



Title	The Three or Four Pillars Employment System in Transition
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Citation	経営論集, 53(4): 9-20
URL	http://hdl.handle.net/10291/686
Rights	
Issue Date	2006-03-31
Text version	publisher
Type	Departmental Bulletin Paper
DOI	

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The Three or Four Pillars Employment System in Transition

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1 Introduction

The famous words of “Three Pillars Employment System” have been used as a compact expression of the features in traditional Japanese employment practices since the 1960’s. The system consists of “Life-time Employment, or Employment Security in the Same Corporation,” “Seniority-based Promotion and Salary,” and “Enterprise-based Unions.” Researchers, however, have to be careful that “Three Pillars Employment System” exists only in the limited world described as below.

- a) It is established after WWII. It is typical particularly from the late 1950s to the early 1990s.
- b) It is typical among large private corporations, not in small and medium size corporations.
- c) It is typical for full-time employees, both of white-collar and blue-collar. In this regard, there is a “Single status” between white-collar and blue-collar in the same workplace.
- d) It is not typical for part-time, fixed-term and agency workers. In this regard, there is a “Status divide” between full-time employees and others in the same workplace.
- e) It is for male employees mostly. It is not for female employees in reality.

I will discuss the above three in brief, followed by the additional discussion of the fourth pillar to the above three in order to make clearer the features. Then, I will discuss a recent change in the four pillars system under the fierce competition among corporations in the global market as well as the changing pattern of labor supply within Japan. The change means the instability, too. I will make a conclusion that the increase of individual labor disputes represents the instability.

2 What is the Orthodox Three Pillars Employment System?

2-1 Its Origin and Effectiveness

Trade unions or workers initiated the system after the WWII. The trade union made a strong claim of employment security for fulltime workers and equal treatment between blue-collar fulltime workers and white-collar fulltime workers in the same corporation, both of which did not exist for them before the WWII. The claim was based on their unique idea of “Democracy” after the WWII.

Their first idea of “Democracy” was that the employer should secure the whole life of workers and their family members. They thought that the lifetime security should continue until their death, guaranteed by the huge retirement allowance paid by the employer.

Their second idea of “Democracy” was that the employer should treat blue-collar production workers equally with white-collars in their personnel policy. For example, the trade union demanded that the employer should pay monthly seniority-based salary, which was popular for white collars before the WWII, to blue-collar production workers, who were paid hourly or daily wage rate before the WWII.

The employer of large corporations was forced to accept both claims of the trade union, because the trade union was much stronger than the employer in the power of bargaining immediately after the WWII. The acceptance resulted in the establishment of the first and second pillar.

After the acceptance, the employers realized both of the employment security and seniority-based promotion/salary might also benefit employers as well as workers, if they could promote work capacity, eagerness or royalty of workers in the whole period of employment. Now, this can be explained by the economic theory of human capital or efficiency wages.

The third pillar or “Enterprise-based Union” was the embodiment of workers’ ideas. The membership of enterprise-based union was limited only to fulltime worker in effect, while not only blue collars but also white collars became union members in the same enterprise-based union.

2-2 Elaboration of The Second Pillar: Seniority-based Promotion and Salary

The second pillar, or seniority-based promotion and salary, had been elaborated in some points over years.

At the initial stage of development in the seniority-based salary, either the age or the years of service for employees decided the amount of basic salary. This was a seniority-based salary in the

literal sense of “seniority-based.” In other words, there had been the annual regular salary increase for employees.

Since the late 1960’s, the “capacity” of employees had been added to decide the amount of basic salary, where the “capacity” of employees was assessed through the performance appraisal system. Then, the age or the years of service as well as the “capacity” for employees had decided the amount of basic salary. The Seniority-based salary, or the annual regular salary increase, continued.

As for the large corporation, the employer had limited their recruits only to the new school leavers, both of high school graduates and college graduates. In other words, they had limited their “port of entry to internal labor market” only for the new school leavers. On recruiting, the employer had not specified the job for recruits. After the decision of hiring, the employer had assigned the job to the new recruits within their discretion.

The employer had grouped the employees according to a) their educational record, that is, either high school graduates or college/higher graduates, b) their rough field, that is, management or engineering for example, and c) year of hiring. The employer had managed the internal career of employees such as promotion speed and transfer by the employee groups during their whole period of employment.

It is noticeable that there had been dispersion in promotion and salary among employees in the same employee group. This is because the result of performance appraisal had affected the speed of promotion and amount of salary increase.

The employer had frequently reassigned, transferred and relocate the employee at their discretion during their whole period of employment.

2-3 “Gift Exchange Industrial Relations” by the Third Pillar or Enterprise-based unions

Many enterprise-based unions in the private sector continue to use a strategy of very cooperative attitudes to their employers. Their power of bargaining is how contributive they are in enhancing the productivity or competitiveness of employers. When the profit is increased due to the high productivity or competitiveness, unions can make claims their proportion and employers accept them to divide the profit with unions. I call these relations “Gift Exchange Industrial Relations.” I borrow the term “Gift Exchange” from the recent economic theory of efficiency wages, as the term is very appropriate to represent the above relations.

“Job control” is not their power of bargaining at all. They have given it up as their power of bargaining. Then, union members have to obey the order of their job assignment, relocation,

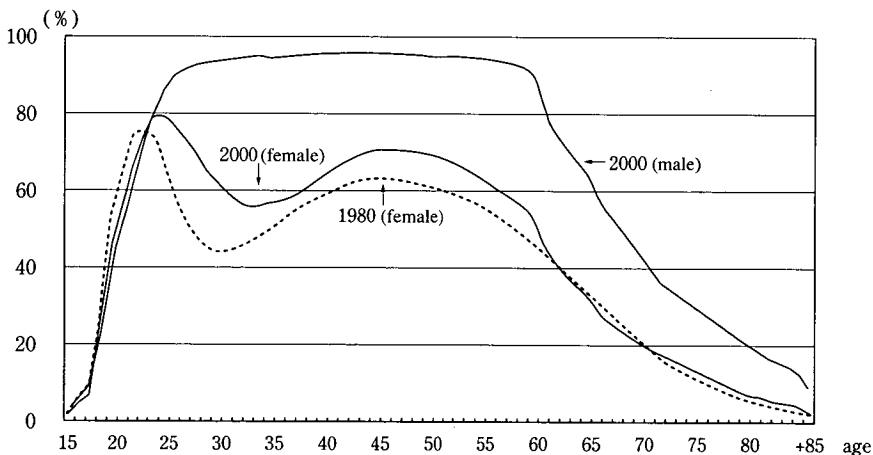
overtime work etc by their employers without expressing any grievances even though they have grievances in mind.

Many enterprise-based unions in the private sector need to conduct neither union-organizing campaigns nor activities to retain union members due to the union shop agreement. That is, the employer is able to dismiss any full-time employee who does not join or leave its enterprise-based union.

3 The Fourth Pillar: M-Curve Graph of Female Labor Participation Rate

I want to add the fourth pillar to the above three pillars to show more clearer the features in traditional Japanese employment practices. The fourth pillar is M-curve graph of female labor participation rate (Chart 1), where the typical working life for Japanese women is illustrated.

Chart 1 M-Curve Graph of Female and Male Labor Participation Rate



The first peak of M-curve in Chart 1 is supposed to show that many young women enter the corporations as full-time employees. In fact, young women are expected to resign in the early days, however, from full-time employment to be housewives to do housework, to care for children, to act in the community, etc., in order to support their husbands, who work hard for corporations under the Three Pillars System and earn enough steady income to support their wives and their children.

The second peak of M-curve in Chart 1 is supposed to show that many middle-age women re-

enter the corporations as part-time employees after their children have grown up. Their re-enter meets the demand of employers for atypical labor force and their earned money meets the additional demand of their family for more commodities.

We may say that the M-curve graph for women symbolizes the necessary condition for existing and functioning of the Three Pillars System for men, or that women are excluded from the Three Pillars System but support the Three Pillars System.

There is no M-curve for women in the other industrialized and industrializing countries where there are good labor statistics. Inverse-U-curve graph of labor participation rate is for men in all industrialized and industrializing countries over the world.

4 The Three or Four Pillars in Transition

4-1 Two major factors forcing the change

The first and decisive factor lies at the demand side of labor market. The competition among corporations, or nations, is getting hotter and hotter in the global market. It is accelerated by the revolutionary development of information technology. Japanese economy continues to be stagnated after the collapse of the bubble economy, however. Many of Japanese employers understand their current position and are urged to change their personnel policy. They are thinking that the first and second pillars are at a competitive disadvantage after the collapse of the bubble economy and that the reform of personnel policy can enhance their competitiveness.

The second factor lies at the supply side of labor market. The population in Japan is aging rapidly, or the ratio of productive-age population is decreasing rapidly to elderly population. It is increasing the expenditure for social security and decreasing the fundamentals for Japan's national competitiveness. It also gets employers to expect the shortage of labor force in the near future and to think they are required to improve the productivity more than now.

4-2 Various aspects of change in the Four Pillars System

In general, we can say the first three pillars are changing and getting slim in many corporations, while the fourth pillar is also changing but still supportive to the first and second pillars.

In detail, we can see various aspects of change.

It is getting more and more popular for full-time employees aged 40 and more to be made voluntarily redundant and permanently transferred to subsidiaries. It is also getting more and

more popular for full-time employees to be recruited with their job being specified, or supposed, before entering the corporations. Mid-career recruitment, or the recruitment of full-time employees with the experience of working for another corporation, is increasing, too.

Employers' effort of providing the employment security for their employees becomes sometimes to be regarded as their negligence of pursuing high performance management.

Young workers increasingly have little desire to continue to work to the retirement age within the same corporation.

Reforms of pay system for full-time employees are prevailing.

Annual regular salary increases have been suspended in many large corporations in the electric manufacturing industry since 2004. They were even abolished in some corporations. It is because there is a fierce international competition among corporations particularly in this industry.

It is a "fashion" among corporations that they reform their pay system from seniority-based to job-based or output-oriented for full-time white-collar workers. The reform increases the effects of performance appraisals and widens the dispersion in promotion and pay among full-time employees in the same employee group.

The change also appears abruptly and astonishingly in the composition of employee population (Chart 2).

Chart 2 Number of Employees, 2002, and Fluctuation from 1997

in thousand

	Number in 2002			Fluctuation from 1997		
	Total	Male	Female	Total	Male	Female
Full-time employees	34,557	24,412	10,145	-3,985	-2,375	-1,610
Atypical employees	16,205	4,781	11,425	3,615	1,423	2,194
Part-time employees called "Pato"	7,824	628	7,196	826	192	634
Part-time employees called "Arubaito"	4,237	2,096	2,141	893	444	449
Agency workers	721	204	517	464	151	313
Fixed-term employees	2,477	1,309	1,169	1,511	704	808
Misc.	946	544	402	-79	-68	-10
Total employees	50,838	29,245	21,593	-310	-912	603

Both male and female full-time employees had decreased from 1997 to 2002 in the statistical survey at 5-year interval shown in Chart 2, with females having decreased more rapidly. Atypical workers such as part-time, fixed-term and agency workers, who are excluded from the Three Pillars System, are rapidly increasing. This is particularly among women, with fixed-term women workers doubled and agency women workers tripled in 5 years. More than half of paid women workers were not full-time workers in 2002 and much more will not be in the next statistical survey in 2007.

4-3 "Conservatism" for the Three or Four Pillars System

A few employers, such as TOYOTA who continue to hold leading competitive positions in the global market after the bubble economy, announce repeatedly that they will keep traditional personnel policy almost intact, which will result in keeping all the Four Pillars System intact.

Perhaps CANON follows the way similar to TOYOTA's with one pillar changed. They seem to keep the first Three Pillars System almost intact while they seem to change the fourth pillar, as they seem to want many women employees to continue to work as full-time core labor force in their workplace. They are proud of the low retirement rate among young women employees.

Feminization of the labor force does not represent that many women continue to work within the same corporation, but represents that many women work as atypical workers such as part-time, fixed-term and agency workers. This tendency does not seriously contradict with the Four Pillars System, rather may reinforce it.

4-4 Divided Views

Many employers believe that the reform, or the reduction of the first and second pillars, is vital to recover the competitiveness of Japanese corporations in the global market.

Some employers and researchers are worrying that the reform may weaken the workers' motivation to work and improve their capacity of work, resulting in the loss of competitiveness particularly in the manufacturing industries by contraries.

Some researchers are also worrying that the reform causes new social problems such as the increase of individual labor disputes.

5 A Conclusion: Increase of Individual Labor Disputes

The Four Pillars System is changing. In other words, workers under the System are in an unstable situation. The increase of individual labor disputes represents the instability. Individual labor disputes means labor disputes breaking out between individual workers and employers and being usually independent from enterprise-based unions. They have been increasing since the collapse of bubble economy. Workers who felt unsatisfied with their employment conditions and treatment had appealed to various labor-related government offices, lawyers, certified social insurance specialists and so on.

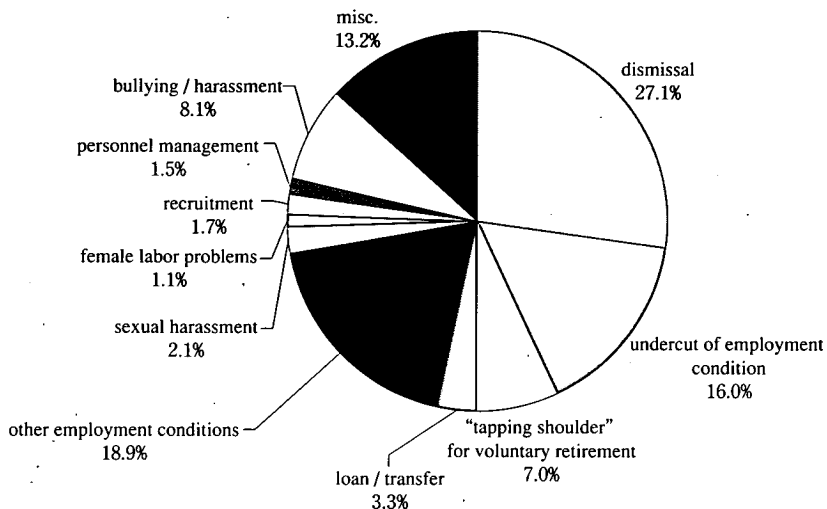
Law for Promoting the Resolution of Individual Labor Disputes was established and introduced in October 2001. The major purpose of the law is to give public service of consultation, official advice and mediation to employees who feel unsatisfied with their employment conditions and treatment.

The number of applications for the above service has been increasing since the introduction of law. All applications are not individual labor disputes cases. But, the officials have to recognize which is individual labor disputes case according to the law of 2001. The numbers of individual labor disputes cases recognized by the law of 2001 are shown in Chart 3 and 4. They are very increasing over years. In the FY2004, The recognized number of individual labor disputes cases amounted to 160,166. Out of 160,166 cases, 6,014 cases went to the mediation and 5,287 cases went to receive the official advice. The issues of 160,166 cases are, for example, dismissal, undercut of employment condition, “tapping shoulder” for voluntary retirement, bullying/harassment, etc.

Chart 3 Numbers of Individual Labor Disputes Cases Recognized by the Law of 2001

	No. of ILD	No. of A for M	No. of A for OA
(half FY2001)	41,284	764	714
FY2002	103,194	3,036	2,332
FY2003	140,082	5,352	4,377
FY2004	160,166	6,014	5,287

Chart 4 Breakdowns of 160,166 Issues in FY2001



Their increase contrasts strongly with the very small number of collective labor disputes such as strikes and slowdowns by enterprise-based unions. The collective labor disputes are decreasing or stay at the low level (Chart 5 and 6).

Chart 5 Decrease of Collective Labor Disputes (1)

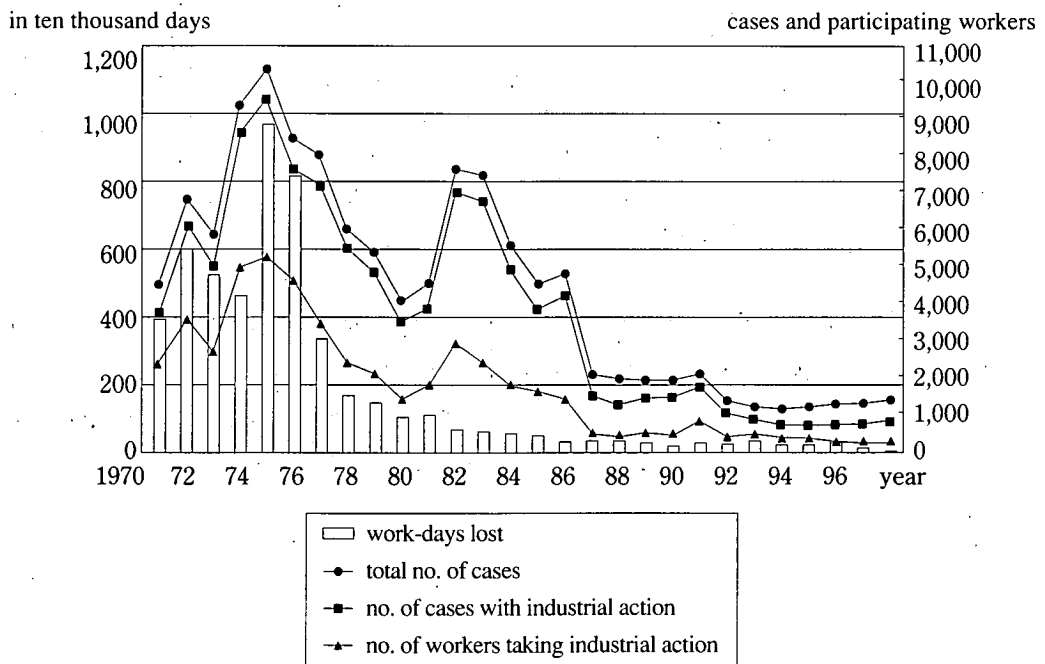
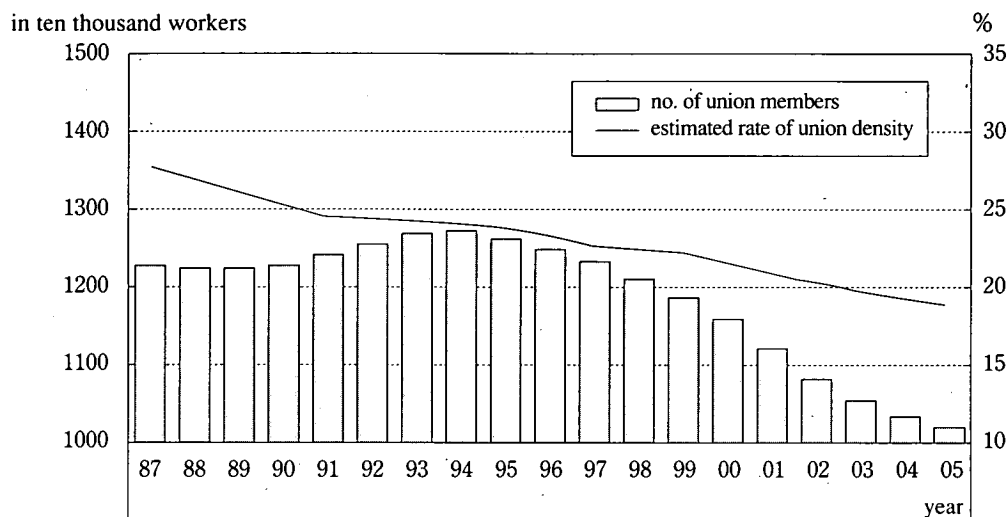


Chart 6 Decrease of Collective Labor Disputes (2)

Year	cases	total no. of participating workers	no. of workers taking industrial action	work-days lost
1993	657	485,083	273,558	116,003
	(-16.6)	(-41.1)	(-33.3)	(-49.9)
94	628	464,043	263,035	85,377
	(-4.4)	(-4.3)	(-3.8)	(-26.4)
95	685	374,421	221,606	76,971
	(9.1)	(-19.3)	(-15.8)	(-9.8)
96	695	373,791	178,064	42,809
	(1.5)	(-0.2)	(-19.6)	(-44.4)
97	782	488,936	212,662	110,171
	(12.5)	(30.8)	(19.4)	(157.4)
98	526	334,932	165,492	101,508
	(-32.7)	(-31.5)	(-22.2)	(-7.9)
99	419	258,386	106,236	87,069
	(-20.3)	(-22.9)	(-35.8)	(-14.2)
2000	305	241,659	84,529	35,050
	(-27.2)	(-6.5)	(-20.4)	(-59.7)
2001	246	223,144	74,531	29,101
	(-19.3)	(-7.7)	(-11.8)	(-17.0)
2002	304	160,088	65,892	12,262
	(23.6)	(-28.3)	(-11.6)	(-57.9)
2003	174	95,425	42,810	6,727
	(-42.8)	(-40.4)	(-35.0)	(-45.1)
note: % of year / year in ()				

The decrease of collective labor disputes echoes the decrease of trade unions. The rate of union density over Japan is decreasing, down to 19.2 percent in 2004 and 18.7 percent in 2005 (Chart 7). During these decreases, the labor laws in Japan are very encouraging and supportive to the activities of trade unions and the enterprise-based unions continue to be very cooperative with employers.

Chart 7 Decreases of Trade Unions



The services, which were introduced by the law of 2001, play only a limited role in stabilizing the employment relations. It is demonstrated by the fact that the number of cases where the employees can apply for official advice and mediation is small because they are required to get the consent of employers for the application.

It is also demonstrated by the distrust of enterprise-based unions by union members. It is interesting that 28.9 % of applicants for official advice and mediation in FY2004 were “employees from unionized institution of business.” Its percentage seems to suggest that many members of enterprise-based unions became applicants independent from their enterprise-based unions. I guess that the union members appealed to their union officers, but they disappointed with the fact that their union officers were not eager to negotiate with their employer in their behalf. Or I also guess that union members did not like to appeal to their union officers at all, as they knew that their union officers were not eager to negotiate with their employer in their behalf.

The employment relation problem in the present Japan is as follows. The third pillar, enterprise-based union, is traditional machinery for stabilizing the employment relations. Now, it becomes dysfunction. But, the new machinery has not been replaced with it, or no one knows what is the new machinery to be replaced with it.

The similar problem exists in the US, or perhaps, in some of the Anglo-Saxon countries

where there are the increase in individual labor disputes and the decrease of collective labor disputes.

In general, "Market" is said to be the most excellent invention by human beings. I want to say "Trade Union" may have been the most excellent invention by workers to regulate "Labor Market." "Trade Union" is deteriorating now, however.