

# **Managing an Ageing Labour Force: The Interplay between Public Policies and the Firm's Logic of Action – The Case of Japan**

by Masato Oka and Takeshi Kimura\*

This article analyses the interplay between the firm's logic of action towards older workers and public policy in Japan. It is based on a case study of the Toyota Motor Corporation, using data collected by questionnaire and interview surveys conducted in 1994 and 2002. Toyota's behaviour towards older workers is characterized as "reject and retain". This means excluding older workers from the company's seniority system in their mid-50s, while retaining them in the group firms. The exclusionary behaviour arises from the logic of the seniority system, while the retaining behaviour arises from the logic of external environments including pressure from the government and the trade union. The "reject and retain" policy can be evaluated as the Japanese-style approach towards the goal of providing longer employment opportunities for older employees through a tripartite sharing of the burden among the state, management and labour. It seems, however, that the preconditions for the approach no longer exist. The rich inner and quasi-inner labour market, which enabled the absorption of older employees, diminished during the long recession which started in 1992 as well as the recent difficult competitive situation.

## **1. Introduction**

This article analyses the interplay between the firm's logic of action towards older workers and public policy in Japan. It is based on a case study of the Toyota Motor Corporation ("Toyota").

It first provides an overview of the national labour market context and the public employment promotion policy concerning older people. Then it analyses Toyota's behaviour towards its older employees, characterized as "reject and retain", using data collected by questionnaire and interview surveys. Finally we present our interpretation of Toyota's behaviour.

## **2. Labour market context and public policy**

### *2.1 Labour market context*

Japan is experiencing the most rapid population ageing in the world. The percentage of those aged 65 or over was 7 per cent in 1970, 17 per cent in 2000, and is estimated to reach 29

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per cent in 2025 (National Institute of Population and Social Security Research, 2002). The causes are declining fertility rates and increasing longevity of its citizens. The fertility rate has dramatically decreased, from 3.65 in 1950 to 1.33 in 2001. On the other hand, life expectancy has increased from 59.6 for men and 63.0 for women in 1950–52 to 77.4 for men and 84.1 for women in 2000 (Statistics Bureau, *Abridged Life Table*).

Retirement for Japanese male workers is a gradual process. Their 60th birthday has an important meaning for employees because most enterprises have the Teinen system which terminates the tacit contract of lifetime employment at 60. The pension eligibility age was also 60 in the year 2000. However, Teinen does not necessarily mean that workers withdraw from the labour market. Some are re-employed by the same company with a new finite-term labour contract; some are hired by a subsidiary firm; and some seek new jobs themselves. Surveys suggest that the majority of men want to continue work until 65 or over in order to keep their health and “Ikigai” (purpose and meaning of life) (Miura, 1997, p. 69). The labour force participation rate of older people tells the same story from another angle. The figures given in Table 1 are significantly higher than other industrialized countries. However, the labour market for older workers has been tight. The unemployment rate of the older age group, particularly that of men aged 60–64, has been significantly higher than for other age groups (Table 2).

*Table 1:*  
*Labour force participation rates aged 55–64*

	1979	1983	1990	1995	2000
Men	85.2	84.7	83.3	84.8	84.1
Women	45.4	46.1	47.2	48.5	49.7

*Source:* OECD Employment Outlook (various).

*Table 2:*  
*Unemployment rate by age groups (both sexes, %)*

	1970	1975	1980	1985	1990	1995	2000
Total	1.1	1.9	2.0	2.6	2.1	3.2	4.7
15–19	2.0	3.6	4.1	7.3	6.6	8.2	12.1
20–24	2.0	2.9	3.3	4.1	3.7	5.7	8.6
25–29	1.2	2.3	2.6	3.2	2.7	4.3	6.2
30–34	1.0	1.5	1.9	2.4	1.9	3.1	4.8
35–39	0.8	1.4	1.4	2.0	1.6	2.3	3.4
40–54	0.7	1.3	1.3	1.7	1.3	2.0	3.2
55–59	1.3	2.2	2.6	3.3	2.0	2.4	3.9
60–64	1.4	2.5	3.6	4.9	3.5	5.7	8.0
65+	0.4	1.2	1.4	1.7	0.8	1.3	2.2

*Source:* Statistics Bureau, Labour Force Survey (various).

Table 3 shows the age structure of the labour force in 1980, 1990, 2000 and the estimated figures for 2010. It suggests a rapid ageing of the labour force as well as a shortage of younger workers in the early 21st century.

### 3. Public employment policies on older workers

A remarkable feature of Japan's public employment policy on older people since the 1970s can be summarized in one word: "promotion". Here are some facts.

(1) In 1970, the percentage of the population aged 65 and older exceeded 7 per cent. From then on, the policy focus was on the extension of Teinen age from 55 to 60 by means of subsidies for firms, and the quota rule for the employment of older persons in 1976, requesting firms' best efforts to increase the percentage of regular employees aged 55 or older to 6 per cent or more (Campbell, 1992, p.262). Together with these measures, the Unemployment Insurance Law was revised in 1974. Its aims were enlarged into the field of active manpower policies including prevention of unemployment and promotion of Teinen extension.

The 1986 Law Concerning the Stabilisation of Employment of Older Persons, the so-called "Age 60 Teinen Act", was the completion of the initial policy target, though the duty of employers was limited to making their best efforts (Shimizu, 1991, p. 66 ff). Today, nearly all large firms, or 90 per cent of those with more than 30 employees, have a Teinen rule of age 60 or older (Miura, 2001, p. 85).

(2) After 1986, the policy focus shifted to employment promotion among, mainly, men in the 60–64 age group. In 1990, the 1986 Act was amended so as to encourage employers to make efforts for continued employment up to age 65. In 1994, it was amended again. The main points were: first, the legal enforcement of Teinen of age 60 or older after 1998; and second, the increased power of the Labour Minister recommending that firms introduce a system of continuous employment up to age 65. This new policy aims to cope with the estimated solvency crisis of the public pension fund as well as to prepare for predicted labour shortages in the early 21st century.

(3) In 1994, two more important laws were enacted concerning the employment of older workers. The first was the Amendment Act of the Employees Pension Law, and the second was the Amendment Act of the Employment Insurance Law. The latter aims to top up a low wage with a new allowance that is formally entitled "the allowance for older persons continuously engaging in work". The requirements for the allowance are: (1) applicants are aged between

Table 3:  
*Labour force by age groups (million persons and %)*

	1980	%	1990	%	2000	%	2010	%
Total	56.50	100.0	63.84	100.0	67.66	100.0	67.36	100.0
15–54	47.38	83.9	50.92	79.8	51.81	76.6	47.81	71.0
55–59	3.85	6.8	5.60	8.8	6.66	9.8	6.75	10.0
60–64	2.48	4.4	3.72	5.8	4.26	6.3	6.46	9.6
65+	2.79	4.9	3.60	5.6	4.93	7.3	6.33	9.4

Note: The figure of 2010 was estimated by the Ministry of Labour in 1999.

Source: Statistics Bureau, Labour Force Survey (various).

60 and 64; (2) they should continue work or resume work after a short period of unemployment, after their Teinen retirement; and (3) their new wage should be less than 85 per cent of their average wage earned during half a year prior to their Teinen retirement. The allowance equals 25 per cent of the new wage, if the new wage is 64 per cent or less compared to the pre-Teinen wage (i.e. the total of new wage and the allowance is 80 per cent or less compared to the pre-Teinen wage). If the new wage exceeds 64 per cent of the pre-Teinen wage, the allowance is gradually reduced, and disappears when the new wage exceeds 85 per cent of pre-Teinen wage (Kimura and Oka, 2001, p. 350). It was implemented in April 1995 and 7.8 per cent of full-time workers were in receipt of it as of October 1996 (Ministry of Labour, 1998, p. 68).

As for the pension reform, this had two elements. First was an improvement regarding the in-work pension for workers aged 60–64. Prior to the reform, the in-work pension was reduced in proportion to wage income and tended to discourage labour force participation. Since the reform in April 1995, the limit of work earnings for the in-work pension has been raised substantially (Ministry of Health and Welfare, 1994, p. 64), with evidence that this has encouraged older workers to re-enter the labour market (Ministry of Labour, 1998, p. 55).

Second, the age of eligibility to receive a full pension is to be gradually raised for men from 60 to 65 between 2001 and 2013, and for women from 58 to 65 between 1995 and 2018. After the completion of this reform, the 60–64 age group will receive a partial pension which is the current earnings related portion of the “employees pension”. The remaining portion, which is called the “basic pension” and pays an equal amount for all eligible people, will be available after age 65 in full, and an actuarially reduced “basic pension” will be available after age 60 (Miura, 1995, p. 63).

If a worker engages in work between the ages of 60 and 64, the above-mentioned partial pension benefit will be reduced according to the wage level. However, the total income of wage, the partial pension, and the above-mentioned new additional allowance is designed to encourage the participation of the 60–64 age group as well as to encourage firms to continue the employment of older workers through a reduced pay burden. In sum, the basic idea shown in the above measures is a Japanese-style tripartite cost-sharing among the state, employers and labour with the goal of employment promotion among older workers. The government hopes that all healthy people will engage in work until age 65 by 2010, when many baby-boomers will be reaching 60 years of age. A challenge for the strategy will be gaining the acceptance of employers over such a short period.

(4) The government’s current policy package for the employment security of older people consists of three main pillars. These are: first, promotion of continued employment; second, promotion of re-employment; and third, securing diverse work opportunities for persons after they leave full-time jobs at retirement age (Ministry of Labour, 1997, pp. 286–87).

The first pillar aims to encourage firms to extend the employment period up to age 65 by means of various grants. These are: subsidies for the introduction of a system for continued employment, subsidies for employing older persons, and loans for improving the workplace for older persons (the latter scheme was ended recently after low take-up). The second includes measures to improve labour market conditions for older persons by strengthening the government’s employment services.

The third consists of advisory services and job programmes provided by the Associations of Employment Development for Senior Citizens (AEDSC) and Silver Human Resource Centres (SHRC). The former provide advisory services for employers and employees on the employment of older people, including improvement of pay and personnel management

systems, workplace design, job development, and retirement preparation. The latter offer temporary and short-term work opportunities for retirees aged 60 and older. There were 1,328 centres with a membership of 540,000 in 1998 (Ministry of Labour, 2000). During the long recession these were important in providing job opportunities for older people.

The outline of employment policy is framed by the Employment Council, an advisory body for the Labour Minister, consisting of representatives of three constituencies: public interest, employers, and trade unions. Its function is to discuss the current and future agenda on employment issues, and to find a consensus on the direction of policies. The government is obliged to implement policies based on the consensus. The actual application and final decision is made through collective bargaining in each firm between the management and the "enterprise union".

#### 4. The case study

This section examines the behaviour of Toyota towards older workers. Toyota is one of Japan's leading firms with 66,820 employees and 8,235 billion yen (US\$ 66.33 billion if \$1=120 yen) of annual sales as of March 2002. The President of Toyota is currently the President of the Japan Business Federation (Nihon Keizai Dantai Rengokai), the national centre of Japanese business organisations.

The main method of the survey was a questionnaire to older middle managers of Toyota conducted during autumn/winter 1994. Interviews with a personnel management officer were conducted at the same time. The results of the preceding surveys as well as some official documents of Toyota were also used. The research has been supplemented by an interview with a liaison officer of Toyota conducted in August 2002.

##### 4.1 *Toyota's employment system*

Regarding regular male employees, the company offers a tacit long-term employment contract called lifetime employment, which is characterized by recruitment of new graduates based on grouping by academic background and continuous employment until Teinen.

Teinen is the age of exit from lifetime employment for all employees except board members. Toyota's Teinen was set at 55 before 1972, but it was gradually extended and finally reached 60 in 1978. Presupposing this long-term employment, a successive and systematic training system exists, from the training of new recruits to those aged 55 for retirement, and by stages of work life. The transfer of assignments and/or working places, which usually happens every three to five years, is a kind of on-the-job-training to prepare managers with detailed knowledge of the various aspects of the management of Toyota.

The basis of Toyota's personnel management is the job qualification system. Table 4 shows the system as of the early 1980s. Toyota's employees, except board members, were classified into 13 qualifications from 1A to 9C. Employees recruited from new school-leavers were graded as 9A (university or college graduates), 9B (junior college-level graduates), or 9C (high-school graduates). After joining Toyota, they climb the promotion ladder until Teinen. As some minimum years of service are required to climb each step, it usually takes approximately 25 years at least to reach 1A grade even for the most successful employee. Of course, promotion is not decided only by years of service. Job ability, skill, morale, experience, leadership, and so forth are also taken into account.

Table 4:  
Job qualification and ranking system of Toyota

Rank	Qualification	Functional Management Position	
		Clerical & technical jobs	Manual jobs
1A	Senior Manager 1	Division chief	
1B	Senior Manager 2	Sub-division chief	
2	Middle Manager	Section chief	
3	Junior Manager 1	Sub-section chief	Shop leader
4	Junior Manager 2	Senior clerk & technician	
5	Senior Instructor	Clerk & technician 1	Team leader
6	Middle Instructor	Clerk & technician 2	Group leader 1
7A	Junior Instructor 1	Clerk & technician 3	Group leader 2
7B	Junior Instructor 2	Clerk & technician 4	Operative 1
8	Associate Instructor	Clerk & technician 5	Operative 2
9A	General-duties 1	Clerk & technician 6	Operative 3
9B	General-duties 2	Clerk & technician 7	Operative 4
9C	General-duties 3	Clerk & technician 8	Operative 5

Source: Nomura (1993), p. 47.

#### 4.2 The pay system

Pay in Toyota consists of a monthly wage plus special pay. Prior to the reform of the pay system in 1990 (discussed later) the main pillars of the monthly salary were basic pay and production pay (Nomura, 1993, pp. 55–71). Basic pay was based on age, years of service, ability, recent performance and merit. It was basically age-dependent with some elements of job assessment, excepting employees aged 56–60 whose basic pay was fixed at the same level at the age of 55. This rule was introduced after Teinen extension from age 55 to 60. The formula of the production pay was the basic pay times the production pay ratio, which was designed to reflect a collective efficiency of the direct production department.

Special pay consists of a semi-annual bonus and a retirement lump-sum allowance. The amount of bonus is calculated mainly from the basic pay and the managerial position allowance. The amount of the retirement lump-sum allowance is decided mainly by years of service and the level of basic pay at the time of retirement.

Figure 1 shows the age-wage profile of the model blue-collar worker as of 1980, quoted from a document issued by the Toyota trade union, which organizes almost all employees except section chiefs and higher managers. The age-oriented character of the pay system can be seen in the correlation between age and net annual income up to age 50. The change in pay arrangements for older workers is seen in the gradual reduction in pay after age 50.

#### 4.3 Employment rules and practices for older employees

In addition to the above-mentioned rule of ending the basic pay increase after age 55, Toyota has employment rules and practices specifically applied to older employees. These are as follows:

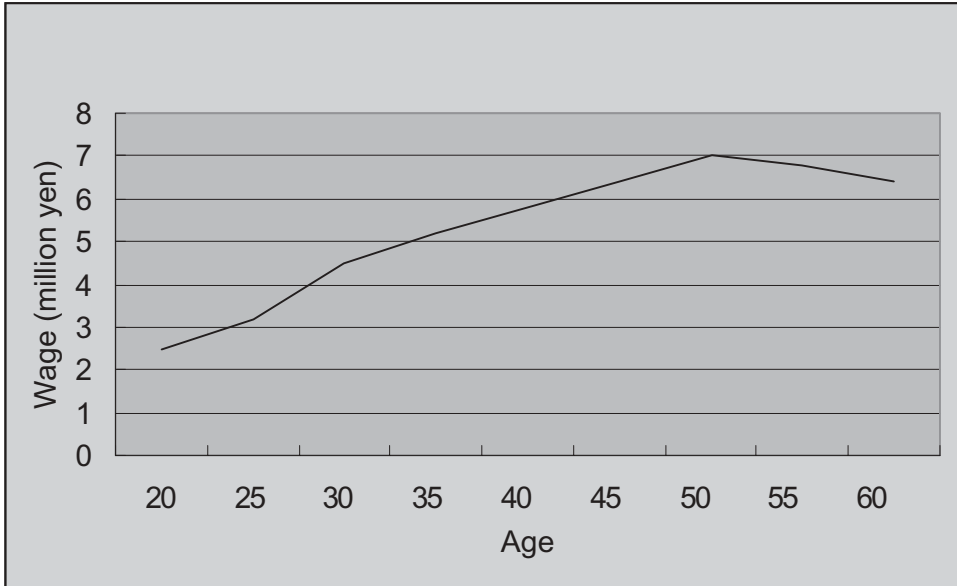


Figure 1: Age-wage profile

Note: “Wage” is the standard manual male worker’s net annual income after deduction of taxes and social security premiums.

Source: Nomura (1993), p. 167.

(a) Age limit on promotion

According to a personnel officer, an unwritten rule within the company is that there is an age limit for promotion. For example, a person who has not reached the level of section chief by their early 50s loses the chance of promotion. In practice, every employee can be promoted to the level of junior instructor, but further promotion opportunities are partly age-dependent.

(b) *Yakushoku-Teinen*

Toyota’s middle managers, if their positions are lower than section chief, are required to resign their managerial positions (“*Yakushoku*” in Japanese) at age 55. This rule is called “*Yakushoku-Teinen*”. The *Teinen* age before 1973 was 55. The rule was introduced after the extension of *Teinen* to 60 in order to replace older middle managers with younger ones. *Yakushoku-Teinen* is often called “the first *Teinen*” and exists in almost all large firms.

After *Yakushoku-Teinen*, the person can stay at Toyota until *Teinen* (or “the final *Teinen*”) as a “specialist” or adviser without support staff. For example, former group-leaders are expected to use their experience to assist new group-leaders. However, it is reported that such a role transition is not always easy for workers. In 1980, Toyota started a special training course for employees aged 55 in order to help them prepare.

With regard to white-collar middle managers, if their positions were higher than section chief, the resignation rule does not apply to them. This is different from many other large Japanese firms. However, in practice, most of them tend to be transferred to subsidiaries in



their mid-50s. This personnel practice is called Shukko and Tenseki, and is explained below. If such managers are not transferred to subsidiaries, there are two possibilities. One is promotion to board member, though the probability is low. Another is to stay in Toyota as a specialist without support staff.

*(c) Shukko and Tenseki*

Over the past 20 years the use of new personnel practices targeting older employees, known as Shukko and Tenseki, have been on the increase. Shukko is a temporary transfer of employees to subsidiaries or related firms. In fact, the practice of Shukko has existed for a number of years, mostly for younger and middle-aged employees. Its original aims were, first, job training for employees, second, technological and/or managerial transfer of skills to subsidiaries. However, a recent feature of Shukko is very different. No-return or one-way Shukko for older workers has increased. It has become a measure to exclude older employees from the mother firm, while utilizing them elsewhere in the firm group or in the quasi-inner labour market.

Tenseki is a permanent transfer of pre-Teinen employees to subsidiaries or related firms. The aims are the same as that of Shukko. However, in the case of Shukko, the labour contract between Toyota and worker continues, and all fringe benefits of Toyota are available for Shukko workers. By contrast, Tenseki means termination of the lifetime employment contract between Toyota and workers. Toyota usually compensates Tenseki workers for their expected income loss. In this sense, Tenseki appears to be a kind of early retirement scheme with further job security in a subsidiary or a group firm.

The rationale for Shukko and Tenseki can be summarized as follows: first, a reduction of the pay burden caused by the age-oriented pay system; second, regeneration of the organization by turn-over of managers; third, security of second career opportunity for workers after “Yakushoku-Teinen”; fourth, availability of relatively well-trained reliable workers for subsidiaries; and fifth, maintenance of stable industrial relations and morale of employees by taking care of older workers.

*(d) Re-employment scheme for Teinen retirees*

In 1991, Toyota together with its group firms started a new re-employment scheme for Teinen retirees. It offers job opportunities to mainly manual workers until the age of 65, who are given one-year contracts. A detailed explanation will be provided below.

#### *4.4 Summary and remarks on the Toyota survey*

As shown above, Toyota's employment and pay systems are age-conscious, presupposing long-term employment. The two major rules, Yakushoku-Teinen and Teinen in particular, show that this age consciousness is institutionalized.

We examined how these rules and practices applied to employees via our questionnaire survey. Respondents were Toyota's current and former middle-management employees as of December 1994. A personnel officer made the selection of 100 respondents and handled the mailing. Replies were sent to the research team directly by sealed envelope without signature. The number of valid replies was 35, all from men, comprising 12 blue-collar and 23 white-collar workers, at the beginning of their career. The average age of respondents was 57.4 and the average years of service in Toyota was 33.8 (standard deviation 5.2). Of course, the selection of respondents by a personnel management officer may have led to an unrepresentative choice of respondents. Therefore, we should be cautious in generalizing



the results. However, by combining this with other information sources the following points can be made.

The observation of career paths and other related information indicates that there are four types of employment behaviour towards ageing middle management employees. First, the most successful division chiefs are promoted to the board. As the number of board members is small (about 50 in 1996), membership is competitive, and we have no such case in our survey. However, we offer one interesting point concerning the age structure of board members. The average ages by positions were: the president and six vice-presidents: 65; the five senior executive directors: 60; the 11 junior executive directors: 58; the 30 ordinary directors: 55 (Ministry of Finance, 1996, pp. 11-17). Thus, we can here observe that institutionalized age management also applies to board members.

Second, the second best contributors to Toyota are assigned Shukko and/or Tenseki before age 55 to subsidiaries as board members or senior managers in order to give them job security up to age 63–65 as well as to strengthen the relationship among Toyota group firms. We can observe such cases among the white-collar workers in our survey.

Third, successful manual middle managers (shop leaders and section chiefs) are assigned Shukko and/or Tenseki as senior production managers at subsidiaries in order to give them job security up to age 62–63 as well as to transfer the skills of production management.

Fourth, ordinary junior managers are divested of their managerial positions at age 55 and given new assignments as advisors or specialists until they are 60.

Teinen retirees, including ordinary workers, can be assigned to re-employment jobs with a one-year contract, and they can continue work until 65 if Toyota considers them able and there are vacancies.

Thus we observe widely diversified career paths under the age 60 Teinen regime. At the time of age 55 Teinen, every employee had to retire at that age. However, as a result of many new rules and practices introduced after its extension up to 60, Teinen has become more flexible. Age 55 is known as “first Teinen”, in the sense of exclusion from the seniority system and the high possibility of exclusion from the career firm via Shukko and Tenseki assignments, though employment security is assured at least until the “final Teinen” at age 60. After 60, some workers may be allowed to remain as re-employed workers, some may be offered a continuous work position at subsidiaries as Tenseki workers, some will look for a new job elsewhere outside the firm group, and others will exit the labour market entirely.

Our Toyota survey also produced some insights into the reality of Shukko and Tenseki. More than 70 per cent of our respondents had experiences of Shukko and Tenseki, and the majority of them positively accepted the assignment. Most of their new roles in subsidiaries offered increased decision-making authority and influence in accordance with promotion to higher managerial positions, although some of them were concerned about a decrease of income and the loss of relationships with co-workers at the mother company.

Some of the Tenseki cases, especially the white-collar workers in their early 50s, resemble a kind of advantageous early retirement scheme in terms of the availability of compensation for expected income loss, with a favourable lump-sum and/or company pension, and further job security in subsidiaries.

Shukko and Tenseki assignments are, on the one hand, a policy of rejecting older employees but, on the other, represent a policy of retaining them in the group firms. Therefore, Toyota's behaviour toward ageing workers can be summarized as “reject and retain”.

The income level after age 60 at subsidiaries would normally be 60–80 per cent of the peak income at Toyota. As for the income level at the time of complete retirement, it would be

about 30–40 per cent of the peak income level, which would be enough to maintain a small household with some allowance for leisure (see Table 5).

#### 4.5 Toyota's internal environment

Features of the culture and norms of Toyota that support the institutionalized management of age and affect older workers are as follows: first, the co-operative relationship between management and labour; second, the personnel management philosophy of lifelong training and utilization of human resources over the long term; and third, the role of the company which takes care of its employees from recruitment until retirement.

The first point is symbolized in the Toyota Labour Management Declaration of 1962. It states that corporate prosperity and improved working conditions will be achieved through mutual trust between labour and management and that "stability in the livelihood of the employees and the development of the automobile industry are inseparable" (Toyota Motor Corporation, 1988, p. 145).

With regard to the second point, Toyota established an Education and Training Department at its head office in 1970, with a full curriculum ranging from orientation courses for new employees to management courses. Educational and training programmes have been implemented in order to produce multi-functional managers and production leaders. Here, an important pillar of lifelong employment was established.

Regarding the third point, Toyota's company welfare system has also been developed since the 1960s. It covers wide areas of employees' lives, including housing, health care, leisure, purchase of daily goods, and pensions. The company pension is amalgamated with the Public Employees Pension and has provided favourable benefits to retirees. Thus, lifelong employment is supported and institutionalized.

Table 5:  
Income change after age 60

	(A) Peak of Career	(B) Post-Teinen	After Retirement	B/A %	C/A %
<60–65 age group>	*	*	***		
Average	1080	980	410	90.7	38.0
Division chief	1360	1120	430	82.4	31.6
Section chief	1100	1220	460	110.9	41.8
Sub-section chief	1000	600	460	60.0	46.0
Ordinary worker	550	400	140	72.7	25.5
<50–59 age group>	**	**			
Average	1270	970		76.4	
Division chief	1670	1480		88.6	
Section chief	1240	980		79.0	
Sub-section chief	1060	590		55.7	

Note: \* Reality of nine cases. \*\* Future expectation of 14 cases. \*\*\* Mostly expectation of nine cases.

Source: Questionnaire survey (1994).

However, we should note that lifelong employment together with an age-oriented promotion and pay system has its own built-in problems, that is, the system presupposes continuous expansion of the organization. If the system is unable to expand, it will sooner or later face a shortage of managerial positions and a payroll burden, and will not be able to fulfil long-serving employees' expectations. Table 6 shows an aspect of the problem. From 1970 to 1998 the average monthly pay of regular male employees rose by 68 per cent in real terms, together with an increase in their average age from 29.6 to 37.6. Therefore, the age structure is strategically very important for the system.

## 5. The interplay among the actors

In this section, we analyse the interplay between the main actors on two important issues concerning the institutionalized management of age: first, the formation of the age 60 Teinen regime from 1967 to 1985; and second, the extension of employment up to age 65 since the mid-1980s.

### 5.1 *The formation of the age 60 Teinen regime*

Between 1973 and 1978, in the midst of the first oil crisis, Toyota extended the Teinen age from 55 to 60 each year by one year. The key to understanding this decision is suggested in company data for 1967–72. Over that period, the number of male regular employees increased by approximately 12,500 and their average age decreased by 1.1 years. Also, Toyota built five new factories in order to cope with the liberalization of automobile trade. Large numbers of new high school graduates had been successively hired, but the rate of young employees leaving their jobs was also high. Coping with this chronic labour shortage, Toyota introduced a re-employment scheme of Teinen retirees up to age 57 in 1967, and the age limit was extended to 60 in 1970. The Toyota union welcomed this measure, and also requested the extension of Teinen age from 55 to 60 in order to improve pay and other working conditions of the re-employed. As mentioned earlier, the public labour policy shifted its focus towards Teinen extension in the early 1970s, and Toyota management made the decision to complete the age 60 Teinen rule by 1978. However, soon after the decision, the first oil crisis caused the worldwide “slump-flation”. As Toyota's production was forced to decrease, various measures for employment adjustment were taken, including reduction of overtime working, firing of temporary and seasonal workers, and a drastic reduction in the recruitment of new school graduates. With regard to regular workers, however, Toyota avoided dismissals, and the Teinen extension plan was completed without delay, although real wages were cut (by 8.7 per cent between 1970 and 1975, see Table 6). During this process, the government supported employment security by “grants for employment adjustment”, and the union was flexible in its attitudes. The three actors co-operated with the goal of job security for regular workers as the first priority.

After 1975, production at Toyota increased rapidly, supported by the drive to export energy-saving small vehicles, although new employment was very restricted.

Thus, the process of Teinen extension was completed. As a result, the average age of male workers increased by 3.1 years from 28.8 in 1972 to 31.9 in 1978. The second oil crisis in 1979 favoured Toyota's competitiveness in the world market due to its efficient production technologies. Toyota enjoyed its golden years until the mid-1980s. Between 1975 and 1985, the average monthly pay of male employees rose 54 per cent, while the ordinary profit increased 552 per cent, both in real terms (Table 6). It was easy to cope with pay rises under the

Table 6:  
Average age, monthly pay and profit

	1970	1975	1980	1985	1990	1996	1998
Employees (men)	37160	41830	44034	55508	64105	61895	63932
Average age	29.6	29.9	32.8	33.9	34.8	37.2	37.6
Years of service	9.1	7.6	10.6	12.1	13.3	16.3	16.6
Monthly pay (1000 yen)	269	246	336	380	434	449	453
Profit (billion yen)	240.2	113.7	382.2	741.4	784.8	340.4	610.3
Profit per man (1000 yen)	6464	2718	8680	13357	12242	5500	9546

*Note:*

(1) The current Toyota Motor Corporation (TMC) was established in 1982 through the amalgamation of the Toyota Motor Manufacturing Co. (TMMC) and Toyota Motor Sales Co. The figures from 1970–1980 are those of TMMC, and 1985–1996 are those of the TMC.

(2) “Monthly pay” is an average including overtime pay and other allowances except half-yearly bonuses and retirement lump-sum.

(3) “Profit” is the ordinary profit. The figures of “Monthly pay”, “Profit” and “Profit per man” are shown in real terms based on the general consumer price index (1995 = 100), 1970 (32.3), 1975 (55.3), 1980 (76.3), 1985 (87.4), 1990 (93.5), 1996 (100.1), 1998 (102.5).

Source: Ministry of Finance, *Securities report* (various), and Statistics Bureau, *Japan Statistical Year Book*, 49th edn, 1999, p. 534.

age-oriented pay system. As the subsidiaries and other group firms had also been growing, Toyota could easily utilize older workers through Shukko and Tenseki assignments. Thus, it successfully overcame the problem of the Teinen extension.

## 5.2 *The road to extending employment to 65*

It appears that efforts by Toyota to deal with workforce ageing began in the mid-1980s. Important issues were: first, changes to the job qualification system in November 1987; second, changes to the organization's structure in 1989; third, reform of the pay system in 1990 and 1993; and fourth, the introduction of the re-employment system after Teinen retirement in 1991.

The amendment of the job qualification system in 1987 aimed to loosen the rigidly synchronized relationship between job qualifications and functional management positions. It aimed to help the organization cope with the increase of middle-aged and older workers who could not be promoted because of a lack of management positions. A new allowance for job qualification, which was separated from allowances for management position, was introduced in order to prevent a decline in morale among workers. In 1989, a functional qualification called "specialist" for older white-collar workers, and a new job qualification called "expert technician" for veteran manual workers were introduced (Saruta, 1995, pp. 109-110).

A change from a vertical structure to a horizontal one occurred in August 1989 for all clerical and technical jobs. It aimed to shorten the time for decision-making and to reduce unnecessary management positions.

The main features of the pay reforms in 1990 and 1993 were the following. First, "function pay" was introduced in order to evaluate employees' performance through a strengthened merit assessment. Second, "age pay" that was solely based upon the employee's age was introduced, with the aim of restricting the element of pay attributable to age to a definite level. Third, the nature of basic pay was clarified as pay for accumulated job ability measured by years of service and career in Toyota. Fourth, the production pay reflecting collective efficiency decreased in 1993 to 20 per cent for blue-collar workers, and was abolished for white-collar workers, with the aim of enhancing competition among employees. The formula of the bonus calculation was also changed. The portion decided by job qualification and function increased with strengthened merit assessment, while the portion decided by the amount of the basic pay without merit assessment decreased. In sum, the reform was an attempt to shift the pay system from being age-oriented to merit-oriented (Nomura, 1993, pp. 162-169).

The re-employment system aimed to offer job opportunities for healthy and able Teinen retirees up to age 65 through the use of annually renewable contracts, but Toyota did not accept further Teinen extension. The reason given by a personnel officer was that job ability over age 60 varies widely. In practice the majority of applicants were re-employed in 1991, when 66 out of 101 Teinen-retirees applied for the scheme and 64 were accepted. Re-employed workers could choose either full-time or part-time work, but almost all (62 out of 64) chose to work full-time. Pay was low, but about 60 to 70 per cent of the income level at age 60 was guaranteed with the inclusion of the company pension and the public in-work pension. The latter is available for wage-earners aged 60 to 64.

The background factors for these reforms are now discussed. First, the value of the Japanese yen was high between 1986 and 1987, and Toyota's exports were seriously affected. In response, Toyota launched an alliance with General Motors, and started production in the U.S. This required a further rationalization of Toyota's organization.

Second, as already shown in Table 6, the average monthly pay of regular male employees rose significantly in the 1980s. This was the result of the large cohort hired since the 1960s approaching their mid-40s. The demerits of the age-oriented pay and promotion system were highlighted by the unfavourable business environment discussed above.

Third, in 1986 the Law Concerning Stabilisation of Employment of Older Persons was enacted and amended in 1990 and 1994 in order to encourage firms to retain older workers. Age 60 Teinen and the introduction of the re-employment system for Teinen retirees in 1991 were Toyota's responses to the government's requests. It seems the decision was influenced by the labour shortage during the latter stages of the booming bubble economy (1987–1992). It also seems that the management of Toyota recognized the fact that a large cohort of employees hired in the 1960s were approaching 50, and that those people would not be able to find work at their Teinen retirement when the pension age was raised to 65.

## 6. The logic of action towards older workers

Toyota's behaviour towards older workers was characterized above as "reject and retain". What is the logic underlying this behaviour?

The exclusionary behaviour arises from the logic of the seniority system. The age-oriented pay and promotion system works well when the organization is growing larger and its age structure is young. However, when the number of ageing workers increases under the long-term employment system, it causes an increased payroll burden and difficulty in fulfilling workers' expectations for promotion. The regeneration of the organization is also necessary in a competitive market situation. Therefore, this seniority system presupposes that older workers are excluded at a certain age, Teinen. There is one more important reason. As the "institutionalized management of age" suggests, the Japanese seniority system implies the division of functional roles by age. Altering this might damage the regeneration process and create conflict among employees.

On the other hand, the retaining behaviour arises from the logic of external environments. These are the labour market conditions (current and future labour shortages) and requests for Teinen extension from government and the union, with support from the media insisting on the "social responsibility of large firms" in an ageing society.

The forerunner of the present policy can be observed in the re-employment scheme of Teinen retirees from 1967 to 1972. While older workers could be excluded from the seniority system, they were still useful workers as they had received considerable investment via the lifelong training system.

How then can we evaluate the logic of Teinen extension from 1973 to 1978? The meaning of Teinen extension is different from that of the re-employment of Teinen retirees. It means extension of the regular employment period with strong job security, though older workers are ejected from the seniority system. However, it has some weak points. As the functional role of those excluded from the seniority system was not clear, it gave rise to low morale on the part of older workers and psychological conflicts between older and younger workers. There was also some discomfort for former managers working under new younger managers.

The Shukko and Tenseki assignments were the solution to this problem. As subsidiaries and related firms were developing together with Toyota and their age structure was younger, there was room to accept older workers. The concept of lifetime employment gradually changed to employment until Teinen within the Toyota group firms. The problem of the "reject and retain" policy was solved with this expansion of the quasi inner labour market.

The logic of the 1991 re-employment scheme for Teinen retirees up to 65 was the same as

the case of the 1967 re-employment scheme: “reject” from the regular work force, while “retaining” them as a kind of temporary worker. The background factors were also similar: labour shortages in the so-called bubble economy as well as pressures from public policy and society.

## 7. Concluding remarks

We would argue that the Toyota case could be applied to the majority of large firms in Japan, although some minor differences can be observed by sector. For instance, the average age of Shukko and Tenseki in the banking sector seems to be about five years lower than that of Toyota or manufacturing industry generally. It seems, however, that the preconditions for the “reject and retain” approach no longer exist. The rich inner and quasi inner labour market, available during the period of rapid growth of Toyota and its group firms which enabled the absorption of older employees, has waned during the long recession since 1992 as well as the recent difficult competitive situation both in domestic and foreign markets.

The institutionalized management of age, the basis of the “reject and retain” policy, is also under revision. As mentioned earlier, Toyota’s consecutive reforms of its pay and personnel management systems since the late 1980s suggest that the traditional seniority system is reaching an end. Indeed, the abolition of the annual pay rise agreement between management and the union in 1996 effectively terminated the age-oriented pay system (*Asahi Shinbun*, 24 February 1996). In the same year, Toyota introduced a new personnel strategy called the “Challenge Programme”, targeting middle managers. According to a liaison officer interviewed in summer 2002, this aims to replace age-oriented personnel management practice with a merit-oriented system. Toyota has offered middle managers with 15 or more years of service the opportunity to enrol in the programme. It is a kind of early retirement scheme with additional services including job re-training, and an introduction to new jobs outside Toyota. Thus, a policy of rejecting older middle managers has started without retaining behaviour.

Moreover, a revision of the lifetime employment system has begun. In July 1994, Toyota hired two industrial designers on fixed-term contracts. This was the first time that employees on non-standard contracts were assigned to important jobs (*Asahi Shinbun*, 20 July 1994).

With regard to the re-employment scheme for Teinen retirees, Toyota has not accepted the recommendation of the government requesting continued employment for all applicants. Recently Toyota has accepted only one-third of applicants.

Toyota’s new personnel experiment was an advance announcement of the new employment strategy of the Japan Federation of Employers’ Associations (Nikkeiren). The report “Japanese style management in the new era” (May 1995) represented a farewell address to the traditional lifetime employment system, while introducing flexible and diversified employment, including finite-term contract workers with or without special expertise as well as a limited number of traditional indefinite-term workers as a core workforce. The report also suggested the need for a flexible recruitment system instead of the exclusive recruitment of school-leavers.

The government’s employment strategy towards older workers has largely been based on the traditional model of company employment policy. With these undergoing changes the realization of the government’s scenario for extending employment up to the age of 65 may become difficult.

As of 2000, only 23.1 per cent of Japanese firms had some form of continued employment system up to 65 for all applicants (Miura, 2001, p. 72). The current policy



focus is on how to raise this number, but the long recession since the early 1990s has meant that many firms have been reluctant to introduce such a system. Nevertheless, it is likely that the number of companies with at least a re-employment system up to age 65 will gradually increase, heralding a new era of co-operation between the firm and state in the management of end of career.

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