

THE EMPLOYMENT OF OLDER PEOPLE: CAN WE LEARN FROM JAPAN?

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Abstract

The level of employment amongst older people, including those above retirement age is very high in Japan. This has been attributed to the “lifetime employment system”, and provisions for external transfers and demotions that allow wages to be reduced as people pass middle age. The paper point to how the structure of Japanese industry is also important and how many older Japanese are working in relatively unproductive and sheltered jobs. Moreover, it questions whether the lifetime employment system can survive, and shows how early retirement schemes, similar to those in the west, are being introduced as a response to continued recession. On top of this, external pressures for deregulation are threatening the ability of protected sectors to absorb older people. Japanese employers have a tendency, as do western employers, to discard older people. All employers will, in the face of population ageing, have to learn how to use older people better.

Introduction

Some conventional, and some not so conventional, explanations

System strains

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The employment of older people: can we learn from Japan?

Japan is frequently remarked upon for its very high level of labour force participation amongst older workers and particularly older men. As many as 95 per cent of men aged 55-59 are still economically active, amongst 60-64 year-olds this falls only to 74 per cent. Even amongst those men aged 65 and above, 36 per cent are still in the labour force. Almost all of the economically active are working rather than unemployed: the relevant employment rates are 91 per cent, 66 per cent and 34 per cent. A brief comparison with other countries is given in Table 1.

<Table 1: Employment rates for older men, 1999(%s) here >

The very high employment rates exist alongside a relatively low mandatory retirement age operated in many sectors of the economy – 60, having risen from 55 over the past two decades. They also exist alongside a payment system that makes older workers relatively more expensive. The “lifetime employment” system sets pay according to seniority and thus, effectively in accordance with age. This paper asks why, under these circumstances, and, moreover, the relatively poor performance of the Japanese economy over the past decade, such high rates of employment have been maintained. It then goes on to ask if they are likely to be maintained in the future.

Some conventional, and some less conventional, explanations

The lifetime employment system has its roots in a mixture of culture and late industrialisation. Industrial workers were recruited from rural communities and moved from being the dependant members of one closed community to the dependent members of another. The firm replicated many of the practices of the village, particularly in having no concept of an individual job – and so of individual pay – but rather one of

co-operative work¹ – and so of pay according to the type of worker. Within the firm, wage differentials between men and women were perpetuated, but pay also reflected assumed responsibilities, and these were recognised as rising with age (Sano, 1997). Many observers have pointed to how “compared to (countries for which equivalent data is available), the age-earnings profile of Japanese workers remains steeper over a longer time period” (OECD, 1996:105).

Precisely because of this pronounced age-earnings profile, firms impose mandatory retirement,² and retirement is presumed to occur a few years after domestic responsibilities had peaked. A mandatory retirement age is operated by almost all large firms and many smallest ones. That age has risen from 55 to 60 over the past two decades – this rise being the result of negotiations between employers and unions who were encouraged by government to adapt to an equivalent raising of the age of eligibility for the public earnings-related pension.³ The upward movement in the retirement age was matched by an upward movement in the age at which earnings peaked. In 1980, it stood at around 52, in 1999 at around 57 (JIL, 2000).

The practices of employers that allow some of the consequences of an age-related payment system, and the associated mandatory retirement age, to be circumvented are suggested to be an important reason as to why the rate of employment amongst older people is high. Many primary sector employers offer forms of re-employment to those reaching mandatory retirement age. Such re-employment is often on a temporary basis and might involve a change in terms and conditions. Although the incidence of such practices has

¹ This is associated with a high degree of job flexibility that, in turn, has been used to explain high levels of productivity. See Keike (1997).

^{1.} This is a classic case of “why there is mandatory retirement”. For an exposition, see Lazear (1987).

3. Japan has a two tier pension system consisting of a flat-rate and an earnings-related component. The flat-rate benefit is worth 18 per cent of average earnings after 40 years, but since the scheme was introduced in 1961, it only matured this year. The flat rate pension is normally taken at 65. The earnings-related pension can be drawn without reduction at 60 and is worth a maximum of 30 per cent of final wages for those with a full contribution record. Those who retire fully at 60 can receive the equivalent of their basic pension entitlement as a supplement to the earnings related pension. Those who continue to work have their

grown over the past decade, from just over 40 per cent to nearly 55 per cent, employment extension is not automatic. Only about a quarter of firms make it available to all who apply.

Frequently referred to is the practice employees who are in their mid 50s are moved from their career jobs to jobs with subcontracting firms under arrangements as *shukko* and *tenseki*. *Shukko* is a practice by which the transferred worker remains an employee of the sending firm, *tenseki* is a practice by which the transferred worker becomes an employee of the receiving firm. A period of transfer on *shukko* can be followed by a termination of the original contract and re-employment upon *tenseki*. (Sato, 1996).

Where there is no re-employment opportunity, and no opportunity for transfer, the employing firm might use its best efforts to assist in finding subsequent work or even help the departing employee – who will receive a lump-sum retirement payment – to establish himself in self-employment (Rebick, 1995).

The move in employment experienced by primary sector workers is usually associated with some form of wage reduction. Thus, the age-wage curve shifts sharply downwards after having reached its peak, but, more than in many other countries, the downward shift is associated with a change in employer (de facto and, in the case of *tenseki*, de jure) and sometimes a change in tasks. Amongst those who stay with their old firm, the average wage reduction is estimated to be some 30 per cent; amongst those who change employer, it is close to 50 per cent (JIL, 2000).

Total income, however, falls by somewhat less. At age 60, an employee can start to draw an earnings-related pension. This pension can be combined with continued working, although then it is subject to an earnings test. The pension abatement is tapered, such that by the time the average production wage is earned, no pension will be paid. However, the average person leaving a job at 60 and continuing to work

earning related pension reduced by a fraction of their earnings, such that someone earning the average wage would receive no pension at all.

until 64 will increase his income by a further 40 per cent thanks to the pension received. The “supplement” for the person who does not change employer is likely to be less, since his earnings are likely to be higher.

Employment practices in the primary sector, and the ability to combine work with receipt of a pension can offer only a part of the explanation for why older people remain in work beyond the mandatory retirement age. As Table 2 shows, only a fraction of the workforce is employed in the primary sector in enterprises that are possibly large enough to have subsidiaries. Amongst men in their late forties, only about one in four of those who work in the private, non-agricultural sector is in an enterprise with 1000 or more employees and less than one in three work in one with 500 or more employees. As a proportion of the employed workforce, and so including agriculture and central and local government, these shares fall to a fifth and a quarter.

< Table 2: Employment by firm size, 2000 (%s) here >

Small enterprises are somewhat less likely to operate mandatory retirement ages than larger ones. In the mid 1990s, whilst almost all enterprises with 300 or more employees had a mandatory retirement age, only 72 per cent of those with between 10 and 29 employees, and only 31 per cent of those with under 10 employees did so (Sato, 2000). In addition, small enterprises are more likely than larger enterprises to offer to continue the employment of people who reach mandatory retirement. Thus, some 55 per cent of firms with 10-29 employees did so, compared with 35 per cent of those with 5000 or more employees. Small firms are not, however, any more likely to extend the offer to all who wish to work than are larger enterprises. This means that a substantial proportion of older people receive no structured assistance at all from their employer in finding post retirement age work. Obtaining a picture on what happens to them is difficult because most surveys of employer practice do not sample firms with fewer than 30 employees, yet these firms employ about a quarter of all those working in the private sector. It might be expected that, in

the small and micro enterprise sector, personal relationships are such that many employees are retained into older age and few are involuntarily retired.

On the other hand, and as in most countries, conditions in the small firm sector are markedly inferior to those in the large firms sector. Pay is lower, coverage by supplementary pension plans is lower, and payment of lump-sums upon retirement is less frequent. Those older employees who move into the small firms sector, and who do not continue an employment contract with their career employer, experience a substantial drop in their earnings. Some of this is compensated for by the partial pension they will be able to draw and the severance payments they have received from their former employer. Those older employees who move from one small firm to another, and move without assistance from the previous employer, usually do so without any severance payment and can suffer a significant fall in their income (Yamada, 2000).

An understanding of the role of job transfers and of shifts to new employers throws much light upon why such a high proportion of people in their late fifties and early sixties are still in work. It throws much less light upon why such a high proportion of those aged 65 and over are. To make sense of this, it is necessary to look more closely at what the very oldest workers in Japan actually do. This is done in Table3.

< **Table 3: Characteristics of older male employment, 2000** (%s) here >

Self-employment is clearly important as a means of working beyond 65. The rate of self-employment increases steadily by age from 17 per cent for those aged 55-59, to 30 per cent for those aged 60-64, and to 48 per cent for those aged 65 and older. Taken together with family working (paid or otherwise), self-employment accounts for nearly two thirds (62 per cent) of all those at work after 65. Also important is part-time working - one in four of those working beyond the age of 65 do so as part-timers. The agricultural sector accounts for nearly one third of those working beyond 65, and most of its older labour

force are self-employed or working in the family. Whole-saleing and retailing account for one fifth, and construction for one seventh of those working beyond 64. Together, these three sectors account for two thirds of the oldest members of the male workforce, making their over-representation almost twofold.

Movement into self-employment at the end of a career job, and with the encouragement of the former employer, has already been mentioned. Movements into the whole-saleing and retailing sectors are also common, in particular where there is a family connection. Most important are movements back to the agriculture. This reflects the fact that, outside the metropolitan areas, many middle aged agricultural workers are *kengyo nouka*, or have part-time jobs alongside their industrial jobs. It also reflects the fact that other, on retiring from the industrial community return to the rural community, perpetuating a family link with the land and the small-plots that are maintained in the name of the family.

System strains

For at decade, the Japanese economy has been suffering from slow growth and the prospect of an ageing labour force. Unemployment, whilst low by international standards, has been rising. As continued poor performance becomes intolerable, enterprises have been obliged to restructure and cut costs. The banking system, in part under government and external pressure, is being obliged to be more strict about lending policy, to call in bad loans and to force non-performing firms to close. Lastly, the government, again in part under external pressure, is starting to deregulate important sectors of the economy and thereby forcing enterprises to adopt more efficient practices.

The consequence is that those personnel practices and policies that served high growth and an expanding labour force are ceasing to be appropriate. The “life-time employment” system that, together with *shukko* and *tenseki*, ensured continued employment opportunities for possibilities of some older workers, is ceasing to function as effectively as it once did. Large firms are now no longer reducing their hiring; they are also starting to declare redundancies. Already early in 1993, there was survey evidence that firms were

feeling an excess of older (here, aged 45 and above) clerical and managerial workers and that, in the vast majority of cases, this surplus was structural rather than cyclical. Moreover, the larger the firm, the greater the problem (Sato, 1994). More extreme still, major companies started announcing large scale redundancies as part of their plans to restructure (Osawa and Kingston, 1996). Some of these redundancies were even "involuntary" (Araki, 1995). In other cases, early retirement opportunities were introduced, offering enhanced early pensions or lump sum severance payments, sometimes to workers as young as 50 (Sato, 1994). Recently, the incidence of such "un-Japanese" practices has appeared only to grow, as Table 4 illustrates.

**< Table 4: Major companies announcing/implementing early retirement plans:
press announcements since mid 1999 here >**

What is of interest in Table 4 is the appearance of major motor manufacturing firms in the list. In the last few years, both Nissan and Mazda were taken over by foreign companies. The new managements that were put in place there were not Japanese and were not beholden to Japanese practices (see, for example, Ibson, 2001). What they sought to do, when pushing through their restructuring plans, was very much what they were doing when they restructured at home – in France or America. They laid workers off and, in particular, they operated early retirement programmes. And where they do, take up has been high. Companies have reported over-subscription within days and even within hours, reflecting a fear amongst employees that job cuts were unavoidable and such terms would not be offered a second time (Yomiuri Shimbun, 2001).

The problems experienced by the large firms/primary sector have repercussions for the operation of the *shukko* and *tenseki* systems. The sectors comprising the companies receiving transferred workers suffer the same slowdown in demand growth, and face the same needs to restructure, as the sector comprising the companies wishing to transfer. As a consequence, the transfer system has hit an impasse. The ability of

firms to receive workers on transfer has been made worse by two further developments. First, the restructuring plans of many large companies involve them rationalising their supply systems. They are seeking to reduce the number of sub-contracting companies and to enforce greater efficiency upon them and even to source from abroad.⁴ Second, the small firm sector is particularly threatened by attempts to force the banking sector to reduce bad loans – and their position is made yet weaker by the withdrawal of contracts to supply larger firms. Although such financial surgery has been performed only slowly, the number of bankruptcies has been rising. In 2000, there were 12 per cent more than in the previous year, and bankruptcies reached their highest level since 1987. Small and medium size firms were hit twice over – both because the banks were putting their finances under greater scrutiny and because parent companies were seeking to extricate themselves from debt at the expense of sacrificing poorly performing subsidiaries (see TDB, various issues).

Chart 1 displays the trends in the incidence of layoffs, early retirements and external transfers since the mid 1980s. It reports the proportion of firms having adopted particular measures to help them adjust to downturns in demand. The overall rate of unemployment is also shown as a reference point. Although only a small minority of employers indicate they have had resort to it, the incidence of early retirement has risen substantially. At the same time, the incidence of external transfers has fallen.

< **Chart 1: share of firms reporting layoffs, transfers or early retirements** here >

The struggle on the part of the government to meet demands for greater financial rectitude is likely to have a further negative impact upon the employment chances of older people. Table 3 showed the importance of the construction sector as an employer. The construction sector has been one of the principal beneficiaries of the many supplementary expenditure programmes by means of which the government has

⁴ A recent study by the Mitsubishi Research Institute expected 143,000 job losses in the automobile industry of which nearly 80 per cent would be amongst suppliers – mainly small firms (*Financial Times*, 5-9-01).

sought to sustain the “post-bubble” economy. If public works programmes, many of which have been criticised as inefficient uses of resources and, at best, no more than a form of disguised unemployment benefit, at worst an instrument of political patronage (see OECD, 2000), are cut back, so too will be jobs for older people. In August 2001, the government approved the “largest ever” reduction of planned expenditure – of some two per cent – whereby the brunt was to fall on public works projects.

Lastly, the ability of those sectors that have in the past absorbed some of the older people not benefiting from transfers arranged by their career employers is increasingly in doubt. International and domestic pressures have required substantial deregulation of the two other sectors critical to older people's employment – retailing and agriculture. A succession of “deregulation plans” between 1993 and 1996 were intended to facilitate the opening of large supermarkets and department stores – the development of which had been impeded by local governments seeking to protect the livelihoods of small traders – and the breakdown of monopolies in the whole-saleing sector – over which domestic manufacturers had an effective stranglehold. If the relevant legislation is enforced, it will lead to the closure of many small shops and distribution companies currently employing older people, either on a self-employed basis or as family workers (Yahata, 1995).

< **Chart 1: share of firms reporting layoffs, transfers or early retirements** here >

Agriculture is being forced to accept WTO rulings – particularly those of the 1994 “Uruguay Round” – to open up its markets to imported rice and beef. Although agricultural employment fell by a fifth over the 1990s, the number of people aged 65 and older at work in the sector remained almost constant, so that they made up over 40 per cent of the work force by 1996 compared with a quarter in 1989. In 1995, the government committed itself to a six year programme to promote agricultural adjustment, and, as the OECD observed “given the relatively old age of the farm labour force, most of the adjustment would be

between generations” (OECD, 1996:81). If agricultural reform is carried to its logical conclusion, the scope for “sheltered employment” provided by the highly regulated sector is bound to diminish rapidly.

Policy responses

The “work ethic”, if this protestant concept can be applied to what is more a confucianist society, continues to be strong in Japan. Older people there appear to want to work more than do older people in most many other countries.⁵ Employment rates have been falling, even if they are still very high by comparison with other countries. Unemployment rates amongst people in their early sixties are now in double figures and have been so since 1998. The ratio of applicants to vacancies is between five and ten times higher for older job seekers than for prime age job seekers, and even higher when the comparison is with school and college leavers.

Policy actors have sought to respond in a variety of ways. To counter the effects of the demographic “time-bomb” on the public pension system, the government had legislated in 2000 to increase the age of receipt of the earnings-related pension by five years – to 65.⁶ Although the changes are scheduled to be phased in over many years, and not to be completed until 2025, the first hike will be effective in 2001, and this has already provoked reaction. Trade unions made demands for a raising of the mandatory retirement age a critical element of their claims in the 2000 and 2001 wage rounds. The government has been supportive, but not to the extent of legislating to outlaw mandatory retirement at 60. Rather, it has relied upon its traditional practice of exhortation.

⁵ An exception is the “protestant” Netherlands. According to a multi-country survey of people over 60 carried out in the late 1980s and early 1990s, just over 70 per cent of respondents in the Netherlands said they would like to work because, otherwise, life would be too boring, and only about 20 per cent said they would like to work because they needed the money. These are the same proportions as in Japan. Elsewhere, economic concerns were much more to the fore and the intrinsic worth of work much more to the back.

⁶ A partial pension will be available to those working between 65 and 69. They will also be eligible for the flat rate, basic pension.

In addition to increasing the incentives to work offered by the pensions system, active labour market policy interventions especially directed at older people have been strengthened. For many years, the government has operated wage subsidy schemes to promote the hiring of “difficult to employ persons” – such as the elderly and the disabled – and to encourage the employment of people over 60 until age 65. To these have been added a subsidy to people taking new work after leaving a job at 60 that compensates for a part of the fall in wages that they experience and additional subsidies to employers hiring middle-aged or elderly employees in regions of high unemployment. However, there appears to be no evaluation of the impact of many of these measures.

Of their own accord, employers so appear to be making some gradual changes to their employment practices. Many commentators have argued that the most important step that can be taken to improve older people’s employment chances is to reduce the tendency to reward people according to seniority. There is some evidence that the practice of paying only by seniority is on decline, or at least that employers are trying to give less emphasis to seniority. This is shown in Chart 2. What is to be noted is that employers are expecting greater changes to be made to wage structures for managerial grade employees than they are to those for regular employees – junior white collar and blue collar workers. However, managerial grade employees make up only about one sixth of the male employed labour force in the critical 45-54 year old age group.

< Chart 2: Employers' intentions with respect to modifying wage systems here >

At the same time that wage systems are being modified, so too are promotion structures. It seems as if already less weight is being given to seniority in determining promotion and more to performance. The result is what are termed “out of turn” promotions. In about a third of workplaces, these are claimed to be an “every day” or “frequent” occurrence (JIL, 2000). Of course, where they do occur, employers might experience a decline in motivation amongst those who have been passed over, so they often they take some

kind of compensatory action to reassure the older people concerned. This action might or might not be cosmetic, and older employees' reported acceptance of their situation might be more or less real.

However, it is not only to their wage and promotion structures that employers need to look. In Japan, as in most other countries, firms allot most of the training resources to younger people. This could, of itself, discourage older workers from retraining, and might also make them unproductive workers (Seike, 1994). Employers in Japan seem as preoccupied as employers elsewhere with a traditional view of older persons and feel they cannot hire them because "they lose their vocational ability and flexibility as they grow older" (Wanatabe, 1992). In advertising jobs, it is still common to place upper age limits, and these limits are quite low – excluding even the middle aged. Whilst there have been a few calls for the introduction of age-discrimination legislation, the chances of such laws, even if enacted, being effective are limited.⁷

The need to accommodate the ageing of the workforce, and the need to extend the working lifetime, means that resort to traditional measures for dealing with older workers – temporary extensions, downgrading and transfers – will no longer be adequate. Retraining middle-aged and older workers will become inevitable. Yet the evidence to date is that no substantial training is provided to older workers – except for helping them cover correspondence course fees. As an increasing number of them try to enhance their professional and technical competencies, some employers encourage middle-aged and older workers to acquire formal qualifications, but most leave the decision to engage in such training to the workers themselves (Kawakita, 1996).

Conclusion

⁷ Japan currently has no law on race discrimination, whilst its law on sex discrimination has been described as "lame duck" legislation (Hanami, 2000). Until 1997, the relevant law merely required that employers *endeavour* to offer equality of opportunity to women in recruitment and dismissal, and whilst it forbade discrimination with respect to training and redundancy, it gave the overseeing bodies no power to enforce their decisions (see, Imada, 1996; Araki, 1998).

Japan appears to be a special case. For some, Japan has a distinct, perhaps unique, culture that means that there is little transferability of its experiences or practices. For others, especially those interested in “bridge jobs”,⁸ it is a case from which others can learn. This paper suggests that Japan is, indeed, a special case, although not as special as at first might appear, but it also suggests that Japan is unlikely to be special much longer. There is little that Japan does that can be emulated, and the conditions that allowed it to be special are disappearing. At the same time, Japan is facing problems faced by many other industrialised countries. If there are solutions, and these might lie in finding ways to improve the “employability” of older people, Japan will be searching for them as vigorously as any of these other countries. If there is something to be learnt; it will be learnt by all countries together.

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⁸ These are the jobs, either part-time or less demanding, and often less well paid that older people take after leaving their “career jobs” and before retiring completely. See Ruhm (1991).

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