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General Survey

50th Economic Survey of Japan

-Probing Prospects for a Stabilized Economy through Economic Reform-

At a Cabinet meeting held on July 26, the government presented its annual economic white paper for fiscal 1996. With the theme of "Reforms will bode well for the future of the Japanese economy," the report, the 50th of its kind, analyzes the current state of Japan's economy and makes recommendations on the direction of future reforms.

Referring to economic trends for 1995, the white paper recognizes that Japan has fallen to zero growth for the third straight year from fiscal 1992 because its economy was not flexible enough to cope adequately with new challenges both domestic and foreign, such as the collapse of its "bubble" economy of spiraling stock and land prices, the yen's appreciation and so-called "mega-competition" with Asia. In the wake of this situation, the nation's economy began growing again because private companies trimmed their labor costs and restructured themselves toward "smaller growth in earnings and profits," the paper says.

In analyzing the present state of the Japanese economy under the common theme of "reforms," the paper points out, in Chapter 1 titled "Evaluation of the Current Economic Phase and its Future Prospects," the limited effects of economic pump-priming measures are dependent on public works investment. In Chapter 2, referring to "A Perspective for Industrial Adjustment," the paper analyzes the wider gap in international competitiveness between industries and the resultant appreciation of the yen, and issues for employment adjustments, while applying the concepts of comparative economics. In Chapter 3 which describes "the Japanese Economic System in Transition," the report points out problems involving the social security system and the burdens borne by generations, in view of Japan's aging population.

In particular, the paper analyzes Japanese-style employment practices that affect corporate earnings, the basis of economic recovery, by relating to the tiered structure of the country's economy. This tiered structure consists of comparatively advantageous industries, comparatively disadvantageous industries and non-tradable industries, it says. The higher yen stemming from exports by the comparatively advantageous sector inevitably conflicts with labor adjustments in comparatively disadvantageous industries. Japan's productivity in the non-tradable sector is lower than that in Germany, and its wages in this sector are less flexible than that in the U.S., making it difficult for the sector to display its capability to absorb the labor run off from other adjustments. Thus, the paper calls for division of labor in the sector and fostering of industry in view of product imports, as well as institutional reforms.

This would create more flexible labor mobility which enables necessary changes in the industrial structure, since comparatively disadvantageous industries in Japan are comparatively advantageous in developing nations. Toward this end, referring also to the systems of wages and welfare provisions, the paper urges a more flexible wage system such as adoption of an annual salary system, retirement and private pension schemes which are immune to labor mobility, and a fairer sharing of benefits and payments between generations under pension programs.

Working Conditions and the Labor Market

1996 Starting Salary Growth Below 1% for Second Straight Year

The rate of growth in starting salaries for 4-year university, junior college and high school graduates all dropped below 1 percent again this year, down 1 percent from 1995, Nikkeiren (Japan Federation of Employers' Associations) said in a survey on the starting salaries for new school graduates this spring. The survey covered companies affiliated with Nikkeiren, of which 683, or 33.5 percent, responded. The starting salary by type of job averaged ¥198,894 (up 0.6%) for college graduates in clerical jobs, ¥201,100 (up 0.5%) for college graduates in technological jobs, ¥167,475 (up 0.6%) for junior college graduates in clerical jobs, ¥155,740 (up 0.6%) for high school graduates in clerical jobs and ¥157,587 (up 0.6%) for high school graduates in technological jobs. The starting salary for college graduates in technological jobs and for high school graduates in the clerical and technological jobs represented a record-low growth. By industry, the starting salary of college graduates in clerical jobs was the highest at ¥217,609 in printing and publishing, followed by ¥202,995 in textiles and apparels, and ¥202,635 in paper and pulp. It was the lowest at ¥184,361 in finance and insurance. The disparity between the highest and lowest starting salaries was ¥33,248, with the gap in starting salaries between industries becoming wider than in the previous year. Growth in starting salaries peaked at 4 to 5 percent during the "bubble" economy and has dropped year after year. In 1995, it fell below 1 percent for the first time. The survey found that 37.9 percent of the companies polled froze their starting salaries and several companies decided to reduce it.

This move reflects a constraint on wage hikes by individual companies in this year's spring wage negotiations. According to Nikkeiren's top-management survey on "*shunto*" (spring wage negotiations), the impact of wage hikes in this year's *shunto* on enterprises was enormous. Of responding companies, 76.9 percent replied that the burden of personnel costs they bear was great or reached its limit. To "absorb" a wage increases, the firms surveyed took the following steps: "increasing sales of existing products" (35.7%), "slashing raw-materials costs and economizing miscellaneous expenditures" (33.6%) and "labor-saving investments"

(32.9%). Around 20 percent also referred to "review of the personnel and wage system" and "branching out into new fields and new products" to absorb the wage increases. In addition, 76.9 percent implemented employment adjustments to curb personnel costs. Among them, the highest, or 75.6 percent, cited "reducing and suspending the hiring of new graduates and workers in mid-career."

On the issue of whether the "*shunto*" should be held every other year, 61.8 percent opposed the proposal, expressing the view that "with dramatic changes in the economy, holding wage talks every year enables us to meet appropriately the realities of companies." On the other hand, 32.6 percent favored the proposal.

Labor Mobility Grows 27%, First Annual Increase in 5 Years **-Ministry of Labour Survey on Employment Trends-**

On August 2, the Ministry of Labour released the results of a 1995 survey on employment trends (preliminary findings). The proportion of regular workers who migrated (the rate of job mobility of those who found, switched and left jobs) rose 1.0 point from the year before to 27.8 percent. The figure of 27.3 percent for industries excluding construction, which could be used to make a valid statistical comparison with past surveys, posted the first year-on-year increase in five years.

The survey is carried out twice a year, the first covering the January-June period and the second for the July-December period, to gauge the migration of workers in the job market. The survey outlined employment trends both in the first half and the second half of 1995. It covered about 14,000 establishments selected from companies with 5 or more regular workers in the nine major industries and about 130,000 newly hired workers and 120,000 separated workers in the surveyed establishments during the 1995 period.

Workers who migrated during 1995 numbered 10.68 million, and the rate of labor mobility stood at 27.8 percent, an increase of 460,000 and a 1.0 point rise, respectively, from the previous year. For newly hired and separated workers, in 1995 the number of those who found employment or changed jobs was 5.18 million, a 13.5 percent rate of new hires, up 0.6 point from the preceding year. In contrast, the number of those who were separated was 5.5 million, a 14.3 percent rate of job separations, up 0.5 point from the year before. "The downward trend came to a halt" as both rates of new hires and job separations marked their first increase in five years, the Ministry officials said, concluding that an invigorated labor mobility indicates the nation's economy is headed toward recovery.

The Ministry also conducted a survey on relocation between workplaces within the same company, including "*tanshinfunin*" employees, those who are assigned to areas where they must live alone, leaving their families behind. The survey, the first in five years since 1990, covered private companies with 1,000 employees in industries excluding construction. Of 388,000 employees who were transferred between branch offices and business offices during the past year, 178,000 were transferred with a move of residence. Of them, 37,000 were transferred alone to a post far from home, an increase of 14,000 from the 23,000 recorded in the previous survey. The proportion by age of "*tanshinfunin*" employees was the highest at 60 percent for those in their 40s, reaching 83 percent of the total when those in their 50s were added.

Labor-Management Relations

Lowest Regional Minimum Wage Increase at 2.1%

-Central Minimum Wage Council Recommends

On July 23, the Central Minimum Wage Council (Head: Prof. Kazuyoshi Koshiro at Yokohama National University) compiled public views and opinions and submitted to the Minister of Labour Takanobu Nagai its recommendations that the rate of the increase for regional minimum wages be set at 2.1 percent. This year's rate of increase dipped below the previous year's 2.3 percent, representing the fifth consecutive year-on-year decline. Despite the fact that this year's wage increase rate stood at 2.86 percent (for 286 major companies, released by the Ministry of Labour), up 0.03 point from last year's level, the rate of increase for minimum wages fell below last year's level, spurring labor unions to express strong dissatisfaction with the standard.

The current standard system for revising regional minimum wages has been implemented since 1978. Under the system, individual prefectures across the country are divided into four ranks from A to D to set the amount of increase for each rank. The 1996 revised standard for regional minimum wages, provided in the form of monitors' views and opinions is as follows. The daily minimum wages were revised by ¥108 for Rank A (3 prefectures of Tokyo, Osaka and Kanagawa), ¥103 for Rank B (9 prefectures of Ibaraki, Tochigi, Saitama, Chiba, Shizuoka, Aichi, Shiga, Kyoto and Hyogo), ¥99 for Rank C (18 prefectures of Hokkaido, Miyagi, Gunma, Niigata, Toyama, Ishikawa, Fukui, Yamanashi, Nagano, Gifu, Mie, Nara, Wakayama, Okayama, Hiroshima, Yamaguchi, Kagawa and Fukuoka) and ¥93 for Rank D (17 prefectures of Aomori, Iwate, Akita, Yamagata, Fukushima, Tottori, Shimane, Tokushima, Ehime, Kochi, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima and Okinawa). The present minimum wages are ¥5,144 for Rank A, and for Rank B to D they vary depending on the prefecture. For example, they are ¥4,977 for Chiba, ¥4,712

for Hiroshima and ¥4,427 for Nagasaki. Local councils on minimum wages at individual prefectures will determine their individual regional minimum wages on the basis of the recommendations and plan to implement the revised minimum wages starting around October of this year.

In deliberating over the standard minimum wages, representatives from management insisted that the regional minimum wage increase be frozen, citing that the Japanese economy has yet to turn to recovery and in particular, very small and medium-scale companies are facing severe economic conditions. Meanwhile, representatives of labor opposed the view and insisted that a "minimum wage increase should be realized to ensure that the economy will recover." In the course of this development, the Central Council on Minimum Wages, consisting of labor, management and public representatives, failed to reach final agreement. Thus, the revised standard recommendations have been made in the form of witnesses' views and opinions again this year.

Public Policy

NPA Report and Recommendation for 1996

On August 1, the National Personnel Authority (NPA) recommended that the pay of national civil servants for fiscal 1996 be raised an average 0.95 percent (a monthly ¥3,336 excluding a periodic increase), retroactive to April 1. In response to the growth of the economy and the slight increase in wages in this year's wage talks at private-sector companies, the rate of increase for national civil servants' pay rose from the all-time low of 0.9 percent for the previous year, the first increase in five years.

The NPA raised the pay increase rate for civil employees in their 30s to 1.5 percent, exceeding the average rate, thus rewarding more handsomely middle-ranking employees who shoulder a heavier burden in household spending. The increase rate for employees in appointed job categories remained at 0.5 percent because of the small growth in remuneration for private company executives. When the NPA recommendation is fully implemented, the pay for a 39.6-year-old employee will be raised ¥3,336 to ¥352,978. The year-end bonus payments remain equivalent to 5.2 months of pay.

In a separate report submitted concurrently with the recommendation, the NPA incorporates the inauguration of a system of "volunteer vacations" of up to 5 days annually, aimed at encouraging government employees to participate in volunteer activities. The NPA plans to introduce the system, geared up for rescuing disaster victims, disabled persons and elderly persons, early in 1997. Furthermore, the NPA unveiled the following plans: first,

introduction of a tenure system for government-employed researchers to invigorate research in science and technology; second, extension of the office-holding period for executive officials, including extension of mandatory retirement for vice-parliamentary ministers, and a review of the system of restricting employment to for-profit enterprises; third, extension of group training for would-be executive officials upon hiring and expansion of exchange of staff between ministries and agencies; and fourth, a study to realize a system of continuous employment which enables wide utilization of officials into their early 60s. The NPA plans to hold consultations with individual ministries and agencies on extension of the mandatory retirement age for vice-parliamentary ministers and to decide on it before the year ends.

Special Topic

Transformation of Industrial Relations in the Telecommunications Industry

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Introduction

In April 1985, all legally approved monopolies throughout the telecommunications industry in Japan were abolished. Nippon Telegraph and Telephone Public Corporation (NTT-PC), which had monopolized domestic telecommunication services, was privatized as Nippon Telegraph and Telephone Corporation (NTT). This was done without breaking the company up into separate long-distance and regional service companies.

Since privatization, work practices at NTT have drastically changed, from rigid and legalistic practices to ones that are flexible and more typical of Japanese companies. This transformation seems to have proceeded smoothly without any serious conflicts, although a massive reduction in employees has occurred. It is our view that this transformation has been brought about partly by the strategic choice of the trade union. In the past an arms-length relationship prevailed between the management and the union at NTT-PC, and the union had been reluctant to participate in managerial decision-making. Since the late 1970s, however, the union at NTT-PC gradually changed its strategy to actively participate in managerial decision-making to ensure the employment security of its members and improve their working conditions in the midst of a radically changing environment. The Japanese Telecommunication Workers Union (JTWU), which represents almost 100% of eligible employees, has maintained a cooperative relationship with the management at NTT-PC (and

later at NTT). In the process the union has greatly influenced the changes in work practices occurring at NTT.

This paper discusses the transformation of industrial relations at NTT since privatization¹. Part 1 describes the union's commitment to the reform of NTTPC before privatization. Part 2 describes the transformation of work practices at NTT, focusing on employment and wages, and analyzes the role played by union policies. Part 3 offers a conclusion.

Union Commitment to the Reform of NTTPC

As discussed in more detail later, the work practices at NTT have changed drastically since the company was privatized. In this transformation process, JTWU's policies for participating in managerial decisions have radically changed, which has contributed to the successful reform of NTTPC and to the transformation of work practices without any serious conflicts. First we examine JTWU's strategies on the reform of NTTPC and its policies from the late 1970s to immediately before privatization in 1985.

The "memorandum about consultations on business plans" of November 30, 1957 stipulated that prior consultation had to be held at central and regional levels regarding plans for facilities and staff assignments. The JTWU viewed the prior consultation system as simply a measure for preventing employment insecurity or the deterioration of working conditions as a result of rationalization, but nothing more was desired. The union at that time was not seeking a means of participating in managerial decisions. Though the union's voice within the prior consultation system became gradually stronger over time, the union held to its basic strategy of avoiding involvement in managerial decisions. However, during consultations on the Sixth Five-Year Plan which was to be implemented in fiscal 1978 there was a change in the nature of JTWU policies.

In the fall of 1977 NTTPC management released the Sixth Plan, presenting it to the union on October 27. Union discussions on the plan had begun in June 1976. Union meetings to discuss countermeasures to the plan were held in the telephone operations, maintenance, and sales and marketing divisions, and the union had independently prepared a counter-plan. The concept behind this action was expressed as "We take the initiative from management but create our own policies." Among the union's fourth long-term policies adopted in 1979 was the policy that the union should intervene in the process of formulating industrial policy and business plans, should attempt to participate in the decision-making process, and should create regular opportunities for discussions on business plans and policies between labor and management before management finalized such plans and policies.

In the late 1970s JTWU adopted a strategy supporting participation in managerial decisions. The following conditions influenced JTWU's change of strategy. Two goals that had remained since the company was founded had almost been accomplished, one being the elimination of the backlog of telephone installations and the other being completion of a dial telephone network. It appeared that rather than endlessly expanding the telephone network, most work would consist of operations and maintenance, and developing new services such as data transmission. The economic environment surrounding the company was beginning to change dramatically and was becoming unstable, which in turn was expected to have a negative effect on NTTPC's employees. Under these circumstances JTWU independently decided to create countermeasures and to attempt to participate in the management of the company in order to ensure the security of union members' employment and to improve their working conditions.

While JTWU was searching for a way to participate in managerial decisions, it also changed its policy towards rationalization. JTWU did not oppose the rationalization plans that were proposed one after another by management in the years before privatization, but the union was skeptical of the effectiveness and the rapid pace of change. The union criticized management's plan for modifying the Third Five-Year Plan in 1965, describing the plan as monopolistic and neglectful of public convenience, as evidenced by management's unnecessary installation plan which, the union claimed, did not correspond to the nation's standard of living. The union also claimed that the plan for a dial telephone network would do nothing for the public. Also, in its third long-term policy statement adopted in 1975, JTWU said it would deal with business plans under the assumption that "the public has no desire for further improved conveniences.

In the late 1970s, this policy also changed. The union's fourth long-term policy statement, issued in 1979, stated that in the future it would positively seek to enhance the company's services and business based on the concept that the company would not be able to provide its members stable and guaranteed employment without improving its services. Moreover, during negotiations in 1982, JTWU proposed to management that during an era in which the telegraph and telephone were giving way to other modes of information exchange there must be serious discussion on how the telecommunications business, which would play a central role in the emerging information society, should be created and developed, and how its infrastructure should be built.

Thus, facing changes that threatened union members' employment security, JTWU decided to seek participation in management and came to actively have a say in the company's business strategies. Along with this active participation in managerial decisions, JTWU started to develop its own perspective on the regulatory reform of NTTPC.

JTWU started discussing the reform of NTTPC and the telephone system in 1980. At that point both labor and management at NTTPC came to the realization that, on their own, they lacked the capability to solve the problems facing the company. In order to eliminate the constraints, in March 1981 JTWU announced its support for the democratic management of NTTPC, self-reliance, fairness in customer charges, and reform of the budgetary system under a slogan of "disclosure, decentralization of authority, and participation." It should be noted here that JTWU did not favor either privatization or the break-up of NTTPC, nor did it favor the introduction of free competition into the telecommunication market. The union only supported the reform of the rigid bureaucratic system within NTTPC, with the continuation of NTTPC as a public corporation.

On March 16, 1980 the government established the "Second Committee on Administrative Reform" to examine proposals for fundamental reforms that would provide simple and efficient administration. One topic discussed by the committee was the reform of NTTPC. The committee's third report concerned the telecommunications industry and was presented to the Prime Minister on July 30, 1982. This report included a proposal that outlined reform of NTTPC including privatization, and recommended that competition be introduced into Japan's telecommunications market, and suggested that NTTPC's data transmission services division be split off as a separate company. In response to this report, NTTPC reform was promoted full-scale and the company was privatized in 1985. The following describes how JTWU reacted to the company's privatization and how the union came to participate in management of the company.

First, JTWU prepared its own detailed plans for the reform of NTTPC, and revealed a strong commitment to the reform efforts. Then, JTWU continued discussions with management and both sides finally formed a common vision of the company's future. These discussions were frequent after 1983, when preparation for the reform legislation began. Labor-management agreement was achieved except over the issue of whether corporate ownership of the new NTT would be public or private. Finally, at executive negotiations on January 20, 1984, both sides came to agreement on important issues such as: no breakup of the company; corporate autonomy regarding decisions on wages, investment and capital planning; deregulation with the exception of essential services; and granting the union the right to strike.

However, labor and management had to find ways to solidify their new cooperative relationship and each had to overcome strong internal oppositions to their common vision of reform. Both sides were surrounded by others holding different opinions. The Ministry of Posts and Telecommunications (MPT), responsible for supervising NTTPC, was at first

opposed to reform of the company. When the ministry later agreed to the reform it requested greater supervisory authority by asking that items such as business plans, financial plans, plans for revenues and expenditures, the appointment and dismissal of directors, incidental business, investment, and other important matters be subject to MPT approval. Within the Liberal Democratic Party (LDP), which was promoting overall administrative reforms, there was opposition to the reform of NTTPC. There was also dissent among NTTPC executives. Those in favor of reform, namely JTWU and NTTPC President Hisashi Shinto, had no choice other than to band together to overcome those external forces opposing reform of the company.

JTWU exercised some political influence in Diet deliberations over the privatization bill. The union traditionally had thrown all its support behind the Japan Socialist Party (JSP). At the end of 1983 there were nine JSP members in the House of Representatives and two in the House of Councilors with whom the union had particularly close relationships. With the cooperation of these legislators, in November 1982 JTWU set up a meeting involving Diet members from five opposition parties (including the JSP) to discuss telecommunications reform. According to the promoter of the meeting, the purpose of the meeting was to convince these opposition parties to work against the breakup of NTTPC. Powerful members of the LDP were eventually influenced by those who attended the meeting.

Finally, in 1985, the NTTPC reform bill was passed. As mentioned before, the bill included privatization and free access to the market, policies which JTWU had strongly opposed. However, NTTPC was not broken up, and moreover many other reforms supported by the union were included.

These reforms were achieved in spite of strong opposition because JTWU worked hard with a pro-reform group within the NTTPC management to promote the reform plans and because the union exerted its political influence. The structure of the new NTT was heavily influenced by JTWU and the pro-reform managers of NTTPC. For JTWU, the reform process was a way to participate very closely in the management of NTT.

Changes in Work Practices

The key roles that both JTWU and NTTPC management played in the reform of NTTPC led them to the view that labor and management had to share responsibility for the new company and its employees. The idea was expressed in a basic agreement reached between NTT and JTWU. The basic agreement concerning industrial relations concluded on April 1, 1985 between NTT and JTWU was a significant departure from the industrial relations and human resource management practices that had been in force in the formerly public NTTPC. Paragraph 1 of the basic agreement states that both labor and management should do their

best to improve jobs, to establish a wage system that corresponds to the quality and quantity of labor, and to achieve the objective of developing the company's business. Paragraph 3 stipulates the establishment of a prior consultation system to discuss the various business issues that affect employment and working conditions, as well as basic managerial policies. Paragraph 4 confirms that employment security will be preserved.

One issue NTT has had to cope with is manpower reduction. The company's workforce shrank from more than 300,000 in 1985 to 230,000 in 1992. The adjustment was carried out without dismissals, by transferring employees to affiliated companies (about 16,700 as of 1992, excluding those who changed employ) and by attrition. Employees retire upon reaching the mandatory age limit, through early retirement schemes, or voluntary retirement plans. Early retirement schemes at NTT apply to employees age 45 or older with at least 10 years of service who are willing to retire or quit. Without the schemes, these employees would have had to resign for personal reasons and receive reduced retirement allowances. In its voluntary retirement plans, NTT proposes the termination of a certain number of employees at a particular time, and then recruits voluntary retirees. The applicants are paid an expanded retirement allowance and usually an additional lump sum payment, too.

Efforts to avoid dismissals are not new to labor and management at NTT (or NTTPC). From November 30, 1957 (well before privatization) there was a labor-management understanding that employees would not be terminated for the purpose of rationalization, but the market environment has changed immensely since then. The telecommunications industry grew very rapidly from the 1950s through the 1970s while NTTPC held a domestic monopoly which precluded the need for reduction of employees. Since privatization, workforce reduction has been imperative to meet the increased competition from the new common carriers.

One way of avoiding dismissals which NTT has used only since privatization, is by transferring employees to affiliated companies. Below are some rules concerning employee transfer.

- 1) Before the transfer, management presents the union a transfer plan which includes the destinations and the purposes of transfers and the number of employees involved. Management explains the situation to the union or holds consultation meetings with the union.

- 2) The desires, adaptability, needs, family circumstances and experience of individual employees are considered comprehensively when selecting employees to be transferred.

3) The company holds a seminar for those to be transferred, which lasts about one week, to provide an opportunity for them to learn about business activities at their new workplace and to acquire the basic knowledge they will need at their new jobs.

4) The length of time that transferred employees spend at other companies is added to their length of service at NTT when seniority-oriented pay and retirement allowances are calculated.

5) The new employer's rules for newly-hired workers apply to the transferred employees, though a wage level equal to that which they received prior to the transfer is assured.

Another method frequently used for manpower adjustment is employee reassignment, sometimes accompanied by a change in job category. On December 1, 1955 an agreement concerning reassignment was concluded at NTTPC. Employees were often involved in reassignments before privatization, due to the introduction of automation equipment and organizational restructuring, but there is a great difference in the numbers of transferred employees before and after privatization. The numbers of employees moved between regions have also increased, and moves between job categories have become more common (for instance, from a maintenance or information service department to a sales department). The rules concerning reassignment have not changed a great deal since 1955 and resemble those for transfer to another organization.

A voluntary retirement plan was adopted from 1993 through 1994 as a new method of workforce reduction. The target was to terminate 10,000 employees between the ages of 40 and 57 who had worked for the company for ten years or more. Applications for voluntary retirement were to be solicited three times: December 1993, and June 1994 and December 1994. An expanded retirement allowance and a lump-sum payment equivalent to twelve-month salary (nine-month salary for June and December 1994 applicants) were to be paid to those agreeing to voluntary retirement. The number of applicants totaled 9,900.

Employment security, which is articulated in the basic agreement, has been maintained, in as much as there have been no involuntary dismissals at NTT. In order to maintain employment security while reducing the workforce, various measures other than dismissal have been utilized, as is the case with most private large corporations.

After privatization, JTWU was granted the right to strike and management was freed of its budgetary restrictions imposed by MPT. Wage increases at NTT have come to be determined through bargaining between truly independent negotiating parties. Before privatization the Public Corporation and National Enterprise Labor Relations Commission

presented arbitration proposals which granted very similar annual raises to the employees of three public corporations and five government enterprises (including NTTPC and Japan National Railways). This situation created considerable problems for the employees and the union at NTTPC. Despite the company's extraordinary growth, NTTPC wage negotiations resulted in low raises due to the poor business performance of other public corporations. JTWU strongly advocated a scheme for independent wage negotiation and settlement, and made every effort to have such a system implemented. Owing to privatization, NTT labor and management became able to determine raises without previous constraints and the company's employees received relatively large wage increases. Assuming the average scheduled wage for all industries is indexed at 100, in 1984 the wage level of NTTPC was 90.8 while in 1992 the wage level of NTT was 105.4.

The wage system that existed prior to the privatization of NTTPC was established in 1968. The basic wage was calculated by adding accumulated annual wage increases to the employee's starting wage, which itself was primarily determined by the individual's academic achievement. The pre-privatization NTTPC wage system can be characterized as follows.

■ 1) It was a seniority-based wage system in that wages levels had no direct correlation to duties but rather, were a function of length of service.

2) The wage differential among job categories was substantially compressed. Merit ratings played no part in determining wages and differences in job skills among employees was not reflected in wages at all. Before privatization, JTWU had refused to allow a merit rating system. In June 1966, management introduced merit rating for summer bonus payments as compensation for reconsidering mass disciplinary dismissals. The union at first accepted but soon opposed even this limited use of merit rating and won complete abolition of this practice in 1972.

Under the wage system used by NTT since 1987, an employee's basic wage consists of a combination of age and skill-based components. The key points of comparison between the current wage system and the wage system that existed at NTTPC are:

1) Wages increase with length of service under the current system, as was true for the previous system. In this sense the wage system is still seniority-based.

2) Merit ratings play an indirect and crucial part in determining an employee's wage under the current system, while there was no merit rating in the NTTPC system. The influence of merit rating is indirect because the results of merit rating do not directly translate to a specific amount of annual increase in the skill-based wage component. Rather, the merit rating affects an individual's rank, which in turn influences the size of the wage

increase the individual receives. Merit ratings are crucial because they permit different wages for different employees. There are sizable differences in the annual wage increases received by employees with high merit ratings and those with low ratings. JTWU, which had strongly opposed any merit ratings before NTTPC's privatization, changed its policy after privatization. When the merit rating system was introduced into wage decisions, JTWU stated that the rating system would improve worker motivation and stimulate the company's business since wages would rise in accordance with improvements in employees' skills.

3) In principle, the new system encourages employees to improve their job skills and performance and puts them into competition over improving their individual job skills. Employees who improve their skills and are promoted to a higher rank get a higher wage increase, even if they are not promoted to a higher administrative position.

4) However, the new wage system has its disadvantages. Under the new personnel ranking system, the new wage system has the potential of increasing labor costs unreasonably. There is no limit on the number of employees assigned to a particular rank. Furthermore, employees who demonstrate improved skills are expected to be promoted and receive a higher wage under the new systems. If suitable jobs were unavailable, workers would have to be assigned to jobs below their skill level while being highly paid. The result would be an increase in unit labor overhead. The more workers improve their skills and are promoted to higher ranks, the more likely will this mismatch of worker skills and job difficulty occur. In order to limit the spread of overqualified employees, the number of employees assigned to a particular rank could be limited, which would only discourage employees from improving their skills. Thus there is no harmless way to avoid over qualification in the new skill-based wage system.

In short, in terms of wage determination, the reforms introduced upon the privatization of NTTPC brought about independent collective bargaining, a higher wage level, merit ratings and competition of employees to improve individual job skills. These achievements have been supported by the changed union policies.

Conclusion

The restructuring of Japan's telecommunications services industry has been successful, at least in terms of business performance. It is our view that the successful reform of NTTPC was assisted by two key changes that occurred in the policies of JTWU. These key policy changes involved JTWU's efforts to become more deeply involved in managerial decisions and JTWU's revised policies toward rationalization. During the process through which NTTPC was restructured, JTWU worked hard to maintain a cooperative relationship with the company's management. These changes in JTWU policies were driven in part by the union's

recognition of the economic pressures that affected the telecommunications industry. The turbulent economic environment in the late 1970s led JTWU to be concerned about the company's future and the employment security and working conditions of the union's members. The administrative reform that affected NTTPC also spurred JTWU to reassess its policies. As a result, JTWU now successfully participates in the management of NTT and shares responsibility for the company and its employees.

The transformation in JTWU's strategy was accompanied by a number of changes in work practices which in turn helped reinforce the union's new strategy. Supported by changes in JTWU's policies, employment and wage practices at NTT have been transformed in the following manner.

1) Employment. NTT is trying to provide as much employment security as possible. The company utilizes reassignments and transfers to affiliated companies more frequently now to cope with workforce fluctuations. Even when employee reductions are needed, dismissals are avoided by soliciting voluntary retirement or by offering enhanced early retirement benefits, both of which are new practices at NTT.

2) Wages: Seniority continues to be a deciding factor in NTT's wage system, but the merit rating system that was strongly opposed by JTWU before privatization is now supported by the union and plays an important role in determining wages. Under the new wage system employees are encouraged to develop greater skills to perform their duties, and wages now reflect differences in individuals' job skills.

These practices are not unique to NTT; they are typical of leading private-sector companies in Japan. In this sense, the work practices at NTT have changed from a rigid and legalistic style to a flexible style that is typical of Japanese private-sector companies.

Although the reform of NTT has generally been successful so far, there are some potential problems on the horizon. One problem involves the potential break-up of NTT which the council of MPT has been discussing. Both the NTT management and union strongly oppose the break-up of NTT, but some members of the LDP favor a break-up to stimulate greater competition in the telecommunications industry. If a break-up were to occur, labor and management at NTT would be again forced into transformation.

Another key problem of conflict concerns the competition NTT faces from new common carriers (NCC), competition that is getting fiercer and fiercer. Since most of the NCCs are not unionized, JTWU and NTT now face for the first time competition from non-union companies. It is not clear if employees at NTT will be able to continue to enjoy improved working

conditions in the face of such competition.

Reference

1. For details, refer to Keisuke Nakamura and Shin'o Hiraki "*Denki Tsushin Sangyo no Roshi Kankei - Rekishi to Genjo (Industrial Relations in Telecommunications Industry in Japan)*", 1996, Japan Institute of Labour. Also Keisuke Nakamura and Shin'o Hiraki, in chapter "Japan" in "*Telecommunications: World-wide Restructuring of Work and Employment Relations*" edited by Harry C. Katz, forthcoming, Cornell University Press.

Statistical Aspects

Recent Labor Economy Indices

	August 1996	July 1996	Change from previous year
Labor force	6,766 (10thousand)	6,810 (10thousand)	56 (10thousand)
Employed	6,542	6,589	48
Employees	5,330	5,355	69
Unemployed	224	221	8
Unemployment rate	3.3%	3.2%	0.1
Active opening rate	0.71	0.72	0.01
Total hours worked	153.0 (hours)	165.9 (hours)	0.6*
Total wages of regular employees	284.1 (¥ thousand)	285.9 (¥ thousand)	1.4*

Source: Management and Coordination Agency, Ministry of Labour.

Notes: 1.*denotes annual percent change.

2.From February 1991, data of "Total hours worked" and "Total wages of regular employees" are for firms with 5 to 30 employees.

Trends in Labor Demand by Job Type

Trends in D.I. for Judging the Numbers of Regular Employees in Establishments of Principal Enterprises

