

JAPAN LABOR BULLETIN

ISSUED BY THE JAPAN INSTITUTE OF LABOUR

Vol.37 - No.07

July 1998

CONTENTS

General Survey

- ▶ Comprehensive Package to Stimulate the Economy

Working Conditions and the Labor Market

- ▶ Unemployment Rate Surges to 4.1 Percent

Human Resources Management

- ▶ Corporate Trends in Active Utilization of the Elderly

Labor-Management Relations

- ▶ ANA Strike -- Wage System Talks Break Down
- ▶ First May Day Parade in Eight Years

Public Policy

- ▶ Compensation for Unpaid Wages Climbs Above ¥10 Billion

Special Topic

- ▶ The Future of Trade Unions in Japan

Statistical Aspects

- ▶ Recent Labor Economy Indices
- ▶ Trends in the Number of Employees and the Number of Deaths from Industrial Accidents: 1972-1997

General Survey

Comprehensive Package to Stimulate the Economy

On April 24, the Cabinet met and decided upon a comprehensive set of measures to stimulate the economy. Costing some ¥16.65 trillion, the largest such package to date, the measures were conceived as a means of stemming the ailing Japanese economy and nursing it back to life. A major component of the package is a ¥4 trillion cut in income and resident taxes. This adds a further ¥2 trillion cut to the ¥2 trillion cuts introduced at the end of 1997. The government will set the amount of the tax cut for each family according to the number of family members. This is similar to how it was done with the initial cut last year. Thus, the standard family with mom, dad and two children will enjoy an additional tax cut of ¥72,500, making for a total of ¥137,500 when combined with the earlier tax cut. A second component of the package is a ¥7.7 trillion injection into the social infrastructure. Some of the funding (¥1.5 trillion) will be for new social infrastructure projects, such as improved and expanded telecommunications networks, and for social welfare. As the third component, ¥2.3 trillion will go for a comprehensive plan to boost the transfer of land in an effort to help financial institutions clear their portfolios of non-performing assets. Another ¥2 trillion will be allocated to ease the adverse effects of the current economic downturn on small and medium-sized firms. The guidelines under which smaller firms may apply for loans from the Small Business Finance Corporation will be expanded and steps will be taken by government-affiliated financial institutions to assist banks that feel they must be overly cautious in lending to such firms. The fourth component of the rescue package is designed to deal with the employment situation as a result of the considerable rise in unemployment rate. It includes ¥50 billion for labor adjustment subsidies to aid firms that have relocated workers and used temporary transfers to keep employees on the payroll.

Table 1: Funding for the Measures to Stimulate the Economy

	Measure to be funded	Funding (in billions of Yen)
Tax cut	Special tax cuts	4,000
	Other tax cuts	600
Expenditures for Social Infrastructure	Environment and new energy	1,600
	Telecommunications and the promotion of science and technology	1,000
	Welfare, medical care and education	1,000
	Programs to improve the distribution system	800
	Emergency and anti-disaster measures	800
	Measures to invigorate city centers	800
	Disaster relief works	200
	Public works carried out by local government	1,500
Others	Land market measures	2,300
	Measures for small and medium-sized enterprises	2,000
	Employment measures	50
Total	16,650

The Economic Planning Agency predicts that the pump-priming package will boost domestic product by about two percent in the coming fiscal year, thereby allowing the government to achieve the 1.9 percent real growth forecast for fiscal 1998. It is expected that the stimulus package will also have a positive impact on the employment situation.

Working Conditions and the Labor Market

Unemployment Rate Surges to 4.1 Percent

According to the latest preliminary findings from the Labor Force Survey, which is conducted by the Management and Coordination Agency (MCA), the unemployment rate stood at 4.1 percent in April, the highest figure since 1953, when the government began compiling comparable labor statistics. The April figure was up from 3.9 percent in March. The increase in unemployment rate over that period suggests that the employment situation is rapidly deteriorating.

In April, 1.72 million men and 1.18 million women were unemployed, an increase of 50,000 and 80,000 respectively over the previous month. The unemployment rate for males stood at 4.2 percent, up from 3.9 percent in March; for females, 4.0 percent, up from 3.4 percent.

The unemployment rate was highest among the young and the elderly. The rate for male workers aged 15 to 24 was 9.1 percent; for those between 60 and 64, it was 12.1 percent. The survey attributed the rising unemployment rate for young people to the fact that corporations

recruited fewer school graduates. The number of school graduates without jobs was 230,000, up 60,000 from March, which had been the previous high.

By industry, the number of employed people rose in services and in wholesale and retail trade. It fell in manufacturing and in construction. In manufacturing, employment decreased by 740,000 people; in construction, it dropped by 110,000 people. It is assumed that the employment situation deteriorated as production was adjusted downward in the secondary industry sector when orders dropped.

Human Resources Management

Corporate Trends in Active Utilization of the Elderly

On April 3, 1988, the Management and Coordination Agency (MCA) announced the results from a survey on the employment of older people in the private sector and mandatory retirement, extended employment and re-employment. The MCA sent questionnaires to 5,500 private firms with 30 or more regular employees at the head office. The response rate was 67.1 percent (3,692 firms).

Nearly 90 percent of the firms reported that they had a fixed retirement age, with 84.5 percent of those firms setting the age at 60. Furthermore, 81.0 percent reported that they had introduced an extended employment system or a re-employment system. Extended employment means that those who reach the mandatory retirement age continue to be employed. Re-employment means that those who reach the mandatory retirement age are dismissed and then rehired. Neither type of employment is a right: 55.3 percent of the firms said, "Only those deemed particularly necessary " would remain; 23.5 percent, however, indicated that as a rule, such employment was given to all who wish to enjoy the privilege; 14.9 percent said they would allow all of those who met certain criterion set by the firm to stay on. Just over half (52.8 percent) set 65 as the age until which "retirees" could actively work.

How do firms actually implement re-employment? The department store Mitsukoshi use re-employment to stem a decline in its ability to serve customers as its most experienced sales personnel were retired. In June 1998, the company launched a re-employment system for those who reach the mandatory retirement age of 60. The system allows part of those with sales and other professional skills to be re-employed until 65. The move at Mitsukoshi will likely accelerate plans to introduce similar schemes at other department stores.

The extended employment system has implications for a firm's wage costs. Generally, wages and welfare expenses for those employed beyond the mandatory retirement age are lower than those for younger employees. But with increased pressure from the overall rise in personnel costs, firms are increasingly being urged to shift to wage systems that reward all employees according to their ability and performance. In 2001, Matsushita Electric will adopt a system to extend employment for five years after the mandatory retirement age of 60 is reached. In preparation for that change, the company plans to revise the wage system for employees aged 40 and over. The system will be designed to curb the rise in wages for middle-aged and older workers by introducing a system whereby wages are determined more by ability and performance. Wages will rise with age until employees reach their 30s. Thereafter, the age-based component of wages will not increase. Further wage increases will depend upon ability and performance.

Other information on the mandatory retirement age and post-retirement measures has been gathered by the Ministry of Labour through its Employment Management Survey.

Labor Management Relation

ANA Strike -- Wage System Talks Break Down

The crew union of All Nippon Airways (ANA), Japan's second-largest airline, went on strike for two weeks starting on April 6. The union was resisting management's attempt to replace a system that resulted in flat allowances with a system that tied pay to actual flight hours. The strike resulted in the cancellation of 120 overseas flights affecting about 25,000 passengers. The management called on the union to call off the walkout during the "Golden Week" holidays, a time of the year when many passengers fly. Although the union did so, disagreements over the wage system, remain unsettled.

Wages for ANA crew members consist of basic pay and a flight allowance. Flight crews receive a flat 65-hour flight allowance regardless of flight hours actually logged. Management proposed a new system whereby crews will get a 15-percent cut in the flat allowance but will receive additional pay based on actual flying time.

One consideration is ANA's pretax losses recorded in March 1998 when it closed its book for the preceding financial year. It recorded a pretax loss of ¥3.2 billion. No dividend was paid for the first time in 30 years. Amid its on-going restructuring, the carrier is also reviewing the high annual income of its pilots (Currently, pilots for Japan's large carriers who are aged 45 to 50 earn ¥24 to ¥25 million). The management hopes to cut labor costs by ¥1 billion annually

by introducing the new system. However, since the percentage of labor costs in management's overall costs is only around five percent, slashes in pilots' annual income alone will not result in a marked improvement in the firm's financial situation.

In April 1996, management decided to adopt the new system, but the union protested and rejected management's proposal by striking on domestic flights. Management proposed the introduction of the new system in October 1997. At the end of March 1998, ANA President Kichisaburo Nomura sat in on talks between management and the union. He asked the union for its understanding, but talks with the union broke down.

On April 6, the crew union went on a strike for an indefinite period, its members refusing to work on international flights using the Boeing 747 and the Boeing 400. A total of 120 international flights were cancelled by the time ordinary flights were resumed on April 24.

According to the Ministry of Labour's Survey on Collective Bargaining and Labor Disputes, only eight percent of Japan's labor unions were involved in disputes such as strikes in the three years from July 1994 to June 1997. With labor disputes becoming unusual, the two-week long ANA strike surprised the nation.

First May Day Parade in Eight Years

In its first May Day parade for eight years, Rengo (Japanese Trade Union Confederation), the nation's largest national center, criticized the proposed revisions to the Labor Standards Law. Intensifying its opposition to the government, unionists have baffled management, which in general has enjoyed a high level of labor-management cooperation.

Public Policy

Compensation for Unpaid Wages Climbs Above ¥10 Billion

Unpaid wages (regular pay and retirement allowance) for employees of collapsed firms have been on the rise as corporate failures increase during the recent economic slump. In 1997, employees with unpaid wages have been compensated up to ¥10.867 billion. This is the first time since the government launched the compensation system that the payments have gone over ¥10 billion.

Under the system, the government pays unpaid wages to stabilize the living conditions of workers forced to leave jobs due to corporate bankruptcies. The system covers proprietors who

went bankrupt legally and the owners of small and medium-sized firms that are unable to continue their business activities, and are therefore unable to pay wages to their employees, and have had their situation validated by the Chief of the Labor Standards Inspection Office. The government will basically cover 80 percent of an employee's wages unpaid for six months before the date of retirement. It will defray up to ¥1.36 million for retirees over 45, ¥1.04 million for those aged 30 to 44, and ¥560,000 for those under 30.

The extent to which the system is used has fluctuated since its inception in 1976 according to the business cycle. However, reflecting the economic downturn in recent years, there has been a marked increase in the number of firms and the number of retired workers benefiting from the system. As a result, the amount of unpaid wages has increased. In 1994, about ¥6.964 billion was channeled to 18,747 retirees from 1,084 firms. In 1996, around ¥8.657 billion was paid to 22,699 retired workers from 1,376 firms. In 1998, the figures were ¥10.867 billion, 27,489 retirees and 1,636 firms.

If the number of corporate collapses continues to rise due to the delayed economic recovery, the government will have even more retirees to compensate.

Special Topic

The Future of Trade Unions in Japan

Hiroyuki Fujimura
Professor, Faculty of Business
Administration, Hosei University

1.0 The Decline of Trade Union Density

Trade union density continues to decline in Japan. The unionization rate fell from 23.2 percent in 1996 to 22.6 percent in 1997. An overview of unionization rates over the past half century allows four distinct periods to be identified. The first period, from 1945 to 1949, was characterized by a burst of trade-union organizing activity. In 1949 the union participation rate reached its postwar high at 56 percent. From 1950 to 1960, union density then declined to around 32 percent. The third period between 1961 and 1975 was characterized by remarkably stable unionization rates, at around 34 percent. The fourth period starting in 1976 saw a further decline. After the first oil shock in 1974-1975 the Japanese economy fell into a deep recession, and the union participation rate started to decline. That decline has continued until today.

The reasons for the decline in union density in Japan after the oil shock have been discussed by a number of observers. Structural changes which have resulted in a growing

proportion of Japan's employees being located in tertiary industry can explain only a part of the decrease in the union participation rate in Japan (Ito and Takeda 1990). Neither an increasing proportion of female and part-time workers nor a proliferation of management posts is the dominant reason for the fall in union density. Freeman and Rebeck (1989) conclude that failure to organize workers in newly established firms is the most important reason for the decline.

Trade unions in Japan are losing their influence over industrial relations not only because the union density has declined, but also because many union members are no longer dependent on their trade union. The unemployment rate exceeded four percent this April. Job insecurity has come to be perceived as being one of the most serious problems confronting the Japanese employee. Union members naturally expect their trade union to protect them from dismissal. At this moment trade unions still have a voice concerning the job security of their members. But as the recession becomes deeper, management finds it increasingly difficult to protect the jobs of their members. Some union members are skeptical as to whether their union can ensure the security of their jobs.

Union members began to question the ability of unions in the mid-1970s, when union density started declining. The majority of large firms in Japan have a union shop agreement. Union membership within some period of time after being hired is compulsory and automatic. Even if members think they get very little benefit from their union, and want to quit in order to save membership fees, they are not allowed to do so. Many union members lose their interest in the union, and look on the membership fee they pay every month as something like a tax.

2.0 Union Identity Movement

Because unions in Japan's large firms still have their members, they are financially sound. However, there is a danger that they will lose the loyalty of their membership. Some enterprise union leaders are acutely aware of how apathetic their members have become toward the union. They take the situation very seriously. In order to reassert the position of unions, many have participated in the union identity (UI) movement since the late 1970s. Until the first half of the 1970s, people believed that Japanese workers, especially those in Japan's large firms, were secure in their employment and that dismissals before the retirement age were rare. But the first oil shock and the subsequent recession revealed that even large companies would dismiss employees in order to survive. Union members expected their union would protect their jobs, but soon found that the union would at best only negotiate conditions for their resignations under a voluntary early retirement scheme. Many union members, especially younger members, lost interest in union activities for other

reasons. They did not wish to participate in the various kinds of meetings organized by their union. Most enterprise unions experienced a drop in the participation of members in union meetings. A recognition of these kinds of problems and the change in their members' consciousness was the starting point for those who devised the union identity movement.

3.0 Background of UI Movement - Three Changes Around Unions

After the first oil shock, three major changes occurred in Japanese firms. One was in management strategy. During the period of high economic growth, most Japanese companies were able to expand their product markets. In the 1960s and the early 1970s people bought one product after another as they appeared on the market. However, the first oil shock forced many Japanese to accept that growth does not continue indefinitely. In addition to the slower growth of the market, the diversification of consumer demand and the introduction of more flexible technologies also contributed to the need for management to rethink the way it structured the workplace. Management came to rely more on part-time workers, and to restrict its employment of regular employees. Large firms that had command over an array of subsidiaries and subcontractors began to develop group-wide personnel management strategies in order to avoid dismissing employees outright.

A second change was the increase in the proportion of employees in white-collar occupations. Many of these employees were highly educated. Until the mid-1970s, it was not so difficult for union leaders to consolidate the demands of their members. The most pressing demands were for a wage increase and better working conditions. Thereafter, however, white-collar union members came to demand more than the improvement of their working conditions. They wanted their unions to have a say in various aspects of personnel management: the transfer of employees from one section to another, performance evaluation, job assignment, and so on. This made it difficult for union leaders to work equally for all members. Different members had come to demand different outcomes from their union.

The third change was in the maturation of industrial relations at the enterprise level. After the tremendous amount of industrial conflict in the 1950s and the early 1960s, management and unions tried to stabilize their relationship. The emphasis shifted from collective bargaining to the development of joint consultations in which management and the union could discuss a range of delicate problems. As the level of mutual trust rose, they began sharing secret information relevant to the management of the firm. In some companies the head of the union came to have access to sensitive data otherwise available only to a few top managers. However, the more delicate the information became, the more difficult it was for union leaders to explain the process of negotiation with management to their members. Union members found it increasingly difficult to understand transactions with management. It soon

become difficult to know what was being won on their behalf and what was being given away to management. One result was that union members become more cynical about the negotiation process. Many lost faith in their leaders and came also to lose their interest in union activities.

4.0 Four Thrusts of the Union Identity Movement

Activities to promote union identity may be grouped into four categories: the altering of union symbols, the total welfare policy, moves to be more actively involved in the firm's decision-making process, and the organization of non-regular employees.

The alteration of union symbols includes (a) changes to the union's name (e.g., calling it the "XYZ Adventure Club"); (b) changes to the union flag (e.g. redesigning it and using blue rather than red as the main color); (c) redesigning the union's logo; (d) using plain words to explain the union instead of the traditional, ones which often come across as too abstract; and (e) the reform at of union newspapers, (e.g., using more illustrations and photos).

Table 1 shows how many unions have altered their symbols. These data were collected though a questionnaire survey organized by Inagami and his colleagues (1995). In 1993 secretaries from 1,050 enterprise unions returned the questionnaires (for a response rate of 46.5 percent). Nearly half of the unions were at firms in the manufacturing industry. Three fourths were at firms with more than 1,000 employees.

Table 1: Alteration of union symbols (%)

	yes	these 10 yr.	these 2-3 yr.
Changes to a union's name	25.1	14.4	72.0
Changes to the union flag (design/color)	39.0	17.4	76.8
Redesigning the union's logo	36.9	21.4	66.9
Using plain words to explain the union instead of the traditional, ones which often come across as too abstract	29.0	12.2	84.5
The reformatting of union newspapers	83.1	17.2	74.2

Source. Inagami[1995].

The most popular strategy was to reformulate the union newspaper. The newspaper is an important means of communication between union leaders and members. Few union newspapers had previously been attractive. Their pages were often filled with words. Few had illustrations or photos. Their overall appearance was rather bleak. Although they may have provided useful information, members often threw them away without reading any of the contents. In order to make union newspapers interesting, union leaders changed editorial policy. With many illustrations and photos and plain language, union papers are now much more appealing, and most members read them.

Table 1 also indicates when unions made their changes. One remarkable point is that about three fourths of unions conducted such reforms in the past two or three years. Some unions started UI activities at the end of the 1970s and the beginning of the 1980s. However, the majority of unions began to undertake these sorts of reforms in recent years.

A second focus of the UI movement has been the development of total welfare policies. In the past, most trade unions concentrated on improving conditions within the firm: higher wages, shorter working hours, and a better work environment. Trade unions sometimes organized events in which members' families were welcome to participate, but did not have a clear policy with regard to the members' total life. The UI movement also attached importance to the life of members outside their firm. One union came up with a slogan claiming that the union "took care of members and their families 24 hours a day." Union leaders became aware that the members would increasingly need the union to be involved in a wider range of activities. Accordingly, many unions have developed total welfare programs.

The third thrust of the UI movement has been to increase participation in the firm's decision-making process. Implementation of total welfare programs require cooperation with management. Without adjustments at work, it is impossible for members to satisfactorily restructure their lives away from work. According to Inagami (1995), 56.5 percent of unions that responded keep a voice on management policies.

A fourth pillar of the UI movement has been the organization of non-unionized employees. Japan's unions have usually limited their membership to regular, full-time employees. As long as enterprises recruited only regular employees, unions were protected by closed shop agreements, which compel regular employees to be union members. After the first oil shock, however, management began to employ more part-time workers who were excluded from most enterprise unions. Moreover, the number of managers was also increasing. Finally, employees working in group companies also tended to fall outside the purview of the union. In order to keep a voice in management, many trade unions started organizing such workers. Although these efforts to organize employees have been made only on a limited scale, it is noteworthy that some enterprise unions have sought to look after non-unionized employees.

5.0 Results of the UI Movement

It is hard to estimate at this moment whether the UI movement will succeed in stopping the decline in unionization rates. However, the preliminary findings of Inagami (1995) indicate that the movement has been able to reverse the overall decline in the interest of members in the union movement. When asked whether union members had become more interested in union activities over the past ten years, 36.5 percent of union leaders answered

that members were less interested. Only 15.7 percent answered that members had become more interested, while 47.3 percent saw no change. Asked whether more members were now participating in events and meetings organized by unions, only 13.1 percent answered "yes." About 37 percent replied "no" and 49 percent indicated that there had been "no change." Asked whether their own union has succeeded in stopping the decline in interest among its members, 13.3 percent of respondents said "yes," while 65.5 percent said "no." These figures show that a large portion of Japan unions still suffer from a decline in the interest of their membership.

Recently serious problems have arisen from the UI movement. Union leaders are finding it difficult to make sufficient time available to discuss and to plan long-term union policy because they have to spend so much time maintaining their total welfare policies. Many unions are now having to maintain programs that have been designed for members and their families. It is easy to start such programs, but it has been difficult to cull such programs. Now the number of such programs is very large, and it takes a lot of time to manage them. Some unions have begun to monitor their programs in an effort to determine which ones deserve high priority. By culling their programs, union leaders hope they will be able to spend more time in long-term planning.

6.0 The Future of Unions in Japan

The union movement in Japan faces a number of serious problems. One is the decline in union density and rising apathy of members toward their union's activities. In order to tackle this problem, many unions have been conducting UI activities. The outcomes are still uncertain.

The fall of union density derives mainly from the inherent shortcomings of enterprise unionism. Enterprise unions have in the past concentrated their efforts on problems specific to the firm, and have not devoted many resources to organizing non-unionized workers. It nevertheless should be noted that a few unions like Zensen Domei (The Japanese Federation of Textile, Garment, Chemical, Commercial, Food and Allied Industries Workers' Union) and Zenkin Rengo (The Japan Federation of Metal Workers' Unions) have been striving to organize new workers. But such unions are too few, and the unionization rate in Japan will probably continue to fall.

Here it might be useful to consider the possibility of corporate governance through union activity. Some unions have gained a relatively strong position against management by actively engaging management in joint consultations. It is sometimes difficult for outside observers to evaluate ways in which trade unions have a say in changing management policy,

because the discussion in consultation committees is kept confidential. However, interviews with union leaders conducted by this author suggest that some unions have a voice in decision-making and are able to ensure that management policies are in the interest of their union's members.

In Japanese firms, unlike in U.S. firms, neither shareholders nor outside directors have a strong voice. The function of checking management policies was carried out by Japan's main banks until the late 1970s, but since the mid-1980s their role has gradually decreased. Consequently, chief executive officers in Japanese companies have unchecked power to make decisions. The lack of countervailing power poses a serious problem for corporate governance in the event of managerial misconduct. Accordingly, unions might be the last resort for checking top management policy-making. To the extent that Japanese unions engage in this type of activity, we may be witnessing the emergence of a new form of corporate governance.

References

- Freeman, R.B.; and Rebeck, M.E. (1989). "Crumbling Pillar? Declining Union Density in Japan" *Journal of the Japanese and International Economies* (vol. 3), pp. 578-605.
- Inagami, T. (ed.) (1995). *Seijuku Shakai no Naka no Kigyobetsu Kumiai* (Enterprise Unions in a Mature Society) (Tokyo: The Japan Institute of Labour). Tokyo.
- Ito, M.; and Takeda, Y. (1990). "Rodo Kumiai Soshikiritsu no Sui to Sono Henka Yoin" (Change in the Union Participation Rate and Reasons for the Change). *Rodo Tokei Chosa Geppo* (Vol. 42, No. 6), pp. 6-14.

Statistical Aspects

Trends in the Number of Employees and the Number of Deaths from Industrial Accidents:
1972-1997

	April 1998	March 1998	Change from previous year
Labor force	6,822 (10 thousand)	6,745 (10 thousand)	17 (10 thousand)
Employed	6,532	6,468	42
Employees	5,351	5,353	32
Unemployed	290	277	59
Unemployment rate	4.3%	4.1%	0.9
Active opening rate	0.55	0.58	0.03
Total hours worked	162.6 (hours)	156.7 (hours)	1.2
Total wages of regular employees	(¥thousand) 271.3	(¥thousand) 269.2	0.2

Note: *denotes annual percent change.

Source: Management and Coordination Agency, Ministry of Labour.

Trends in the Number of Employees and the Number of Deaths from Industrial Accidents:
1972-1997

**Trends in the Number of Employees and the Number of Deaths
 from Industrial Accidents: 1972-1997**

