



## Trends in worker displacement penalties in Japan: 1991–2005



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### ABSTRACT

We examine the period from 1991 to 2005 to document the effects of a changing Japanese labor market on the consequences of job change for workers, focusing on the change in the wages between initial and subsequent employment. During this period, job changes caused by separations from the initial job that were involuntary from the workers point of view increased and the wage losses from job change grew. As well, while age-earnings profiles for continuously employed career workers remained the same in 1993 and 2003, the age-earnings profiles of newly hired workers grew flatter during the period. Hence, an erosion in the earnings of newly hired workers relative to incumbent workers occurred and the effect was to increase the job change wage losses for older workers. Thus, while the losses from changing jobs grew in general, they also grew more age-related over the sample period.

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## 1. Introduction

The labor market adjustment to the economic downturn in Japan during the 1990s included a trend towards more job separations due to layoffs and the non-renewal of employment contracts, rising unemployment and the erosion in the earnings of newly hired workers relative to incumbent workers. Wage gains from voluntary job change diminished for younger workers in the 1990s while for older workers wage losses from involuntary job change grew increasingly severe. Older workers and workers leaving the largest firms suffered the largest wage losses from job change. This paper documents the trends in the cost of job change in Japan between 1991 and 2005, a period that encompasses an extended period of economic stagnation and both rising and subsequently falling unemployment. The data come from the Employment Trend Survey micro-survey conducted by the Ministry of Health, Labor and Welfare. The findings may be insightful for other countries facing a long period of stagnation.

The trends taking place in the sources of job separation and the wage changes upon reemployment can be displayed graphically.

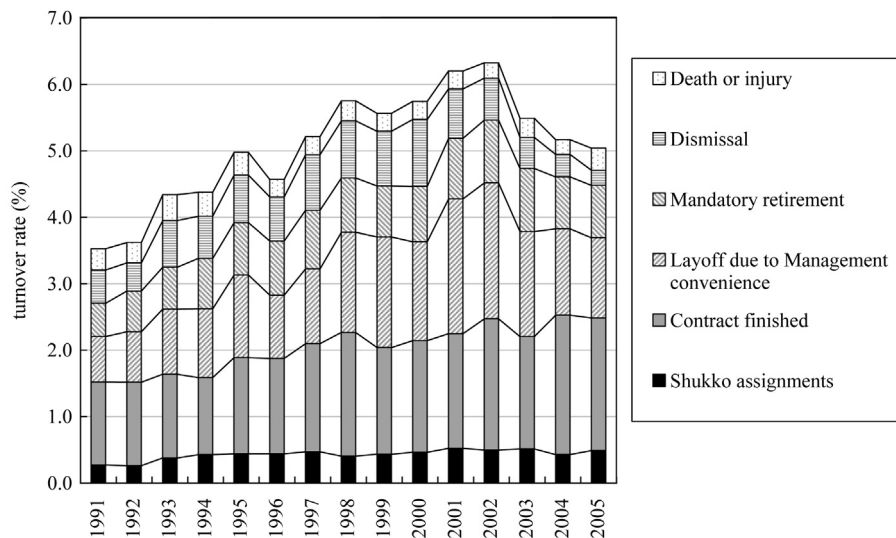
Fig. 1 provides the sources of turnover between 1991 and 2005.<sup>1</sup> The aggregate turnover rate peaked at 6.3% in 2002, nearly double its rate in 1991. This peak coincided with the peak in unemployment of 5.5%. The primary source of growth in turnover was layoffs due to management convenience (from 0.7% in 1991 to 2.0% in 2002). Increasing trends in contract expiration and dismissals are also evident.

*Shukko*, referenced in Fig. 1, is the practice of temporarily transferring an employee to an associated company. *Shukko* is a common human resource practice among Japanese firms in which a worker is transferred to an associated company or subsidiary while preserving the labor contract. The main purpose of *shukko* assignments is to give workers a broader exposure to business practices, serving the long-run interest of the worker and employer. Unlike workers undergoing job separation for other reasons, *shukko* assignments have been relatively stable source of turnover and have had minor wage implications. Fig. 1 shows the incidence of *shukko* assignments to be stable at about 0.4% since 1994.

<sup>1</sup> The statistics presented in Fig. 1 are not tabulated from the inflow supplement of Employment Trend Survey data. They come from a publically available government website that classifies the reasons for job separation differently than the inflow supplement of Employment Trend Survey. (Source: <http://www.dbtk.mhlw.go.jp/toukei/kouhyo/data-rou14/jikei/kd-jikeiretu-13.xls>)

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Source: Calculated from published reports regarding the Employment Trend Survey. The turnover rate is defined by the number of separations caused by each source during the year divided by the number of employees at the beginning of the year. The calculation is only for regular workers, defined as those who have been employed at least a month or have open-ended contracts.

**Fig. 1.** The turnover rate by cause of job separation (1991–2005).

Source: Calculated from published reports regarding the Employment Trend Survey. The turnover rate is defined by the number of separations caused by each source during the year divided by the number of employees at the beginning of the year. The calculation is only for regular workers, defined as those who have been employed at least a month or have open-ended contracts.



**Fig. 2.1.** Mean real wage change by year (1991–2005).

Because wage changes also occur for workers who are continuously employed, the true cost of job change depends on the amount workers would have earned if they had remained with their initial employer. We use the group with shukko assignments to represent this counter-factual in later analyses. These workers, though remaining continuously employed, enter the sample when they are transferred to the associated company and have a recorded wage change that approximates the wage change of continuously employed workers who are not reassigned. In evaluating the cost of job change, we regard the wage change with *shukko* assignment as the benchmark for comparison.

Figs. 2.1 and 2.2, produced from the Employment Trend Survey Micro Data, consider the wage changes upon re-employment that accompanied turnover in the period. The survey reports the wage change upon re-employment in five categories: a loss of 30% or

more, a loss of 10–30%, a change between –10% and 10%, a gain of 10–30% and a gain over 30%. These are coded for the purposes of constructing Figs. 2.1 and 2.2 as –30%, –15%, 0%, 15% and 30%.

Fig. 2.1 displays the trend towards less favorable wage changes for workers over the sample period across the three categories of job separation, with all of the changes rebounding somewhat at the end of the period.<sup>2</sup> While there is a clear negative trend for involuntary job changers, from a 3.3% wage loss in 1991 to an 8.1% wage loss in 1999, there is also evidence of slight improvement in the 1999–2002 and 2004–05 periods. Similarly, for voluntary job changers, 3.9% gains in 1991 fell to –0.4% losses in 1999. It is remarkable that even voluntary job changers suffered wage declines on average in 1998–99. The profile for *shukko* assignments falls between the profiles for voluntary and involuntary separations and exhibits a slight negative trend. Those who were assigned as *shukko* did not experience significant wage losses. The largest loss, occurring in 2000, was only 1.2%. Considering that the Japanese economy ceased experiencing growth beginning in 1992, it is not surprising that the average wage change associated with *shukko* is slightly negative.

The increasing cost of job change initially coincided with rising unemployment. Between 1991 and 1999, the correlation between the mean wage change for the involuntary (voluntary) separated and the unemployment rate is –0.97 (–0.94). However, improvement in wage changes for the involuntarily separated began while unemployment was still rising and there is no statistically significant correlation between the two series from 2000 onwards.

Fig. 2.2 displays how wage change trends differ by age. In each of the age groupings, the consequences on wages of *shukko* assignments are smaller than the consequences of voluntary or involuntary separation. For workers 44 or less, *shukko* wage changes are less than 1% in absolute value. Voluntary separations clearly improve wages for these younger workers on average. However, the most evident trend for these younger workers is the diminishing wage increase accompanying voluntary separations over the sample period.

Workers 45 and over show little benefit from voluntary job change except for a small average benefit in the early 1990s. For

<sup>2</sup> Job separations resulting from dismissal and mandatory retirement are coded as “involuntary.” Reasons for dismissal include plant closings, layoffs and worker misconduct. The causes of voluntary job separation include job dissatisfaction, bad human relations in the firm, concern over the future of firm, dissatisfaction over compensation, dissatisfaction with working time or number of holidays, marriage, maternity and family care.

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