Substantial changes in human resource policies are occurring in Japanese firms in response to the rapid aging of the population. Employers are reconsidering the concept of lifetime employment, seniority-based wages, retirement policies, and employment opportunities for older workers. In response to government pressure, mandatory retirement ages are being raised. These trends are examined using a variety of sources of information concerning employment practices in Japan. The analysis indicates that important changes in human resource management practices are underway and further changes are anticipated as the labor force continues to age.

Key Words: Human resource policies, Population aging, Japan

Human Resource Policies and Older Workers in Japan

Robert L. Clark, PhD¹ and Naohiro Ogawa, PhD²

Japan is the most rapidly aging developed country in the world. The rate of aging and the projected age structure of the population in the twenty-first century are causing considerable adjustments in the human resource policies of Japanese employers. Population aging has produced a rapid escalation in the cost of social security and other retirement programs. These cost pressures have stimulated governmental efforts to prolong worklife. Modifications in human resource policies during the past decade have significant implications for all firms operating in Japan. The rapid aging of the labor force and its implications for productivity and labor costs threaten continued economic prosperity. Identifying the implications of an aging society is one of the most debated issues among Japanese business and government leaders. Employers’ responses to an aging labor force in Japan provide U.S. firms with the opportunity to observe these actions and to consider how successful they would be in the U.S.

The primary objective of this analysis is to examine responses by Japanese firms to the aging of the population and to changes in government policies that are influenced by current demographic trends. The aging of the population is forcing companies to reevaluate their human resource management policies toward older workers. This article examines changes in lifetime compensation policies, the age of mandatory retirement, and other human resource policies. The role of the national government in this evolution of human resource policies is also discussed. The interaction between national objectives and the interests of individual firms is crucial to understanding the current changes that are underway in the Japanese labor market.

Population Aging in Japan

The aging of the Japanese population has reduced the number of young workers entering the labor force each year and increased the number of older workers attaining the traditional retirement ages. In 1950, workers 40 to 59 years old represented 30% of the labor force, while workers under 25 also accounted for 30% of the labor force. Today, one out of every two workers is 40 to 59 years of age and only 10% are younger than 25 years old. The increase in the proportion of the labor force composed of older workers has confronted employers with new human resource challenges that are requiring changes in the traditional system of industrial relations.

Changes in the age composition of the labor force are dominated by the aging of the population. Table 1 shows the dramatic changes that have occurred in the age structure of the population since 1950. Perhaps even more importantly, the table also presents governmental projections for the further aging of the population during the next three decades. The proportion of the population aged 65 and over is projected to more than double, increasing from 12.1% in 1990 to 25.8% in 2025. The absolute size of the population is expected to begin to decline early in the twenty-first century. The rapid aging of the Japanese labor force is in response to very low fertility rates and continued improvements in life expectancy at older ages.

These demographic trends have forced significant changes in the compensation and personnel policies of many Japanese firms. The aging of the population is also placing considerable stress on the government as it attempts to finance retirement and health care systems for the elderly. Current government
Historically, seniority wage systems and lifetime employment practices have been the two major institutional features of the Japanese labor market. Lifetime employment provided job stability to workers, who in turn exhibited a high level of loyalty to their employers in terms of their work effort and willingness to remain with the firm until retirement. Traditionally, the employer’s commitment to lifetime employment ended with mandatory retirement at a relatively early age. The current system of employment practices in Japan was originally instituted after World War I to cope with the scarcity of high quality labor along with high turnover rates of skilled workers.

During the past decade, personnel and wage policies in Japan have been changing in response to the aging of the labor force. There has been a gradual increase in the use of merit pay systems (Mroczkowski & Hanaoka, 1989) and a reduced reliance on the system of lifetime employment and seniority pay (Peterson & Sullivan, 1990). These changes have altered lifetime earnings profiles, turnover rates, and retirement ages in Japanese companies (Clark & Ogawa, 1992a, 1992b; Furuya & Clark, 1993; Pollock, 1993).

For the most part, this traditional system of industrial relations has been limited to male workers. Female workers in Japan often are part-time or marginal workers, and have not been viewed as part of the permanent workforce of firms (Kaminski & Paiz, 1984). As a result, the earnings of Japanese women are below that of men and tend to grow at a slower rate with age (Ogawa & Clark, 1995). Furthermore, Japanese women historically have stopped working at marriage or at the birth of their first child, and they have not been included in lifetime employment systems.

With the aging of the labor force, firms are reconsidering their commitment to lifetime employment and have been altering their retirement policies. Changes in human resource policies include reduced reliance on seniority pay systems, new human resource policies for older workers, increases in the age of mandatory retirement, greater use of policies that allow re-employment after mandatory retirement, and assistance in the placement of retired workers.

These new human resource policies have changed the employment relationship in Japan. Growth in earnings with seniority is less assured, stability of employment until retirement age is threatened, and earnings are reduced for continued employment at older ages. Changes in human resource and compensation policies are altering the attitudes of Japanese workers toward their employers (Lincoln, 1989; Morishima, 1992). The proportion of workers dissatisfied with their current job is rising. Reduced company loyalty is resulting in higher turnover rates among experienced workers and is adversely affecting the team-oriented production methods employed by most Japanese firms (Hori, 1993).

### Mandatory Retirement

The proportion of Japanese firms with mandatory retirement rules has increased during the past two decades. Over 90% of all Japanese firms have mandatory retirement policies, compared to only two thirds of firms using such policies in 1974. The increase in the proportion of firms with mandatory retirement policies is mainly due to the pronounced increase in the proportion of small firms with mandatory retirement policies.

Historically, the most common age of mandatory retirement in Japan was 55. As late as 1974, more than half of all firms using mandatory retirement required

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**Table 1. Estimates and Projections of the Japanese Population**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Population (millions)</th>
<th>Distribution of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>0-14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(percentage)</td>
</tr>
<tr>
<td>1950</td>
<td>83.2</td>
<td>35.4</td>
</tr>
<tr>
<td>1970</td>
<td>104.7</td>
<td>24.0</td>
</tr>
<tr>
<td>1980</td>
<td>117.1</td>
<td>23.5</td>
</tr>
<tr>
<td>1990</td>
<td>123.6</td>
<td>18.2</td>
</tr>
<tr>
<td>2000</td>
<td>127.4</td>
<td>15.2</td>
</tr>
<tr>
<td>2010</td>
<td>130.4</td>
<td>16.4</td>
</tr>
<tr>
<td>2020</td>
<td>128.3</td>
<td>15.5</td>
</tr>
<tr>
<td>2025</td>
<td>125.8</td>
<td>14.5</td>
</tr>
</tbody>
</table>

*Note: For each year, the entries in columns 2 to 4 represent the entire age structure of the population and should add to 100%. Minor differences are due to rounding.*


projections indicate that the social security payroll tax rate will need to increase from 16.5% of covered payroll in 1995 to 30% in 2020 in order to sustain the current level of benefits (Clark, 1996; Ministry of Health and Welfare, 1994). Concern over the dramatic increase in the cost of providing retirement benefits has stimulated government policies to raise the prevailing age of mandatory retirement in the private sector and to increase the age of eligibility for public retirement benefits (Clark, 1991; Social Insurance Agency [Japan], 1994).

Despite governmental pressure, Japanese firms have been reluctant to increase retirement ages due to the higher costs associated with the retention of older workers under the current compensation system. In those companies where the age of mandatory retirement has been increased, employers also have introduced early retirement programs, increased rates of transferring older workers to subsidiaries or related firms, and changed the lifetime pattern of compensation to reduce the relative cost of older workers (Befu & Cernosia, 1990; Hori, 1993; Morishima, 1992; Mroczkowski & Hanaoka, 1989; Nonaka, 1988; Pucik, 1984). The continued evolution of public and private retirement policies is extremely important to the future economic growth of Japan and its international competitiveness. Employers in the United States will be faced with a similar aging of the labor force beginning in about 20 years. Therefore, U.S. managers have the opportunity to observe human resource policy changes in Japan and to examine their effectiveness in an aged society.

### Changing Human Resource Policies in Japan

Historically, seniority wage systems and lifetime employment practices have been the two major institutional features of the Japanese labor market. Lifetime employment provided job stability to workers, who in turn exhibited a high level of loyalty to their employers in terms of their work effort and willingness to remain with the firm until retirement. Traditionally, the employer's commitment to lifetime employment ended with mandatory retirement at a relatively early age. The current system of employment practices in Japan...
workers to retire at age 55 or younger. Now, over three quarters of all firms have established mandatory retirement ages of 60 or older. Large firms tend to have later retirement ages than smaller firms. Over 95% of firms with 5,000 or more employees have a compulsory retirement age of 60 or older, compared to about three quarters of firms with 30–99 employees. Smaller firms remain more likely to use 55 as the age of mandatory retirement. These mandatory retirement ages are remarkably low relative to other developed countries, especially in view of the relatively high life expectancy in Japan. Life expectancy in Japan is among the highest in the world, with a life expectancy at birth for males of 76.1 years and for females of 82.2 years.

This distribution of retirement ages adopted by Japanese firms can be compared to the mandatory retirement ages that prevailed in the United States before the outlawsing of mandatory retirement by amendments to the Age Discrimination in Employment Act (ADEA) of 1986. Prior to 1978, most firms that established mandatory retirement policies set 65 as the age for compulsory retirement. Amendments to ADEA in 1978 raised the minimum legal age for mandatory retirement in most jobs to 70. Firms then either abolished mandatory retirement or raised the age to 70. The 1986 ADEA amendments virtually eliminated mandatory retirement in the United States.

One of the principal obstacles to raising the mandatory retirement age in Japan is the seniority wage system. Under this system, the postponement of retirement age increases labor costs by retaining more costly older workers. Under the seniority wage system, salary increases with employee age, duration of service, and job responsibilities. In response to higher ages of mandatory retirement, firms have been modifying this traditional system of compensation. More firms have introduced merit pay components into their salary structure (Hori, 1993). There is also a trend towards reducing longevity increases in earnings past a certain age and, in some cases, capping salary at age 45 or 50 (Morishima, 1992; Mroczkowski & Hanaoka, 1989; Pucik, 1984).

Another deterrent to the extension of retirement age is related to the provision of lump sum severance benefits, which are basically a function of the years of service and final earnings. The amount of severance pay varies considerably with educational attainment, tenure, and firm size. For example, a male worker with a junior high school education and 20–24 years of service in a firm with 30–99 employees typically will receive severance benefits equal to slightly less than two years of final pay. In contrast, a male worker with senior high school education and more than 35 years of service in a firm with 1,000 employees or more can expect a payment equal to almost five years of final pay. Unless benefit formulas are changed, raising the age of mandatory retirement can significantly increase the cost of these payments. In response to higher retirement ages, some firms have begun to use only a portion of wage increases to determine retirement benefits.

In response to government pressure, many Japa-
that the systematic reduction of wages of older workers after mandatory retirement is an important reason for the higher demand for older workers in Japan.

**Human Resource Policies for Older Workers**

Many Japanese firms have been developing a variety of programs to cope with the aging of their labor forces. In the past several years, a number of innovative policies have attracted the public’s attention. To examine these changes in human resource policies toward older workers, the Japanese government conducted case studies of 14 firms. The objective of these studies was to determine how these firms were responding to the aging of the labor force (Employment Information Center, 1990). All interviews were conducted by the Ministry of Labor in 1989. Company managers involved in these interviews were promised that the name of their firm would not be published in the report. The main objective of such confidentiality was to ensure that each respondent would provide a maximum amount of requested information. Most of the companies included in the study were in the manufacturing sector and were relatively large firms. Five of the companies had more than 5,000 workers, eight had employment ranging from 1,000 to 4,999 employees, and only one firm had less than 1,000 workers on its payroll.

Table 2 provides a summary of findings obtained from the interviews. For reasons of confidentiality, the companies are referred to by the letters A to N. Examining the human resource policies of these firms provides several important findings. First, companies tended to enforce mandatory retirement at lower ages for persons in administrative and managerial posts. Second, the importance of seniority in salary determination had been reduced in many of these companies. Third, all the companies had re-employment policies. In many cases, the amount of pension benefits available to re-employed workers aged 60 and over was taken into account in determining their wages. Fourth, earnings for older workers were systematically reduced in many firms.

A brief analysis of some personnel policies of individual companies is now provided to illustrate specific actions of Japanese firms in response to the aging of the labor force. In company A (a textile manufacturer), the proportion of elderly workers was relatively high. The mandatory retirement age had been raised from 55 to 60; however, individuals who continued to work past age 55 had their basic wage lowered by 20% (see Table 2). Company B (a young, rapidly growing producer of machinery) had a mandatory retirement age of 60; however, the wage level was reduced by 15% at age 57. Due to its rapid growth, company B had a shortage of qualified individuals for administrative and managerial posts. To fill this void, consultant contracts were available for the re-employing of older workers beyond age 60. The persons who were re-employed as consultants received wages that were 15–25% lower than their previous salaries.

Company D (a leading producer of electrical machinery) had alternative mandatory retirement ages ranging from 56 to 60 for workers in top managerial positions. Workers who reached the age limit were re-employed as consultants, and their contracts were renewable up to age 65. The wages of these consultants were reduced by 25% even though those re-employed as consultants normally continued to perform the same jobs as before. Company G (a manufacturer of machine ducts) had a mandatory retirement age of 60; however, high-level administrative and managerial workers were required to retire at ages ranging from 55 to 57. When company G raised the mandatory retirement age to 60, two modifications were made to its compensation system. Annual wage increases were changed from being based on seniority to being based on ability. A re-employment program was established to employ elderly workers up to age 65.

Company H (a major producer of electrical appliances) offered older workers comprehensive courses for old-age planning. Participants in these courses made retirement plans, and chose one of the following late career options: (1) staying with his/her career employer, (2) working for one of the subsidiary firms, or (3) starting his/her own new business. Company J (a medium-size confectionery) had a mandatory retirement age of 65. The annual salary increments were reduced by 50% for persons aged 55–59 who continued to work. No annual wage increase was offered to elderly workers aged 60–64. Continued employment beyond age 65 was arranged on an informal basis with a 50% salary reduction.

Company L (one of the largest department stores in Japan) had an early retirement program for workers ages 40 and over. The primary objective of this program was to make it easier for a worker to plan for his/her late career. If workers decided to leave the company under this program, they received larger retirement benefits. In addition, the company assisted early retirees by providing low interest housing loans, one-year leaves for developing skills for their second careers, and flexible working hours for one year prior to their retirements.

These cases illustrate the diversity of personnel policies that have recently been developed in the private sector to cope with the wide range of problems relating to the employment of older workers. Some of the policies are well established, while others are still at an early stage of development. They also differ considerably with firm size and across industrial groups. Moreover, these specific examples are based on the recent experiences of relatively large firms and do not necessarily represent personnel policy changes in Japan’s business sector in general.

**Patterns of Work After Mandatory Retirement**

Despite the widespread use of mandatory retirement, Japan has the highest labor force participation rates for older men among developed countries. Over 90% of men in their late fifties remain in the labor force, and participation rates for men 60 to 64...
Table 2. Personnel Policies for Older Workers in 14 Selected Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Main Product</th>
<th>Number of Workers</th>
<th>Mandatory Retirement Age</th>
<th>Number of Retirees Per Year</th>
<th>Number of Transferred Workers</th>
<th>Age for Retiring From Managerial Posts</th>
<th>Structure of Wages for Older Workers</th>
<th>Continued Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Textile</td>
<td>1,685</td>
<td>60</td>
<td>13-27</td>
<td>237</td>
<td>55</td>
<td>20% wage reduction from age 56. Retirement benefits provided at age 56.</td>
<td>Re-employment for administrative and managerial workers is available. Period of re-employment is two years.</td>
</tr>
<tr>
<td>B</td>
<td>Machinery</td>
<td>1,242</td>
<td>60</td>
<td>2-10</td>
<td>Negligible</td>
<td>None</td>
<td>15% wage reduction, beginning from age 57.</td>
<td>Re-employed as consultants up to age 65. Wages are reduced by 15-25%.</td>
</tr>
<tr>
<td>C</td>
<td>Automobile parts</td>
<td>2,643</td>
<td>60</td>
<td>10</td>
<td>80</td>
<td>45-58, depending on posts</td>
<td>No increase in the basic wage component from age 55.</td>
<td>The re-employment program available for workers with specific duties. No age limit. Decrease in wages by 20-25%.</td>
</tr>
<tr>
<td>D</td>
<td>Electric machinery</td>
<td>12,776</td>
<td>60 for ordinary workers; 56-60 for those holding administrative and managerial posts. 152-354</td>
<td>7,000</td>
<td>—</td>
<td>—</td>
<td>No increase in wages, except for a partial price-productivity adjustment.</td>
<td>Re-employed as consultants up to age 65. This program is available to those who are required to retire before age 60. Wages lowered by 25% if the worker is under 60. For workers aged 60 and over, wages are adjusted so that they receive 80% of the full pension benefits.</td>
</tr>
<tr>
<td>E</td>
<td>Electric machinery</td>
<td>5,573</td>
<td>60</td>
<td>60-90</td>
<td>800</td>
<td>57</td>
<td>No further increase, beginning at age 57. Wages for those holding administrative and managerial posts reduced by 10-20%.</td>
<td>Re-employed as consultants, possibly up to age 67. No established rules, but wages are reduced in most cases.</td>
</tr>
<tr>
<td>F</td>
<td>Electronic machinery</td>
<td>2,509</td>
<td>60</td>
<td>3-22</td>
<td>Available for continued employment. 50 for section head, and 55 for deputy division head or higher.</td>
<td>The ability component of wages increases with age.</td>
<td>Re-employed as associated workers up to age 65.</td>
<td>Wage reduction by 30-40%, and wages are determined by taking into account the amount of pension benefits.</td>
</tr>
<tr>
<td>G</td>
<td>Control machinery</td>
<td>3,845</td>
<td>60</td>
<td>18-35</td>
<td>—</td>
<td>57 for department head, 55 for other posts.</td>
<td>Ordinary workers: Annual increments depressed from age 49. Managerial workers: wages in the postretirement period may not be reduced, subject to periodic evaluations.</td>
<td>Flex time is established. Re-employed as advisory staff members. Wages adjusted, depending on pension benefits. Bonuses equivalent to 4-26 months are provided.</td>
</tr>
</tbody>
</table>

Continued on next page
<table>
<thead>
<tr>
<th>Company</th>
<th>Main Product</th>
<th>Number of Workers</th>
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<th>Structure of Wages for Older Workers</th>
<th>Continued Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>H</td>
<td>Electric appliances</td>
<td>81,400</td>
<td>60</td>
<td>208-550</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Part-time jobs available for old workers up to 65. Retirement age is 55, but a special re-employment program is offered in which old workers can continue working up to 65.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Wages for part-time jobs range from 860 to 1,100 yen per hour. For those re-employed under the special re-employment program, wages adjusted by 50% of changes in prices and productivity for the age group 55-59. For those aged 60 and over, wages adjusted, considering pension benefits provided.</td>
</tr>
<tr>
<td>I</td>
<td>Electric machinery</td>
<td>1,013</td>
<td>61</td>
<td>22 transfers. Many subsidiary options available.</td>
<td>None</td>
<td>No specific rules.</td>
<td>Full-time and part-time consultants.</td>
<td>For full-time consultants, wages reduced by 30-40%</td>
</tr>
<tr>
<td>J</td>
<td>Confectionery</td>
<td>427 regular employees, 98 part-time employees.</td>
<td>65</td>
<td>1-4</td>
<td>-</td>
<td>-</td>
<td>Annual increments are reduced to 50% for those aged 55-59, and no increment for those at ages 60-64.</td>
<td>No scheme established, but a few workers are re-employed as consultants. 50% wage reduction.</td>
</tr>
<tr>
<td>K</td>
<td>Travel agent</td>
<td>4,861</td>
<td>60</td>
<td>25-33</td>
<td>330</td>
<td>-</td>
<td>No increase in the basic wage, beginning from age 55.</td>
<td>No scheme available, but two-year full-time consultancy is offered. Wages reduced by 25%.</td>
</tr>
<tr>
<td>L</td>
<td>Department store</td>
<td>7,263</td>
<td>60. Selected retirement program available from age 40.</td>
<td>83-120</td>
<td>750</td>
<td>-</td>
<td>The ability component of the remuneration system becomes important with age.</td>
<td>Re-employed as consultants, possibly up to age 65. 20-40% wage reduction. The wage schedule has been prepared.</td>
</tr>
<tr>
<td>M</td>
<td>Railway and bus services</td>
<td>8,500</td>
<td>62.5, will be extended to 65 in 1994.</td>
<td>47-69</td>
<td>3,200</td>
<td>-</td>
<td>20% wage reduction from age 50, and subsequent annual increments correspond to 50% of those for regular workers.</td>
<td>Re-employed up to age 65. 30% wage reduction.</td>
</tr>
<tr>
<td>N</td>
<td>Cleaning, security, and maintenance services</td>
<td>1,853 paid monthly, 365 daily, and 1,728 part-time workers.</td>
<td>63</td>
<td>-</td>
<td>-</td>
<td>Increase up to age 63.</td>
<td>Re-employed up to age 65 for technical workers, and to ages 66-70 for other workers.</td>
<td>For those 63-65, the annual increments correspond to 95% of those for regular workers, and the increments are reduced with age.</td>
</tr>
</tbody>
</table>

Source: Employment Information Center, *Rokujugosai Made no Keizoku Koyo ni Tomonau Chingin Seido* (Wage system in Connection with Continued Employment up to Age 65), 1990.
range from 70–85%. Over half the Japanese men are in the labor force up to age 70. These rates are much higher than those of the United States and Europe. The labor force participation rate for men 65 and over is 16% in the U.S., and is less than 10% in most western European countries.

In Japan, very high labor force participation rates for older men coexist with personnel policies that require workers to retire from their career jobs in their late fifties. This apparent labor market paradox is due to the high incidence of work after mandatory retirement. In Japan, several transitional job experiences are possible. First, workers may be included in re-employment and employment prolongation programs at their career firms. Second, they may benefit from the assistance of their employer in finding new employment with one of the career firm's subsidiaries or clients. Japanese companies are often closely linked with other firms who may be their suppliers or customers. This placement is usually from larger firms to smaller firms. Third, workers may move to new firms with no ties to their career employer. These transitional jobs may be in the same or different industries. Finally, many retirees shift to self-employment.

Available evidence clearly indicates that older Japanese men want to remain at work. A recent survey on the aging of Japan undertaken by the Prime Minister's office provides additional support for the desire among older persons for continued employment. Asked whether they wanted to work beyond age 60, 55% wanted to work beyond age 60, 55% wanted to work as long as they were able, 13% wanted to work until 65, and 4% to 70. Only 21% were unwilling to work after age 60. The proportion of older men wanting to work is higher than that found in a similar survey conducted in 1986 (Japan Foreign Press Center, 1992). These findings are consistent with the results of a national survey on an aging society conducted by Mainichi Newspapers in 1992. In this survey, 70% of the respondents indicated that they or their spouse wanted to keep working after they had attained the age of eligibility for receiving social security (Clark & Ogawa, in press). The desire to work remains high among persons of all age groups, although many persons worry about the availability of jobs in their later working years.

The transition from career jobs to full time retirement is examined for a group of men who were mandatorily retired from their career jobs. The information on retirement transitions is provided in the Survey of Mandatory Retirees conducted by the Association for Older Worker Employment Development. This survey included 2,239 men 60 and over. All of the men had left their career employers at the time of the survey, and most had been mandatorily retired from their career jobs at relatively young ages. Despite being forced to retire from their career employer, most of the men were still in the labor force. The labor force status of older men differed substantially across various personal characteristics (Clark & Ogawa, 1995). For example, the proportion of men who continued to work is greater among those residing in Tokyo (52%) than those in other cities (45%) or other areas around Japan (40%). Over 60% of the men with university degrees remained at work, while only 39% of those with junior high school educations had a job in 1987.

A higher proportion of men who had achieved upper level management positions remained employed. Among company directors, 72% were still at work in 1987, while 56% of the men who had achieved the rank of division manager and 48% of those reaching section chief were employed. Lower level managers and those not reaching the managerial ranks had employment rates of around 40%.

Just over one third of the men who were mandatorily retired from their career employer continued to work for some time for this firm after their retirement. Re-employment is generally less likely among workers who retired from large firms, and is most likely for workers who attained the rank of company director and division manager. The Japanese corporate structure consists of many interlocking companies that continuously do business with each other. These companies may be subsidiaries, suppliers, or customers of each other.

After a worker is forced to retire from a career employer, the company may assist the retiree in finding a new position with one of its subsidiaries or clients. Among men in the Survey of Mandatory Retirees who had left their career employer and were still employed, 35% were working for a subsidiary and 16% were working for a client of their career employer. An additional 49% were working with an unrelated employer. Workers who resided in Tokyo were more likely to work for firms that were related to their career employers and men with university degrees were much more likely to be employed by a subsidiary or client of their career employer. In addition, a higher percentage of upper-level managers moved to firms that were related to their career employers. Workers in smaller firms more often shifted to unrelated employers as do workers in mining and the public sector.

Almost 95% of the workers who continue to work after being mandatorily retired were employed at smaller firms. This movement to smaller firms is an important aspect of the transition from career jobs to retirement. This transition often involves moving to less prestigious jobs after being forced to retire from one's career job. Forty-five percent of the men in the Survey of Mandatory Retirees who had changed employers had moved to less prestigious jobs, while 36% had similar-level jobs and, surprisingly, 29% were in more prestigious positions. Virtually all of these men had moved to smaller firms so that they might have a more prestigious job at a smaller, less well known firm.

Despite the early ages of mandatory retirement, most Japanese workers continued to work throughout their 60s. On average, these men worked an additional five years after being mandatorily retired from their career job (Rebick, 1992). However, most suffered sharp reductions in their earnings after mandatory retirement. Persons who were re-employed by their career employer typically had
wage reductions of around 20%, while persons who found new jobs with the assistance of their career employer had over a 35% reduction in their wages. Workers who found new jobs without the assistance of their career employer had wage reductions of over 40% (Rebick, 1993).

Several implications of the Japanese system of lifetime employment are apparent. First, older workers suffer a sharp reduction in earning power after they reach the age of mandatory retirement. Second, the lower earnings reduce the costs to firms of employing older workers. The lower employment cost is one of the main reasons for the high proportion of older men who remain employed. Third, assistance by career employers reduces the decline in compensation for postretirement work. Fourth, the earlier analysis showed that new human resource policies in response to increases in the age of mandatory retirement have resulted in wage reductions for older workers even before they reach mandatory retirement.

**Government Policies Encouraging Employment of Older Workers**

Currently, Japanese men can begin receiving social security benefits at age 60, and women begin receiving benefits at age 58. The normal retirement age will gradually increase to age 65 during the next two decades (Murakami, 1995). Since many older employees are required to retire from their firms before they reach age 60, this change in the age of eligibility for social security benefits may pose serious difficulties unless the mandatory retirement age is raised accordingly and/or the employment opportunities for work after mandatory retirement are expanded.

Consistent with these policy goals, the government has recently been implementing a variety of programs and measures aimed at facilitating the increase in the retirement ages. In 1986, the government implemented the Law Concerning Stabilization of Employment for Older Persons and subsequently revised this law in 1990. This legislation established the goal of raising the mandatory retirement age to at least age 60 in every Japanese company. The law does not include any significant sanctions for noncompliance. In December 1993, the Employment Council (an advisory body to the Minister of Labor) submitted a report calling for further legislation encouraging employers to raise the retirement age to 65 and to establish a legal mandatory retirement age of no less than 60.

The Law Concerning Stabilization of Employment for Older Persons also established subsidy programs to promote the employment of older workers. Among these programs, the Subsidy for Encouragement of Older Workers’ Employment constitutes the most important component. Under this program, a company that has more than 4% of its total employees aged 60–64 is entitled to receive an incentive for each additional older worker it hires. The amount of incentive provided for each additional worker varies considerably with the proportion of older workers employed and the size of the firm. In fiscal 1992, a total of 5.7 billion yen was allocated for this program, which covered almost 200,000 older workers in over 20,000 firms. Estimated expenditures for these subsidies in 1993 were 7.1 billion yen. Beginning in fiscal 1993, firms that qualified for the program of Subsidy for Encouragement of Older Workers’ Employment could apply for a special subsidy for improving facilities and installing equipment for older workers. To receive the subsidy, the firm was required to submit a project outline to the Association for Older Worker Employment Development. Subject to the Association’s evaluation, the Ministry of Labor provided a subsidy for three years. The amount of the subsidy varies with the number of older workers to be employed in the proposed project. For 1993, a total of 140 million yen was allocated for this new program.

Furthermore, Japanese policy makers have recently begun working on the next stage of retirement-employment planning. The long range objective is to raise retirement ages to 65. To facilitate this increase in the age of retirement, the Ministry of Labor offered subsidies to companies that raised the mandatory retirement age or introduced employment prolongation or re-employment programs. Under this new program, called Subsidy for Encouragement of Continued Employment, a firm that adopts the recommended system for continued employment for the elderly received a payment. In 1992, the Ministry of Labor implemented a new subsidy program for encouraging continued employment for older workers. Employers who provided short leaves of absence to their older employees, before they moved to postretirement jobs, were entitled to receive the subsidy under this new program. The amount of subsidy varied with an employee’s work status: 60,000 yen per month for full-time employment and 30,000 yen per month for part-time employment. The subsidy could continue for up to three months.

Since 1989, the Ministry of Labor has been providing subsidies under the program entitled Retiring-Workers-to-Be Re-employment Assistance Promotion Subsidy. Under this program, employees age 60 and over, who are expected to retire within one year, are sent to the public vocational school to learn new skills. The firm must pay workers during the training period; however, the government reimburses the firm for part of the salary of the trainees. Large firms receive subsidies equal to one quarter of the employees’ wages, while medium and small firms receive subsidies equal to one third of wage payments.

In addition to these subsidy programs, the government of Japan has a wide range of other programs to promote an increase in the mandatory retirement age and to increase employment opportunities of elderly workers. For instance, the Ministry of Labor has been organizing a series of regional meetings to make employers recognize the importance of solving employment problems faced by workers in their early 60s.

The Ministry has also been encouraging employers to appoint older worker’s employment promoters, who will play leading roles in promoting voluntary corporate efforts to ensure the continued employ-
ment of older workers. To help older workers find new jobs, the government has implemented the Self-Introduction Video Program, in which self-introductions by elderly job seekers are made into videos. The purpose of the videos is to provide prospective employers with relevant information on the older job seeker. Silver Human Resources Centers have been established for providing supplementary or short-term employment opportunities related to daily activities of the local community. The Centers are also intended to contribute to the vitalization of each local community. The cost of managing these centers is partially subsidized by the government.

The objective of the government in these policies is to increase employment opportunities for older workers in order to reduce the financial problems associated with raising the normal retirement age for social security benefits. Increasing the mandatory retirement results in higher labor costs for employers. As a result, firms are opposing the efforts by the government to increase retirement ages. The tension between government objectives and the concerns of firms will continue to increase during the next decade. In addition, younger workers are now voicing an increasing concern with regard to the adverse effect of the further extension of the retirement ages upon their future promotional opportunities. Objections by younger workers to reduced promotional prospects and limited earnings growth may restrict future government policies.

Implications

The evolution of human resource policies in Japan in response to an aging society has required considerable modifications in the traditional system of lifetime employment. Many of the policy initiatives have been made voluntarily by firms as they seek to establish desirable personnel policies for an aging labor force. However, the government has played an important role in influencing changes in compensation and retirement policies. This article has examined many of the important changes in human resource policies in Japan. Population aging and the accompanying changes in employment and compensation have important implications for labor costs, productivity, and the future competitiveness of Japanese firms. Key findings of this analysis are:

- With a seniority wage system, an aging labor force increases the cost of production. Raising the age of mandatory retirement exacerbates this problem by increasing the duration of employment when workers are the most expensive. In response to these changes, firms have adopted a series of new policies aimed at reducing the cost implications associated with an increasing number of older workers. These include the introduction of merit pay systems, the reduction of earnings growth for older workers, and in many cases, actually cutting the wage of workers who reach certain ages.
- The modification of the traditional system of compensation is causing a decline in worker loyalty. Manifestations of this change in worker attitudes are higher turnover rates and greater dissatisfaction on the job. These responses will adversely affect firm productivity and reduce the advantage of team-oriented production.
- Most firms offer selected workers the opportunity to remain with the company after mandatory retirement. These workers typically suffer substantial reductions in wages and are relegated to lower-level jobs. These policies provide firms the opportunity to retain desirable workers while forcing most older workers to retire. The ability to reduce wages for older workers should increase the demand for their services and help firms offset the higher costs of an aging labor force. Such policies would be illegal in the U.S. and as a result, many U.S.-owned firms may find it difficult to institute such policies for their subsidiaries in Japan.
- To facilitate the retirement of older workers, many large firms assist their retirees in finding new employment with their subsidiaries or clients. These placements allow retirees to continue their careers in jobs related to their previous experience. These individuals suffer considerable declines in their wages; however, the declines are generally less than the worker would have encountered without the assistance of their former employer. To the extent that this is an important component of the employment relationship, many U.S. companies will be at a disadvantage in recruiting workers due to their lack of business relationships in Japan.
- The government is pressing for higher retirement ages and greater employment opportunities for older workers. Employers believe that these policies are increasing their labor costs and hindering their ability to compete. The divergence between public and private interests will continue to widen in the future. Government proposals to increase the retirement age and to increase the employment opportunities for older workers will continue to challenge private employers and force them to find new ways to counteract the upward pressure on labor costs.
- Currently, some of the effects of an aging labor force are being masked by the ongoing recession in Japan. During the recession, the demand for workers has remained low. Therefore, the continuing decline in the number of new entrants into the labor force associated with the aging of the population has not been seen as a problem. Firms have been more concerned with reducing the number of workers. As the economy recovers and the population continues to age, however, the problem of an imbalance in new entrants relative to workers of retirement age will intensify. At that point, firms will recognize that it is in their own interest to develop human resource policies to coexist with an aged labor force.
- Japan's future shortage of young workers can be partially remedied by (1) the further development of labor-saving technologies such as robots and automated production methods, (2) more effective utilization of female workers, and (3) in-
creased use of immigrant labor. Each of these options will require further changes in human resource policies of Japanese firms.

Although various policy options are available to Japan, the task of identifying an optimal blend of policy alternatives is extremely challenging given the rapid pace of population aging. There is not much time for Japan to develop new, more appropriate retirement policies before the impact of rapid population aging in the next decade begins to directly affect the economy. Public and private retirement policies must be altered further if Japan is to avoid an extremely rapid increase in social security taxes, sharp increases in labor costs of production, and labor shortages. The primary challenge facing Japanese firms is to develop human resource and compensation policies that accommodate more older workers and the extension of work life without adversely affecting their global competitiveness.

References


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