by means of employment control in some sectors, and even senior workers have been dismissed.
Summary (Japanese Long-Term Employment)

- On the other side, firms still stick to long-term employment, particularly for the “core” part of their employees.
- Therefore, once workers matched to secure jobs, their tenure would be long, while if they fail to do so upon graduation, it might be hard to find “life-time” employment.