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Japan's Changing Economy and Women Workers

Women's Employment in the 1990s

Recently, during an interview, a journalist suggested to me that women are unhappy because their husbands are not earning enough. As a result, they cannot be full-time housewives and must still work. The implication is that women are not interested in working and want to depend on their husbands, but in today's bleak environment men can no longer fulfill the breadwinner's role. I responded that the premise was misguided. The desire of women to withdraw from the labor force less reflects their desire to assume traditional housekeeping roles than the failure of corporate Japan to tap women's potential and integrate them more fully into the labor force. Women still face tremendous obstacles in pursuing careers and balancing their career aspirations with family responsibilities. It is not that women want to rely on the dated breadwinner model, but rather, they are given little choice. Very few women continue their careers after marriage and giving birth, and a high proportion of the most educated women never return to the labor market after giving birth. This squandering of valuable and talented women is the real story, a story of corporate and government policy shortcomings.

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Tremendous change is taking place in women's employment in Japan. The paid employment rate for women in general has risen from 29.5 percent in 1980 to 38.4 percent in 2002, while the rate for married women rose from 26.4 percent in 1980 to 37.2 percent in 2002. However, despite this rapid increase in the rate of labor force participation, much of it involves nonstandard employment, meaning that women are not entering and remaining in the core, full-time labor force in significantly higher numbers. This explains why the gender-based wage gap remains one of the widest among advanced industrialized nations.

The university enrollment rate for women has risen rapidly in the past decade from 15 percent in 1990 (compared with 33.4 percent for men) to 33.8 percent by 2002 (47 percent for men). Thus, the gender gap in university enrollment has narrowed over the past decade. However, higher education for women in Japan has not translated into significant improvements in career opportunities for those who get married. Women remain underrepresented in the top echelons of management and only 68 percent of women with a four-year degree are working compared to 90 percent in Sweden, 87 percent in England, and 84 percent in France. This low employment rate for educated women in Japan is an indictment of existing employment policies and practices.

Table 1 shows an increase in the percentage of women who are or have been enrolled in universities, as well as an increase in the percentage of women in paid employment (employment figures are for women ages twenty-five to twenty-nine). More highly educated women are more likely to work full-time and more likely to postpone marriage. For them, there is a stark choice between being a career women or a mother because it is difficult to reconcile the competing demands of home and work. Table 2 shows the percentage of women in different age groups who are single. In 1970, 80 percent of all Japanese women were married by the age of thirty; today only 46 percent of them are married. Moreover, the proportion of unmarried men is also increasing. In 2000, 42.9 percent of men ages thirty to thirty-four remained single. This postponement or evasion of marriage by both sexes is one of the main reasons

Table 1

Women's Educational Attainment and Employment Rate (%)

	Educational attainment	Employment rate (ages 25–29)
1975	14.0	29.4
1980	12.0	36.2
1985	14.0	43.0
1990	15.0	52.9
1995	23.0	57.7
2003	34.0	65.2

Note: “Educational attainment” refers to the percentage of women who are or have been enrolled in universities or colleges.

Table 2

Single Women by Age Group (%)

	Ages 25–29	Ages 30–34	Ages 35–39
1970	46.5	11.6	4.7
1980	55.1	21.5	8.5
1985	60.4	28.1	14.2
1990	64.4	32.6	19.0
1995	66.9	37.3	22.6
2000	69.3	42.9	25.7

why the Japanese fertility rate has fallen. In 1970, the total fertility rate was 2.13, while now it is around 1.32, a figure that carries various stark implications, including a looming shortage in the labor force and the approaching insolvency of the pension and medical care systems.

While women's participation in the paid labor market has risen rapidly, the tendency to withdraw from work after marriage or after giving birth to the first child, effectively ending a full-time career trajectory, remains high in Japan. In most advanced industrialized

countries, an increase in women's participation leads to an increase in married women's labor force participation because women continue to work after marriage or giving birth. Although more women continue to work outside the home and the number of such working mothers is increasing, a majority of women in Japan quit at the time of marriage or childbirth.

For instance, among Japanese women born between 1948 and 1963, 84 percent worked before marriage, but only 41.5 percent held on to outside jobs after marriage, and then only 17 percent kept working after the birth of the first child. In the United States, more than 90 percent of women in the same cohort work, and 70 percent of them work full-time. This figure does not change after marriage. At the time of the first birth, this number declines to 80 percent and some women move from full-time to part-time, but most of them remain employed (Cassirer 2003: 333).

Not only women in Japan but also women in Germany and the United Kingdom often interrupt their careers when they give birth due to a lack of child-care facilities. But what makes the Japanese case unique is the relatively weak correlation between accumulation of human capital (work experience and education) and the probability of continuing to work. It is true that well-educated women are more likely to continue to work even after marriage or childbirth. However, those percentages are still small, and once they quit (and a vast majority do so), the probability of reentry is negatively correlated with education. Thus, less-educated women are more likely to rejoin the workforce after quitting to bear and raise children.

Due to the decline in the birthrate, Japan will experience pension insolvency, labor force shortages, reduced tax revenues, and lower consumption. The demographic time bomb is ticking away. Defusing this bomb is the great challenge facing Japanese policy makers today. Clearly, more family-friendly policies are needed that will enable couples to better balance the demands of home and work. It is important to understand how policies disadvantaging women are also disadvantaging the economy in general by squandering scarce resources that Japan can ill afford to squander.

Economic Reasons Why More Women Are Working

Overall, there are two main reasons why women are working outside the home. As more women enroll in university, their aspirations have risen and they want to do something with the knowledge that they have accumulated. Using the language of economists, we can say they would like to increase the return on their investment. In addition, it seems likely that the decline in job security reflected in rising unemployment rates motivates some married women to retain their jobs.

Table 3 shows the trend of unemployment rates by gender. In the 1980s, Japan's unemployment rate fluctuated between 2.0 percent and 2.8 percent. However, this rate increased from 2.2 percent in 1990 to 5.5 percent in 2002. Moreover, the female unemployment rate always exceeded that of men until 1996, when the male unemployment rate began to exceed that of women. In 2002, the male unemployment rate rose to 5.5 percent while that of women stood at 5.1 percent. Of course, there are anomalies in how unemployment rates are calculated that may understate women's real unemployment rate, but the figures indicate that job security for men is declining—meaning that women have more of an incentive to continue working after marriage.

One of the reasons why the unemployment rate is lower for women is that most of the job growth in the 1990s has been concentrated in nonregular jobs, mostly part-time jobs. Such nonstandard work is relatively flexible and allows women to balance work and home responsibilities.

In addition, the rate of growth in male earnings has also stagnated. Table 4 shows the male to female earnings ratio among regular workers (*seishain*). The gender wage gap narrowed between 1980, when women earned 58.9 percent of what men earned, and 2002, when they earned 66.5 percent. One reason for this is the recent decline in male earnings. From 2001 to 2002, male earnings actually fell 1.6 percent from the previous year.

Thus, not only are women's employment opportunities expand-

Table 3

Unemployment Rate by Gender (%)

	Male	Female
1985	2.6	2.7
1986	2.7	2.8
1987	2.8	2.8
1988	2.5	2.6
1989	2.2	2.3
1990	2.0	2.2
1991	2.0	2.2
1992	2.1	2.2
1993	2.4	2.6
1994	2.8	3.0
1995	3.1	3.2
1996	3.4	3.3
1997	3.4	3.4
1998	4.2	4.0
1999	4.8	4.5
2000	4.9	4.5
2001	5.2	4.7
2002	5.5	5.1
2003	5.5	4.9

ing, but men's employment opportunities are shrinking and their earnings are declining, meaning that more women have to work to provide supplementary income. In fact, in about 60 percent of all families both the husband and wife work.

Globalization of the Economy and Growth in Nonstandard Work Arrangements in Japan

One of the notable recent changes in the Japanese economy is the growth of nonstandard work arrangements. From 1982 to 1997, 77 percent of net job growth in paid employment was accounted for by the growth in part-time employment.

Table 4

Gender Wage Gap Among Regular Workers

	Percent
1980	58.9
1985	59.6
1990	60.2
1991	60.7
1992	61.5
1993	61.6
1994	62.0
1995	62.5
1996	62.8
1997	63.1
1998	63.9
1999	64.6
2000	65.5
2001	65.3
2002	66.5
2003	66.8

The rapid increase in part-time employment is driven, in large part, by demand-side forces, and reflects strains in the Japanese industrial relations system. During the early 1990s, when the economy first went into recession, vacancies for both full-time and part-time positions fell. Since the early 1990s, vacancies for part-time positions have soared, more than doubling between 1993 and the second quarter of 2000, while vacancies for full-time positions have continued to decline. Applicants for part-time and full-time positions have risen steadily during the 1990s.

Increased demand by firms for part-time workers has been accommodated, to some degree, by an increased supply of women workers, who have sought part-time employment because of the decline in opportunities for self-employment and family employment. In addition, public policy has encouraged the growth of part-

time employment by providing substantial tax incentives both for firms to hire part-time workers and for workers to work part-time. In 2001, 30 percent of working women between the ages of twenty and twenty-four were employed on nonstandard terms.

Strains in the Japanese Industrial Relations System

Two prominent features of Japanese industrial relations are lifetime employment and *nenkō* (seniority-based) wages. This industrial relations system, which first emerged prior to World War II, became the norm in large firms after the war. It also strongly influenced working conditions in medium- and small-size firms. Under the *nenkō* wage system, in theory, workers are initially paid wages below their marginal revenue product, but, as tenure rises, they are eventually paid more than their marginal revenue product. For war-devastated Japan, *nenkō* wages depressed initial wage outlays, thereby freeing up funds for capital investment. The system was sustainable because the workforce was young and the economy was growing rapidly, thus assuring that the age structure of a firm's workforce would be pyramid-shaped. Workers favored this system because wages rose rapidly just as workers' family-related expenditures increased. Lifetime employment provided security to workers and was favored by employers because it allowed them to recoup heavy investments in training their workers. Providing job security facilitated the introduction of new technologies on the factory floor. With the widespread adoption of new technologies and the relatively low levels of education prevailing in Japan after the war, firms were compelled to provide continuous, in-house training.

The structure of financial markets also supported these postwar industrial relations practices. Given the prevalence of cross-shareholding arrangements (related *keiretsu* firms, or friendly firms, would control large blocks of a firm's shares) and access to bank loans at low rates, firms could focus on expanding market share and long-term profits without worrying about pressures to boost quar-

terly earnings. Thus, financial markets exerted little pressure on companies to trim the labor force during business-cycle downturns.

Some of the conditions that made the Japanese employment system logical for much of the post-World War II period have changed, creating pressures on businesses to adopt new practices. One is the changing demographic composition of the workforce. The birthrate in Japan has been falling steadily since World War II, and accompanying the decline has been a graying workforce with higher job tenure. The increase in tenure increases companies' wage costs because, under the *nenkō* system, wages rise sharply with tenure and this rise is not matched by increases in productivity. Because the number of people in their twenties is declining dramatically, the problem of an aging workforce will not be alleviated in the near future.

At the same time that employers' wage costs have been rising, Japanese businesses have come under tremendous pressure to lower labor costs in the face of massive debt burdens (especially in manufacturing) and increased international competition with the opening of Japanese markets. Trade liberalization has resulted not only in the growth of imports but also in a surge of foreign direct investment, with leading banks, insurance companies, and auto companies coming under foreign control. While in the past, the close relationship between Japanese companies and banks allowed them to focus on long-term growth and market share, Japanese businesses now face foreign shareholders and banks that expect short-run profitability (Alexander 2000). As a result, firms are under pressure to cut costs. Thus, by far the most common reason businesses cite for increasing the number of part-time workers is to save personnel costs.

In sum, firms currently have workforces that are top-heavy with older, highly paid, but less productive workers at a time when cutting costs and raising productivity are necessary in the face of heightened global competition. Japanese firms have responded by trimming bonuses, cutting overtime, dispatching workers to subsidiaries, and forcing older workers into early retirement. To make wages more responsive to performance, some companies

have begun determining wages on an annual basis (*nenpōsei*). However, the implicit social contract that has developed over the years makes it difficult for companies to introduce sweeping changes to their industrial relations practices in rapid fashion without causing loss of morale and risking productivity declines among regular workers. As a result, many companies have continued to protect their core workforce, while expanding the size of their nonstandard workforce, especially part-time workers, who do not receive *nenkō* wages and implied commitments of job security.

If businesses have been substituting part-time workers for full-time workers on the margin when they hire, we would expect that increases in part-time employment would be most dramatic among demographic groups with a high share of new entrants or reentrants to the workforce. Part-time employment grew dramatically among young men and women. For instance, between 1982 and 1997, the incidence of part-time employment grew from 19 percent to 47 percent among working men ages fifteen to nineteen and from 15 percent to 59 percent among working women ages fifteen to nineteen. The rise in part-time employment was also dramatic for working women over age forty, who are likely to be reentering the workforce after raising children, and among men age sixty-five and over, who are likely to be taking on a bridge job to retirement. These figures for women suggest that they are being even further marginalized on the labor force periphery due to the way Japanese firms are responding to intensified competition. However, this strategy of using women as cheap shock absorbers to stabilize firms and subsidize the largely male core workers conflicts with the need to integrate women workers more productively into the labor force, especially as baby boomers (born between 1946 and 1955) begin retiring in 2007; the government warns that there will be two retirees for every new worker by 2010.

Public Policy

Public policies have encouraged growth in part-time employment in Japan by providing significant tax incentives to businesses to

hire part-time workers and to workers to accept part-time positions. For example, if a part-time worker is married and earns less than ¥1,300,000 in a year, she or he can be regarded as a dependent and thus avoid paying social security or health insurance premiums, while still remaining eligible to receive the health insurance or basic pension upon retirement.

Similarly, workers earning up to ¥1,030,000 per year do not pay taxes on their income, and, if they are married, their spouse may claim a dependent deduction from income taxes (currently ¥380,000) and may receive a dependent allowance from the employer. If a worker's income exceeds this level, not only must she or he pay income tax, but, if married, the spouse will lose his or her dependent tax deduction, and (in about 40 percent of the cases) may have to forfeit the family allowance paid by the employer. This tax and compensation structure creates a significant financial incentive for married women to work part-time and earn less than the income threshold. Many part-time women in Japan, especially the highly educated, reduce their hours of work specifically to avoid exceeding the annual income threshold.

The tax thresholds should also have the effect of depressing hourly earnings of part-time workers relative to full-time workers. Since the mid-1990s, the wages of part-time women workers have actually fallen relative to those of full-time women workers.

Conclusion

We have seen some progress by Japanese women in the workforce and a rapid increase in the educational attainment of young women. However, this progress is diluted by the growth of part-time employment opportunities. In Japan, part-time employment does not mean working fewer hours than full-time workers. It means that part-time workers do not enjoy the same *nenkō* wage system and benefits that full-time regular workers receive. In addition, they have far less job security. As long as these differences remain and are further reinforced by public policy, it will be difficult to fully tap the potential contribution of women workers. In addition, cor-

porate employment systems that make it difficult to continue working after marriage and childbirth need to be reconsidered. It is clear that women who work as civil servants and teachers do return to their jobs in large numbers after giving birth because they enjoy strong job protection and supportive policies. Their education and experience are not being squandered as is the case in the private sector. Other advanced industrialized nations have crafted policies that are more family friendly, and, as a result, women have been better able to balance the demands of work and home, meaning that they can pursue fulfilling careers while raising families. This is Japan's challenge. The nexus of demographic forces causing the rapid aging of society, impending labor shortages, and pension and medical care insolvency make it imperative that Japan get more women more fully engaged in the labor force and develop policies that will make this viable and rewarding for them and their families.

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