

Employment in Japan

Sayonara, salaryman

Jan 3rd 2008 | TOKYO
From *The Economist* print edition

Once the cornerstone of the economy, the paternalistic relationship between Japan's companies and their salaried employees is crumbling



Eyevine

WHEN they were young they might **spend the night at the office**, sleeping under their desks. For years they would go out drinking with colleagues and clients, returning **home** sozzled at **3am** before rising at dawn to head back to the office. They **accepted boring jobs** or postings to provincial backwaters without question. And they did it all simply because the company asked them to. **The thought of finding another employer never crossed their minds.**

That is how the “**salaryman**” became the paragon of modern Japan, **the white-collar hero** who fashioned the world's second-largest economy from the ashes of war. But he is becoming **a figure of the past**. This has enormous implications in a country in which **the company is the dominant institution in people's lives**, affecting not only Japan's world of work but also wider Japanese society.

The change in the labour market gathered pace in the **1990s**, as Japan's economic woes forced the companies to **scale back employees' benefits** dramatically.

Increasingly, many **firms hired new staff on short-term or part-time contracts** rather than treating them as members of the corporate family. Japanese businesses, harried by foreign competitors, have gained from having a more flexible workforce. Moreover, mergers and acquisitions are starting to become more common, so **firms cannot offer the traditional long-term assurances to employees** even if they want to. Lastly, **a big generational shift is taking place**. Today's young professionals **refuse to make work the centre of their lives** or to accept the hardships and corporate paternalism of earlier decades.

These labour-market forces manifest themselves in several ways. They affect gender equality, as to do more women enter the workforce. They touch on immigration, as foreigners are called in jobs that the Japanese reject. They are changing the role of older people, as many pensioners rejoin the workforce. And they have distributional consequences too. Japan is one of the most egalitarian of the world's rich societies, yet it now has one of the largest shares of "working poor"—people who have jobs but can barely make ends meet. Wages have fallen by around 10% (in nominal terms) over the past decade.

The demise of the salaryman brings all these issues into stark relief. Though the term was coined in the 1920s to reflect the new managerial class that oversaw the country's industrialisation and modernisation, it became an ideal only after the second world war. Becoming a salaryman denoted success, enshrining solid middle-class status. retirement.

More importantly, it meant stability. Employment was more or less guaranteed until Wages were low at first but increased predictably until the pension arrived to see the salaryman through his silver years. Training was provided. Perks abounded. The firm looked after the employee and his family. In return, the salaryman devoted his life to the firm. A university graduate did not choose a career; he chose a company.

A night on the town

Today's older salarymen are stoical about the changes. They see that they are the last of their breed, but feel neither nostalgia for their past nor frustration at the younger generation's rejection of their ways. In private moments, indeed, the old guard question the sacrifices that led them to put work ahead of family and conformity ahead of their own interests. In a survey by a global consumer-products company, many salarymen expressed frustration at how their lives had turned out.

One night in Shimbashi, a grey, worn district of Tokyo near a big train station that feeds salarymen to the suburbs, three men in their mid-50s are huddled around their sakes and cigarettes at an outdoor bar. Akira, Sho and Hiroyuki ("Harry") joined their firm around 30 years ago. Each wears a pin of the conglomerate's logo on his lapel. They reminisce about their lives as salarymen and the changes that have taken place, recounting their experiences ever more richly as the sake flows.

When Akira got married, he recalls, he invited his *buchō*, or division chief, to the wedding, as all salarymen did. And during the reception the boss made a speech to the bride, as he always did. "Your new husband is a very good worker," he began. "He is important to the company. So please understand that he may need to work many long hours." All the guests nodded silently. "And when he is at home, please take care of him."

Akira says that his bride—the marriage was largely arranged by their families—was not upset by the *buchō*'s remarks: her role of housewife was taken for granted. "But later she thought something must be wrong with the system," he confides. Akira would return home in the small hours stumbling drunk; dutifully she would wait up, angered. The dinner is put away and the bath is cold, she might say. As he grew older, he no longer stayed out so late. But he did not share her reservations about his evening activities. "In Japan entertaining clients is a part of the job," he explains.

A salaryman arrives in the office at 9am and ends his working day late, often around midnight. He does not dare leave the office before his supervisor—and managers stay late to show their loyalty. Is any work going on? Rarely. But long hours remain the norm.

A few times a week, at around midnight, the boss may assemble the team and go out on the town. Then the “working” day does not end until around 2am, in a bar; the journey home takes another hour or two. Drinking deep into the night was long considered part of the job; companies set aside a budget for it. But the funds were slashed during the “lost decade” and have not been replenished. Now employees bear the cost themselves.

Late-night carousing is becoming less common these days: younger colleagues treat the hours after work as their own, not the company's. Nobu, an ambitious 31-year-old salaryman, is one such. He chose a job at an American company in part so that he could work reasonable hours. He didn't count on having a manager of the old school, who kept the team in the office or in the bars. “My first year, I didn't get more than three or four hours of sleep a day,” he says. Changing jobs was not an option. “I didn't want to quit—because it was so tough,” he says. “Then I would have 'lost'.” When he got a new manager, Nobu was able to relish his free time.

The constant sleep deprivation results in a peculiar characteristic of Japanese life: sleeping in public, be it on a train or in a meeting, and its social acceptance. Nightly drinking leads to a special camaraderie, salarymen argue. This translates into better company performance, they say, because it is easier to reach a consensus—the way almost all decisions are made in Japanese companies.

Yet the rough living and working takes its toll. There is even a term, *karoshi*, or “death by overwork”, which has been legally recognised since the 1980s (although most victims have been industrial workers rather than salarymen). Cases of mental illness in the workplace are soaring. The country's suicide rate is among the highest in the world.

Older salarymen can appreciate the younger generation's preference for more humane hours. The government is even pushing the idea of “work-life balance” (it uses the English term). “The times have changed,” says Harry. “*Shoganai*,” concludes Sho, meaning “it can't be helped.”

Capitalism with a human face

Much is made in the West of the distinctive features of Japanese capitalism. First, cross-shareholdings protect companies from unwanted takeovers. Yet since 1990 the proportion of all company shares owned by business partners has fallen from around half to around a quarter. Second, a “lifetime commitment” between company and worker—usually simplified to “lifetime employment”, although it is much more than that—means that employees have more stability in their careers. This too has ebbed as the number of “regular” workers, who enjoy company benefits, has declined and the number of temporary and part-time employees has increased (see chart 1).



Less understood is the seniority-wage system, a third pillar of Japanese business. Salaries are based on length of service rather than performance. Employees are paid very little for most of their careers. Moreover, there is little difference between the salaries of the highest- and lowest-paid staff of the same age: generally around 25%. (An old joke among salarymen is that Japan is the only country where socialism worked.) From around 50 until the mandatory retirement age of 60 (now rising to 65), salaries grow quickly. At retirement a bonus of around three times the final annual salary is paid in a lump sum. And a steady pension kicks in—it comes partly from the state, partly from the company.

As a means of fostering solidarity in the workplace and an egalitarian society, this system is eminently practical. Yet from the perspective of individual incentives, responsibility and performance, it is inefficient and unfair; exceptional work is unrewarded, other than by a modest bonus and a bow.

The rationale for the system is that it matches a salaryman's income to his household's expenses. So when the fellow is in his 30s, the family does not require much. When he reaches 50 and the kids leave for university, his salary is commensurate with his increased bills. And when he retires, he can count on being taken care of by the company. Like so many things, however, the system is starting to fray. Some companies have introduced a bifurcated structure that grafts performance-based pay onto the traditional seniority system.

Other forms of employee care are also on the wane. University is largely a recreational interlude between the intense "cram-schools" needed to get on a degree course and the drudgery of office work to come; it is not a time for gaining professional skills. So on the first day at work, employees are often ushered into a classroom that creates a Mitsubishi man, a Matsushita man, and so forth. (Among the courses is "business etiquette", in which new hires learn how to exchange business cards following strict protocol and practise their bows.) But as baby-boomers retire and temporary workers replace the full-time veterans, training is drying up.

For years, the three salarymen in Shimbashi placed their savings in the company's bank, which paid interest at twice the rate of an ordinary bank. The activity, a relic of the early 20th century, allowed the company to raise capital without turning to a bank by becoming a bank itself. But the practice was discontinued around 2000 when regulators feared that if these

large companies were to fail, not only the employees' jobs and pensions, but also their savings, would be wiped out.

In addition the company provides housing. Of the three salarymen in Shimbashi, two live in company apartments on which the rent is subsidised, so they pay only around one-third of the market rate. Moreover, salarymen take their holidays at company-owned resorts, which cost half the normal price. These perks help explain the sprawl that is one of the curiosities of Japanese companies. A big firm may have more than 1,000 subsidiaries, from restaurants to property, partly to secure an in-house supply of a wide range of benefits to employees. (Such units also make good places to park mediocre managers for a few years before retirement.)

How much holiday?

Though the companies may own numerous *onsen*, or hot-spring resorts, dotted across the country, the amount of holiday is becoming a sore point with employees. Most salarymen take only a small fraction of their annual paid holiday, since to use it all seems to raise a question over the employee's devotion to the firm. For example, Sho says that he has 20 days' holiday a year. But when pressed, he admits that he takes only five. He says he does not feel badly, since it is only right to work a lot—but his robotic response and body language signal his reservations.

The consequences of breaking the unwritten code can be severe. Even a star performer who uses the full holiday may be denied pay rises and promotions. Leaving the company is treated as betrayal. All trace of the person is airbrushed from the workplace. Social norms keep people at their desks: older Japanese sniff about “job-hopping”. And the seniority-wage system means that switching jobs can be expensive. Until recently, pension contributions were company-based; portable individual-retirement accounts did not exist. And firms were not really equipped to absorb mid-career executives, preferring to hire them fresh out of university and keep them until retirement. Leaving a company meant unwinding a dense web of relationships.



Even so, much of this is changing, as younger salarymen push back. Preferring to delineate company time and personal time, more are taking their holidays. New employees are switching jobs too (see chart 2). Nobu, for instance, says that when he graduated, half his

classmates joined leading Japanese companies (the others chose smaller firms or Western ones). But only around half are still in those traditional salaryman jobs. In 1960, he reckons, 90% of the class would have gunned for the top jobs. Almost all of them would have stayed with the same firm until retirement.

The structure of work, with its perks and paternalism, has had the effect of locking people into place. It creates a static environment for labour rather than a fluid one. Why? It is an important question: business efficiency is about the optimal allocation of resources, and a sclerotic labour market hampers companies' performance and restricts workers' choices.

Like many things in Japan, the answer goes back a long way. An official at the Ministry of Labour traces it to the Edo period, beginning in the 17th century. Important trading houses, some of which still exist, were founded then. They considered employees as family. But economic historians place a more recent date on the static workforce. When Japan modernised at the end of the 19th century, it needed to import technology from abroad. This new technology created a need for skilled labour in a then highly itinerant workforce. So companies got into the habit of housing and training their employees. And the investment in training meant that companies did everything they could to keep their workers.

This paternal relationship was frozen in place during the second world war, when the Japanese government leaned on companies to lock in employees as a way to guarantee production. After the war the Americans gave Japanese workers the right to unionise. This reinforced the illiquidity. Unions prized job security and supported a pay structure based on age, not merit.



AP

Images of days gone by

Today the legacy is clear. The salarymen in Shimbashi recall enormous sacrifices as well as bountiful benefits. Both are waning. The salaryman system has buckled under the strains on the Japanese economy. Yet its decline is in turn adding to those strains. As the population ages and falls, by 2030 just two workers will have to support every pensioner. But temporary and part-time employees are paid around 40% less than regulars. Half of them make no pension contributions, placing a burden on the system today and creating a huge fiscal time-bomb.

Japan is changing, but slowly. On a commuter train outside Nagoya, in the centre of the country, five high-school girls giggle at a barrage of questions about their lives. Chihiro, who wants to be a hairdresser when she grows up, says her father usually returns home around

midnight. Her mother disapproves, to no effect. He works, by chance, for the same conglomerate as the men in Shimbashi. Chihiro, asked if she also wants him home earlier, replies “*shoganai*”, echoing the salarymen. But when she grows up and gets married, will she let her husband do the same? Chihiro and her friends shriek: “No way!”

Nobu, the young salaryman, likes his job but plans to start his own business one day. The older men in his office struck compromises that he is not prepared to endure. “After 1945, we were left with nothing, so we had to work together, with the same goal and as one team. We were a success, and Japan grew,” he says. “But this organisation doesn't work any more. It has stayed the same for too long. The system has rusted.”