



# The high cost of missing a boat under the Japanese recruitment practices: Timing of regular and non-regular employment after school completion in Japan



Eric Fong<sup>a,b,\*</sup>, Junya Tsutsui<sup>c</sup>

<sup>a</sup> Department of Sociology, Chinese University of Hong Kong, Hong Kong, China

<sup>b</sup> Department of Sociology, University of Toronto, Toronto, ON, Canada

<sup>c</sup> College of Social Sciences, Ritsumeikan University, Kyoto, Japan

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## ABSTRACT

We explored the timing of obtaining regular and non-regular employment after school completion in Japan. Our study is based on a unique longitudinal data set, the Japanese Life Course Panel Survey. The results capture a peculiar recruitment system of the Japanese youth labor market. The likelihood of regular employment after school completion in Japan is highly influenced by the number of years after school completion. The likelihood of obtaining a regular job drops drastically after the first year. As job seekers realize that this employment window is closing, they look for non-regular employment. Our study also shows that educational level has a significant effect on the likelihood of overall employment and of regular employment after school completion. However, the effect is quickly diminished within a few years. In other words, the benefit of investing in additional years of education in order to secure a job applies for only a short time. Finally, our study suggests that gender is not significant to securing a regular job as the first job after school completion. Taken together, the results demonstrate how individuals are “channeled” to regular and non-regular employments is related to the unique recruitment system in Japan.

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## 1. Introduction

Over the last few decades, there has been increasing attention given to the growing inequality in Japan. According to a recent OECD report (OECD, 2011), the household income of the top decile income group grew 0.3 percent from the mid-1980s to the late 2000s, while the bottom decile dropped 0.5%. In fact, Japan is the only OECD country where the bottom decile income group dropped. One of the key reasons contributing to the increase in inequality is the growing inequality in individual income (OECD, 2011). The younger generation has been experiencing the larger income gap, which is largely due to an increase in non-regular employment for that group (Shinozaki, 2006).

Regular employment usually refers to full-time paid employment with a contract directly with the firm, while non-regular employment usually refers to those deviating from regular

employment. Thus non-regular employment includes contract jobs, dispatched jobs, or temporary jobs. Many youth between the ages of 18 and 24 obtain non-regular jobs when they first enter the labor market. While regular jobs usually are accompanied by long term hiring commitments, the possibility of on-the-job training, and employee benefits, non-regular employment does not carry such benefits and security. The co-existence of traditional regular jobs and non-regular jobs creates two sets of institutional arrangements in the labor market, sometimes referred to as the duality of the labor market (Keizer, 2008), and leads to the interesting and important question of the timing of taking the first job, regular and non-regular jobs, after school completion.

Most existing literature on non-regular employment explores the psychological and economic consequences of being employed in or having been employed in non-regular jobs (Giesecke, 2009; Guest, 1998; Luijckx & Wolbers, 2009; Sharone, 2013; Shore & Barksdale, 1998). Though it is obviously an important issue, surprisingly few studies have focused on the timing of taking the first job, regular and non-regular, after school completion (Barbieri & Scherer, 2009; Gash, 2008; Parks, Kidder, & Gallagher, 1998; Shikata, 2012; Yu, 2012).

\* Corresponding author at: Department of Sociology, University of Toronto, Toronto, ON, Canada M5S 2J4. Tel.: +1 416 9788488.

E-mail address: [fong@chass.utoronto.ca](mailto:fong@chass.utoronto.ca) (E. Fong).

There are many studies about youth employment or first employment in Japan. Most of them focus on the impact on subsequent employment of not being hired as a regular full-time employee in the first job after graduation. Kondo (2007) used a cross-sectional Japanese social survey to show that the employment status of the first job is related strongly to subsequent employment status. Using longitudinal data, Hamaaki, Hori, Maeda, and Murata (2013), drawing from the Japanese Panel Survey of Consumers, and Diamond (2011), who drew from the Keio Household Panel Survey, showed that the first job after graduation is strongly related to an individual's future career. However, none of these studies have explored the timing of the regular and non-regular employment related to the first job after graduation.

In this paper, we address the timing of regular and non-regular employment among young people after school completion in Japan. The topic is extremely important. First, as mentioned earlier, the topic has direct implication for the growing inequality in Japan. Not only low payment and insecurity of non-regular employment, it have a long term 'scarring effect' on employment patterns and earnings (Yu, 2012). Subsequently, individuals with non-regular employment after graduation encounter more hurdles to climbing the social stratification system (Hamaaki et al., 2013).

Second, focusing on institutional arrangements, our investigation of regular and non-regular employment patterns after school completion in Japan will help to explore the role of institutional mechanisms that shape employment processes. Japan is an interesting case study as Japan has a rigid recruitment system that they do not recruit regular employees all year round. Individuals who miss a company's application period have to wait until the next year. Our study will provide insights and document the timing of regular and non-regular employment patterns of the first job by the recruitment system and educational level. In addition, we delineate the conditions under which the timing of individuals accepting regular or non-regular employment as their first employment after school completion.

Third, youth employment is a global concern, especially in most OECD countries and Japan in particular. The Japanese economy is the third largest economy in the world. In recent years, non-regular employment in Japan has risen drastically among youth (Hamaaki, Hori, Maeda, & Murata, 2012; Kawaguchi & Ueno, 2013). According to the Japanese Labor force Statistics, non-regular employment among youth aged 15 to 24 was 20.0% (men) and 20.6% (women) in 1990 but reached 47.2 (men) and 53.6% (women) in 2012 (Japan Statistics Bureau, 2013b). Better understanding of the mechanisms of timing of regular and non-regular employment of the first job after school completion can help develop better policies of school to work transition.

Our study focuses on the timing of the first employment, regular or non-regular, among young people after completing school in Japan. We employed a unique longitudinal data set, the Japanese Life Course Panel Survey (JLPS), to explore the regular and non-regular employment patterns of first jobs in Japan. The results of our study capture a peculiar feature of the Japanese labor market. They suggest that the impact of the number of years after school completion, which strongly reflects the recruitment system in the regular employment, is much greater than the effect of educational level. It is even more important than gender, which is also a major factor in deciding job opportunities in Japan. Specifically, the findings suggest that in Japan, due to the peculiar recruitment system in regular employment, the window for regular employment after school completion is very short, for both males and females. Once the window of opportunity begins to close, job seekers turn to non-regular employment. Taken together, the findings suggest that regular and non-regular employment in Japan are two separate labor markets with distinctive institutional boundaries, which are managed and manifested through the recruitment system. The findings further

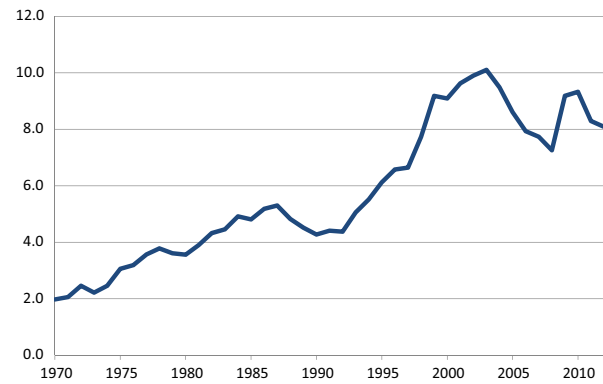


Fig. 1. Seasonal adjusted unemployment rate for age 15 to 24 between 1970 and 2010, Japan. Source: Japan Statistics Bureau (2013a).

suggest that the effect of the peculiar recruitment system on insulating regular employment from non-regular employment is even stronger than the effects of human capital level and gender.

## 2. Background

In Japan, regular employment is long-term employment commitments by companies, usually until the official retirement age. They usually provide workers' compensation, health care, and pensions. Non-regular employment usually refers to contract jobs, dispatched jobs, or temporary jobs. Contract workers work under a contract for a specific period of employment, sometimes without health care or pension (Gaston & Kishi, 2007; Shire, 2002). Opportunities for promotion are limited. The contract may be made directly with a company or through a subcontractor. Dispatched workers are hired by an employment agency, and are indirectly hired by companies through the employment agency's network (Imai, 2004). Temporary workers are those who are contracted for a very short period, sometimes by the day.

Largely in response to intense global competition in the 1980s, and increasing difficulties in the Japanese economy since the burst of the bubble economy in the early 1990s, the Japanese Government has relaxed the highly structured labor market by reducing regulations regarding temporary workers and contract employment (Iguchi, 2012; Imai, 2004). In 1985, the Labor Dispatch Law lifted some of the restrictions, allowing 13 industries to use temporary workers. The list increased to 26 industries in 1996. By 1999, only 5 industries were not permitted to hire temporary workers. In addition, the duration of contracts for temporary workers was extended to 3 years in 1998 and 5 years in 2003 (Imai, 2004). By 2004, the time limits on temporary contracts in some industries were eliminated, and the manufacturing industry, the major industry in Japan, was also allowed to hire non-regular workers. Such changes led to a drastic increase in non-regular employment.

Fig. 1 reports the unemployment rate of Japanese youth aged 15 to 24 between 1980 and 2012. The rate increased steadily from 3.6% in 1980 to 10.1% in 2003, largely a reflection of the country's economic downturn. However, the rate dropped back to 8.1% in 2012. Though the percentage is low in comparison to other OECD countries, the Japan Statistics Bureau reported that many youths secured only non-regular employment. The percentage of non-regular jobs held by youth between the ages of 15 and 24 has been growing rapidly from slightly above 20% in 1993 to close to 45% in 2012.

### 2.1. Working conditions: Regular vs. non-regular employment

Most studies agree non-regular employment in Japan have unfavorable working environments. According to a study conducted in

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