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The Employment of Older Workers in Japanese Firms: Empirical Evidence from Micro Data

Yoshio Higuchi and Isamu Yamamoto

The willingness of older people to work is generally said to be low in Europe. Thus, in order to raise the European labour force participation rate, it is important both to motivate older people to work and to encourage firms to utilize older workers. In Japan, however, older people are relatively willing to work, so that the key determinant for the employment of older workers is the nature of company employment practices.

The Japanese labour force participation rate for men in their early 60s was 71% in 2003, which is much higher than the 15% in France and the 33% in Germany. Nevertheless, it is not clear that the high willingness to work amongst older Japanese is being effectively utilized in firms, especially after workers reach the mandatory retirement age.

According to the 2004 ‘Survey on Employment Conditions of Older Persons’ (Ministry of Health, Labour and Welfare), 74.4% of companies with five or more employees implement a mandatory retirement system, and 88.3% of those firms set the mandatory retirement age at 60. Among the workers who reach this mandatory retirement age, 31.8% either move to other firms or retire. The remaining 68.8%, who stay in their firms through employment extension or the re-hiring system, change their employment status, to ‘entrusted employee’ and ‘part-time employee’. Based on the 2004 ‘Labour Force Survey’ (Ministry of Internal Affairs and Communications), the ratio of regular male workers (including executives) in their late 50s is 64%, but declines to 31% when workers reach their early 60s, whereas the ratio of non-regular workers increases from 7% to 20%.

As for large firms with 1,000 or more employees, the number of older workers who remain in regular positions also decreases. All large firms
adopt a mandatory retirement system, 97% of which set the mandatory retirement age at 60. Only 2% of workers who experience mandatory retirement remain in their firms under the employment extension system. If we include those who are continuously employed in their firms via the re-hiring system, this figure only rises to 27%. Therefore, the remaining 73% simply leave their companies.

Once workers move to other firms or retire, it is likely that the skills which those workers acquired over many years suddenly become useless. Of course, people who do not want to work should not be forced to do so, but there are quite a few older people who want to make use of their skills as regular workers at the firms they have worked for. If one takes the broader perspective of social welfare into account, then the situation outlined above is inefficient, since human resources are not being effectively allocated in terms of quantity and quality.

In this article, we examine the survival rate for employees after the age of 50 by using the hazard model, and investigate what kind of personnel management strategy would be effective in making use of older workers’ skills, and in promoting their employment. The article is organized as follows: In Section 2 we describe the framework of analysis and explain the estimation model and data. In Section 3 we then show the estimation results for the hazard rate function. Finally, in Section 4 we summarize our analysis and sketch out the policy implications.

Framework of analysis: The Lazear model and the employment of older workers

Why is it that firms do not aggressively work on utilizing older people? In economics, one of the standard answers to this question is derived through comparison of a worker’s wage and his labour productivity. In other words, the fact that the wages of older workers are high compared with their labour productivity inhibits firms from employing older workers.

E. P. Lazear (1979) indicated that a ‘cheating hypothesis’ supports the above. In response to the question, ‘Why do firms try to set a mandatory retirement system?’, Lazear explained that if firms can immediately calculate the labour productivity of each worker, then they can pay wages according to that labour productivity, as in a commission system. As a result, there will be no gap between wages and labour productivity, and a firm will neither profit nor lose by employing workers. However, when work becomes sophisticated and complex, it is not possible to immediately calculate the productivity of individual workers. Furthermore, monitoring individual productivity is extremely costly.