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## General Survey

### Debate Over Disposal of Excess Facilities

Recently, scrapping excess plants and facilities held by Japanese manufacturers has been proposed as the key to revitalizing the economy. Until now, the government has been implementing demand-stimulating policies such as expansion of public works projects and tax reductions, but these have failed to fully reverse the economic trend. Now, however, a new argument is surfacing: Recovery of the economy should be achieved by a rationalization of the supply side by disposing of unneeded plants and facilities. Below are some arguments in support of this proposal.

According to an estimate by the Economic Planning Agency, the value of excess plants and facilities owned by private enterprises totals ¥85 trillion. It is said that this not only weakens the competitiveness of Japanese businesses by lowering productivity, but also hinders investment in new facilities and acts as a drag on economic recovery.

Keidanren (Japan Federation of Economic Organizations) is considering measures to cut excess plants and facilities to an appropriate level. Specifically, it cites the need for enterprises to enter into mergers to make it easier to shed redundant plants and facilities, rather than doing so on an individual basis. Keidanren has also endorsed other proposals, including establishing a “debt-equity swap system” to help creditors of debt-ridden companies waive their claims if the companies dispose of unneeded facilities, and the amendment of laws to make the use of land more flexible after the removal of facilities.

However, Keidanren itself is not completely united in these proposals, and Keizai Doyukai (Japanese Association of Corporate Executives), another major employer group, is skeptical about such ideas. It will be interesting to see how the debate on disposal of excess facilities develops in the business world.

Within the government, the Ministry of International Trade and Industry (MITI) is the most positive towards the idea of disposal. It has begun considering drafting a bill embodying comprehensive measures to encourage the restructuring of companies and the disposal of excess facilities:

First, the measures MITI is considering for dealing with excess facilities are aimed at financial support for company efforts to demolish old facilities and evacuate land, and include proposals such as: (i) creation of a low-interest loan system; (ii) reduction of taxes on capital

gains accruing from transfers of unused land; and (iii) extension of the term for accounting of financial losses incurred by the removal of facilities. Moreover, MITI, suspecting that companies will hesitate to take action if the disposal of facilities would still leave them with debts, is to incorporate a measure for companies to get rid of superfluous debts by, for example, converting them into equity. In line with this, MITI is to call on the Fair Trade Commission not to apply the antitrust law banning creditors from holding five percent or more of shares in corporate enterprises (the 5% rule), in cases where creditors surrender their claims on these enterprises in return for equity.

Second, where measures to promote company reorganization are concerned, MITI plans to introduce a scheme which, for tax purposes, sets capital gains against the cost of acquisition, so as to encourage companies to swap business sectors to specialize in the business markets where they are strongest. The measures also include a regulation simplifying mergers which, by relaxing the resolutions that the commercial law requires a company's board of directors to make, makes it easier for large companies to carry out mergers.

Third, MITI is to deploy measures to fight the unemployment generated by the demolition of plants and corporate restructuring. These include the extension of the duration of unemployment benefits and the coverage of training costs by the Government Subsidies for Employment Adjustment (GSEA), so as to improve the quality and quantity of the training that enterprises provide for departing employees.

## **Working Conditions and the Labor Market**

### **Large Drop in the Employment Rate of University Graduates**

The unemployment situation remains serious, and the proportion of university and high-school students graduating this March who have found jobs shows a significant drop, according to surveys by the Ministry of Education, Science, Sports and Culture (MESSC) and the Ministry of Labour.

Where jobs for high-school graduates are concerned, the MESSC conducts surveys at the end of October, December, and March, monitoring the proportions of final-year students who have been promised jobs. Of about 297,000 young job seekers due to graduate in March 1999, about 267,000 had succeeded in their job-hunting by the end of that month, a success rate of 89.9 percent. This is three percent down from the same period last year (92.9%), a record low since the ministry started the survey in 1976, and the first time that the failure rate exceeded

10 percent.

For university graduates, the ministries have conducted surveys jointly since 1995. The 1999 survey of 5,300 students about to graduate from national, public and private universities, two-year colleges, and technical colleges, revealed that as of March 31, 92 percent of job-seeking four-year university students had found jobs. This figure is a 1.3 percent drop from the same period of the previous year and a record figure since the compilation of data began. New graduates without jobs stood at an estimated 29,000. For college graduates (female only), the employment rate was 88.4 percent, a 1.8 percent drop from the previous year, whereas for technical college graduates (male only) the figure was 100 percent, the same as the previous year. By gender, the figures for four-year university graduates were 93.2 percent for males and 89.2 percent for females, 1.4 percent down and 1.3 percent down, respectively, from the previous year.

The figures above are for graduates who wanted to find work, but, perhaps as a reflection of the serious employment situation, the proportion of these is declining. Of all four-year university students due to graduate in March, only 68.3 percent took action to find jobs while still at university, a 4.6 percent drop from the previous year. For two-year college graduates (female only), the percentage of those wanting to find a job stood at 71.3 percent, five percent down, while for technical college graduates (male only) it stood at 60.0 percent, 0.8 percent down from the previous year. In terms of gender, the figures for four-year university graduates dropped by 4.6 percent to 66.1 percent for males and dropped by 3.3 percent to 73.4 percent for females. Analyzing the situation, the MESSC conjectures that "an increasing number of students, faced with the harsh reality, might have put off getting jobs by spending another year on campus or going on to graduate schools."

According to the Management and Coordination Agency (MCA), the nation's unemployment rate in March 1999 climbed during the month by 0.2 percent, to 4.8 percent. One cause for this increase was the inflow into the labor market of new graduates who had yet to find jobs. The unemployment rate for people aged between 15 and 24 years in March rose by 1.7 percent, to 10.9 percent.

In response to this situation, the ministries are urging employers' groups to hire new graduates aggressively. In addition, the Ministry of Labour has plans for a counseling service to help those who have graduated but not yet found a job.

## International Relations

### Further Decline in Overseas Subsidiaries of Manufacturers

A Quarterly Survey of Japanese Business Activities conducted by MITI has revealed that the number of employees of Japanese manufacturers' overseas subsidiaries for October to December 1998 totaled around 1.341 million, a 1.8 percent drop from the same period in the previous year. The survey also shows that this is the second consecutive quarter, following the period from July to September, to show a decline from the previous year. The ministry considers that the scale and number of overseas subsidiaries is likely to continue to fall owing to unpredictable business prospects in the Asian economies. The questionnaire-based survey covers Japanese manufacturing companies with 50 or more employees and capitalization of more than ¥30 million, together with their overseas subsidiaries. The number of respondents totaled about 2,200.

By region, the number of employees in overseas subsidiaries in North America was about 360,000, a 2.6 percent increase from the same period in the previous year, whereas in Asia it was about 720,000, a sharp drop of 3.5 percent. In particular, in the NIEs (South Korea, Taiwan and Singapore) it was about 104,000, a still sharper drop of 13.7 percent. It seems that the crisis in the South Korean economy is affecting local Japanese enterprises as well.

In terms of business categories, the falls in the number of employees in the textile and metal industries are substantial, 14 percent and 8.8 percent, respectively. On the other hand, the general machinery industry saw a 2.8 percent increase, highlighting the differences among industries.

Sales of overseas subsidiaries totaled ¥8,519 billion, a 5.7 percent decline compared with the same period last year. Where particular regions are concerned, all regions but Europe saw a fall in sales in terms of Japanese currency. However, the effect of the strong Japanese yen should be taken into account; in terms of local currencies, sales of subsidiaries in North America increased.

## Public Policy

### Construction Sector Applies for Subsidies for Employment Adjustment

The Japan Federation of Construction Contractors (JFCC), to which 64 companies including the major general construction companies are affiliated, and three other associations have decided to apply to the Ministry of Labour for the Government Subsidies for

## Employment Adjustment (GSEA).

The GSEA was established in 1981 for preventing increased unemployment. Through the subsidies, the Ministry of Labour supports employers who are obliged to downsize their business activities because of economic fluctuations, changes in the industrial structure, and for other economic reasons, but are making efforts to maintain employment levels via temporary suspension of business, education and training, or transferring employees to related companies. The subsidies are chiefly available to employers in such business categories as the Minister of Labour has designated. As of May 1999, 217 business categories are eligible, covering 176,699 enterprises and their 4,031,078 employees. Apart from these, there are 77 special categories, embracing 111,570 enterprises and their 733,690 employees, that qualify for aid in the broader sense, including payment of the GSEA. In addition, particular areas where the employment situation is deteriorating qualify for the GSEA irrespective of business category. At present, a period of special measures is in force under an emergency program for employment development, during which subsidies are granted at higher rates for expenses such as: payments to employees during temporary business closures; wages during education and training; costs for education and training; and wages for employees transferred to related companies. Qualifications for special business categories include: (1) a decrease of five percent or more in recent business performance indices such as quarterly output compared with the previous year, or two years before; and (2) business categories showing no increase in employment. Approximately ¥60 billion is earmarked for the subsidies in this fiscal year.

The construction industry has decided to apply for the civil engineering and construction sector in general to be included in the categories eligible for the subsidy. The number of employees in construction as a whole reached a postwar high of seven million in August 1997 due to a sudden increase in public works projects related to measures to stimulate the economy following the collapse of the bubble economy. Once the series of public works projects was over and demand for private projects fell, employment in the industry resumed its decline, dropping to 6.47 million in February 1999. Because the GSEA also covers even sub-subcontractors in the designated business categories, many small- and medium-sized enterprises are expected to apply for the subsidies. If the construction industry, which has traditionally been relied upon to absorb surplus labor, is now applying for subsidies, there is an urgent need to seek something to replace it.

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## **Compensation for Unpaid Wages Reaches a Record ¥17.3 Billion**

Corporate bankruptcies in fiscal 1998 (April 1998 to March 1999) hit a record high, with leftover debts totaling ¥15,182 billion. The number of corporate failures was 17,497, the sixth worst record in Japan's postwar history. By industry, bankruptcies in the construction industry numbered 4,894, in the manufacturing industry 3,044, in the wholesale industry 3,362, and in the retail industry 2,665. It is the first time in the 12 years since the “strong yen” recession that the number of failures in the manufacturing industry has exceeded 3,000.

Where small- and medium-sized companies are concerned, a “special loan guarantee scheme for financial stabilization of small- and medium-sized companies” with a ¥20 trillion budget, has been in force since October 1998 to countermeasure banks' unwillingness to lend money (*kashi-shiburi*), resulting in a decrease in bankruptcies during the period between November 1998 and March 1999 compared with the same period of the previous year. However, the number of bankrupted companies that took advantage of the special loan guarantees has increased, leaping from 47 in February to 122 in March, raising a new problem of loan repayment for the guarantee scheme.

On the other hand, the government has provided a scheme since fiscal 1976 whereby it pays a certain portion of unpaid wages (regular pay and retirement allowance) to workers obliged to give up jobs because of an employer's bankruptcy. In 1998, employees with unpaid wages have been compensated up to ¥17.335 billion, 60 percent over the previous year, breaking the previous record. Recipients totaled a record 42,000, with 2,406 bankruptcies covered by the scheme.

Under this scheme, the government basically covers 80 percent of an employee's wages and retirement allowance unpaid for six months before the date of retirement, with an upper limit of between ¥560,000 and ¥1.36 million according to age. Although such wage payments on behalf of bankrupted companies are supposed to be recovered through the bankruptcy administrators, the actual rate of recovery stays somewhere around 10-20 percent. The government implements this wage payment scheme as part of a labor-welfare project using income from the workers' accident compensation insurance. However, the amount of wage payments on behalf of bankrupted companies has climbed continuously since fiscal 1990, breaking records every year since fiscal 1993.

## Special Topic

### Aging Society and Inequality

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#### 1.0 Introduction

It has often been said that Japan is an equal society. However, Tachibanaki (1998) claims that recently the degree of inequality in Japan has become greater than in the U.S. There is in fact a tendency for many Japanese enterprises, for example, to shift the basis of their wage systems from seniority to achievement. Although it would seem that Japan is heading for a society with greater inequality, it is difficult to prove that this is actually so because of the major question of the reliability of income data and of the suitability of annual income as a criterion for measuring living standards.\* Even so, it is at least still possible to trace time-series changes in the degree of inequality within one particular country according to one particular kind of survey.

Let us first examine the question of how the degree of inequality in Japanese incomes has been changing. Figure 1 shows the trend in the Gini coefficient of annual pretax household incomes, calculated from quintile ranking data in the Family Income and Expenditure Survey of the Management and Coordination Agency. The value of the Gini coefficient — a measurement of inequality — is zero if income is equally distributed, and unity if one person has all the income within the group, others having none.





Roughly speaking, the distribution of Japan's household incomes grew more equal during the period of high growth, and has been dispersing since the mid-80s. The widening inequality since the mid-80s is observable in every kind of relevant data. Is it safe to say, then, that Japanese society, which achieved relative equality while the economy was expanding, is now moving towards inequality?

It is well known that during the last 20 years the degree of income inequality has substantially increased in the U.S. and the U.K. On the other hand, many of the countries of continental Europe, which have preserved equality of incomes by maintaining all kinds of restrictions on the labor market (e.g., high minimum wages, wages set by centralized labor unions, and strict restrictions against dismissals) are suffering high rates of unemployment.

Japan's present unemployment rate, though it is relatively high in the historical perspective, maintains a low level by global standards. On the surface, the combination of a relatively low unemployment rate and an increasing degree of inequality resembles the patterns in the U.S. and the U.K.

Inequality in Japan is, in fact, increasing, but around half of the increase can be explained by the aging factor. In this respect, it differs from the U.S. and U.K., where inequality increase is independent of the change in their population structure. In Japan, the degree of inequality within particular age groups has not increased so greatly, but the degree tends to be greater in the higher age groups. This is attributable to an accumulation of chance factors affecting the individual and to the fact that returns from investment in human capital, such as education and development of skills, tend to become more apparent in the later stages of life.

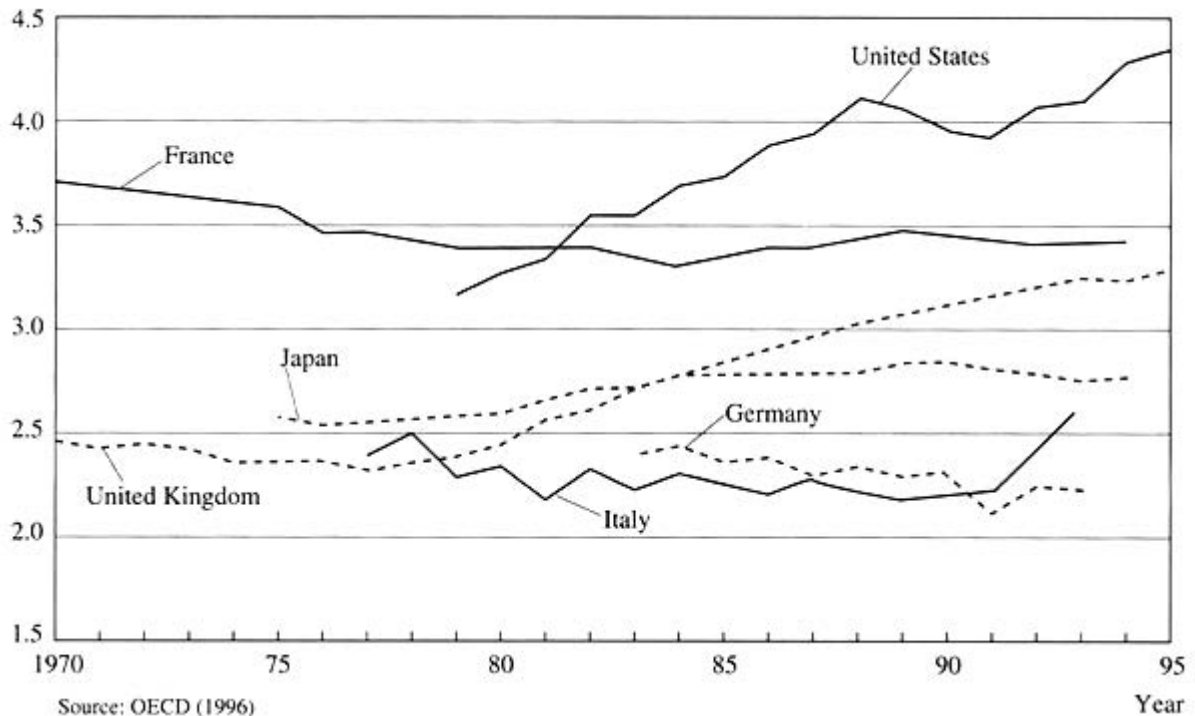
In Japan, this tendency for inequality to increase with age is particularly marked on account of the narrow range of income inequality among the young. It was in the context of this relationship between income inequality and age distribution of the population that the rapid increase in the older generation seen in the 1980s brought about a widening of overall economic inequality in Japan. The policy implications of this will be discussed in the concluding section.

## **2.0 The Rise in Income Inequality in the U.S.**

Since the 1980s, income dispersion in the U.S. has been regarded as both an economic and social problem. Figure 2 shows trends in the overall dispersion of earnings in major countries, as measured by the ratio of the upper earnings limit of the ninth decile of male wage earners to the upper limit of the first decile. The income discrepancies in the U.S. and the U.K. are particularly noticeable. In the U.S., surprisingly, the real wages of the bottom are

actually lower than 20 years ago. In Japan, taking into account only wages, the degree of inequality has remained fairly stable over the same period of time.

**Figure 2. Trends in Wage Differentials (Males)**



There are five hypothetical explanations for the increasing inequality in the U.S.:

- (1) The development of free trade and consequent increase in imports of labor-intensive industrial products made by less-educated workers have lowered the demand for domestic unskilled workers.
- (2) The decrease in the quality of education and increase in the number of immigrant workers led to a decline in the number of educated workers in the 1980s.
- (3) Technological progress during this period created a demand for more educated workers; a typical example is the growth of the computer industry.
- (4) Labor unions have, traditionally, aimed at restricting wage dispersion, but a recent drastic fall in the percentage of unionized workers has accelerated such dispersion.
- (5) Minimum wage increases did not keep pace with inflation, thus, in reality, further lowering the real minimum wage, pushing people into the low-wage bracket.

These factors are believed to have interacted with each other to widen wage differentials in the U.S.

Japan and Europe have not experienced such a conspicuous disparity in wages, even though globalization of the economy and technological innovation are supposed to be world-wide phenomena. In fact, proliferation of computers and an increase in imports from

other Asian countries should have increased the demand for educated workers in Japan.

In Europe, the regulated minimum wage and wage levels centrally determined by labor unions are too high, preventing the market wages of unskilled labor from being sufficiently low. Additionally, because employment is legally protected, firms are reluctant to take on more workers if their business outlook is pessimistic. Above all, European firms show a weak demand for new entries into the labor market, especially younger workers, causing high unemployment rates among youth. This is why European countries suffer high unemployment rates although wage differentials remain narrow.

### **3.0 Causes of Income Inequality in Japan**

When looking at the growing disparity in personal incomes in Japan since the mid-80s it is easy to imagine that the bubble boom in the late '80s widened income inequality. One reason is that an increase in asset income created a large difference in incomes between stock and land holders and non-holders. Another reason is that wages in industries such as finance, real estate, and construction increased more than those in other sectors, which created dispersion among industries.

Even though soaring asset prices widen differentials, asset income does not contribute very much to overall income inequality, because only a small part of all holders realize their capital gains. Furthermore, if fluctuations in asset prices were indeed a major cause of widening income inequality, it would not be possible to explain why this has continued despite the end of the bubble.

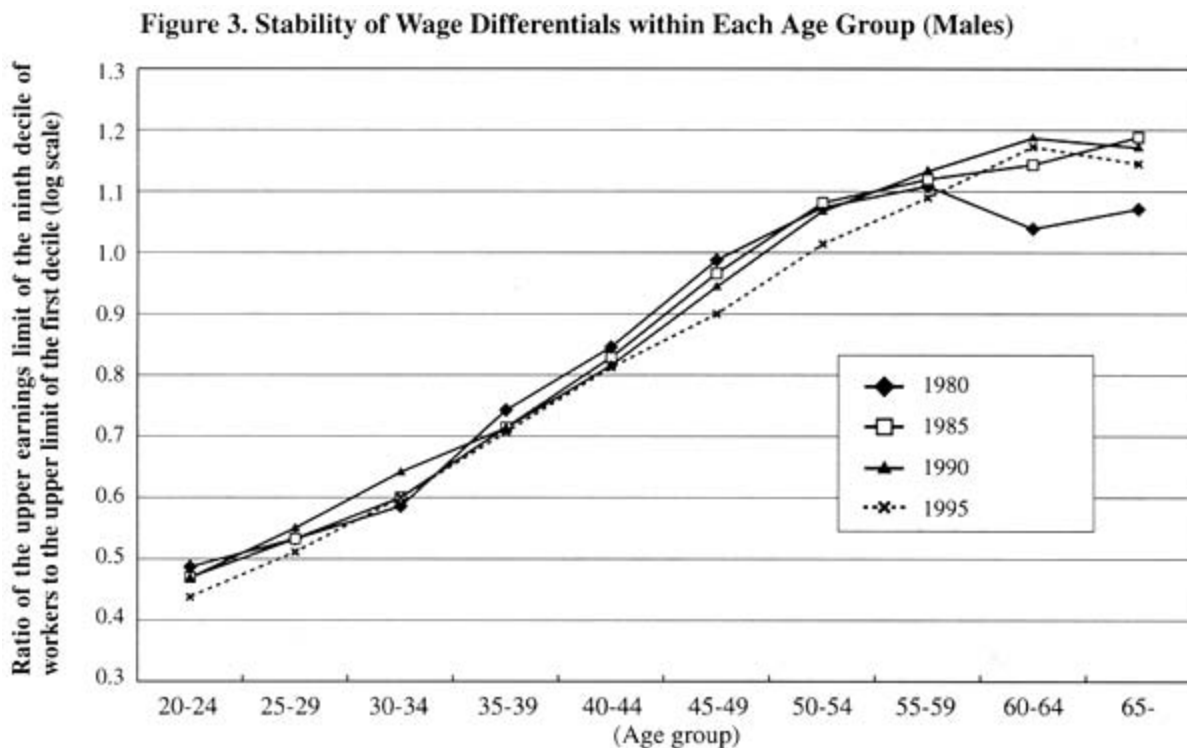
It is possible that wage gaps between industries, in particular the high wages in the financial sector, were behind income differentials in the late 1980s. However, this cannot explain the long-term trend, in that it is not clear that this is applicable after the collapse of the bubble economy. In fact, wage gaps between industries have narrowed in the '90s.

Have wage gaps among different educational levels, then, become wider in Japan as in the U.S.? Taken as a whole, wage differentials among male workers with different educational levels have stayed more or less flat over the years. However, the trend for the middle-aged or older age groups differs from that for the young. Among the former group, the wage gap between university graduates and high-school graduates has progressively narrowed since the mid-80s. On the other hand, it is becoming wider among the latter group.

The contraction of wage differentials among middle-aged and older workers in terms of educational levels reflects the fact that the proportion of people with higher education has

risen sharply as better-educated cohorts have moved into this age group. The greater wage differentials among the younger age group are caused by the concentration of labor demand in new technology on young people who have received higher education. Does this mean, then, that wage gaps in relation to age differences have widened? It is often asserted that the seniority wage system has begun to collapse, and wage differentials among highly-educated persons in relation to age have in fact been narrowing. This implies that wage dispersion in relation to age is not a cause of the present widening inequality.

One wonders then what the actual explanation of the trend towards inequality is. A feature of income and wage dispersions in Japan is that the dispersions within age groups widen in the higher age groups. Moreover, there are remarkably stable trends in income and wage dispersions within the same age group (Figure 3). The correct understanding of the cause of widening inequality in Japan is that due to the aging labor force, the proportion of the age group with potentially wide income and wage dispersions has increased, so that inequality in the economy as a whole has been widening since the mid-80s.



Source: Basic Survey on Wage Structure, Ministry of Labour

#### 4.0 A Pyramiding Wage System?

It has been argued that the seniority wage system cannot be maintained as the population ages: that is, that the seniority wage system, in short, is destined to collapse. The argument, on the surface, sounds plausible, in that managers of individual firms might hope

to hire young workers at the expense of currently employed older ones in order to save labor costs.

Given that middle-aged and older workers are undertaking different work from younger workers, it is natural that an increase in the number of workers in higher age groups should reduce their wages, and diminish the role of seniority in the system. This is the situation in Japan. However, a flattening of age-wage profile caused by the aging society is not the same as the collapse of the seniority wage system.

In fact, no drastic change has occurred in the seniority system, though its degree has become somewhat weaker. Though the wage gap among highly-educated workers engaged in large companies is widening, this is mainly confined to the group around 30 years and does not affect other age groups.

Economics frequently explains the seniority wage system in terms of the human capital theory and the incentive theory. The human capital theory asserts that education and training improve labor productivity. It explains that the accumulation of occupational experience increases skills, which in turn brings about higher wages, so that the seniority wage system is justified by increasing productivity. On the other hand, the incentive hypothesis perceives the seniority wage system as an encouragement to employees to work hard over a long period of time. In other words, employees receive wages that are low in relation to their productivity while they are young, and high when they have become senior. Since wages exceeding productivity are withheld until employees have acquired a long-term tenure, if they are found to be not diligent and are dismissed half way through, their opportunity cost incurred by the loss of the job will be much higher. Thus, the system provides an incentive to all employees to work hard.

Neither hypothesis, however, demonstrates that aging of the labor force causes the break-up of the seniority wage system. The human resource hypothesis sees the high productivity of older workers as justification for the seniority system; the incentive hypothesis says that the rise in expenditure on wages caused by an increased number of aging workers is a delayed payment to cover earlier inadequate wages.

The argument that the seniority wage system cannot be retained in an aging society resembles the argument that a public pension system cannot be retained under the same demographic pressure, in that the seniority wage system is likened to a kind of a pay-as-you-go pension system that transfers income from the younger to the older generation. While public pensions are compulsory, workers can choose the company in which to work. Is it

likely that young employees will join a firm - which by its nature will have its ups and downs - that employs a wage system predicated on constant growth? It is unreasonable to believe that many workers would be deceived by a wage system resembling a pyramiding system.

Admittedly, as explained in the following section, both theories allow for the possibility that the seniority wage system could temporarily break down. It should be realized, though, that this is different from the “pyramiding” hypothesis.

## **5.0 The Baby-Boom Generation and Wages**

The baby-boom generation (those born immediately after the end of World War II) is typically affected by the collapse of the seniority wage system and company restructuring. How does it differ from other generations?

Assuming that the work done by experienced employees is different than that performed by newly-employed persons, then the initial salary should be considered as the wage rate for unskilled workers. When the baby-boom generation entered the labor market after school or university, the wage rate for unskilled workers should have dropped, because the supply of unskilled labor was greater than in previous years.

Suppose, on the contrary, that both experienced and recently-hired employees performed the same work, then the downward wage pressure should have affected all the employees in question. In short, workers of all ages should have faced a fall in their wages. However, if the work they do is different, then the effect of the mass entry of the baby-boom generation into the labor force should simply have resulted in a fall in that generation's initial salaries.

This argument can be applied not only to the issue of initial salaries but also to managers' salaries. Suppose that the proportion of managers to all employees is fixed and that the posts of managers are assigned to workers with longer tenure. Then, when the baby-boom generation reaches the age level for managerial posts, the supply of appropriate workers outnumbers the demand, leading to a drop in salaries paid for the posts. Consequently, salaries for managerial posts, when these are occupied by baby-boomers, should be lower than those when other generations occupy the posts.

Therefore, in a society where the jobs people do are determined to a certain extent by age, a change in demographic structures such as the emergence of baby-boomers should tend to cause wage decreases limited to the particular generation with a high population.

One of the causes of the growing inequality in relation to educational levels in the U.S. is

a rapid increase in the demand for educated workers. In Japan, too, it is true that the wages of well-educated young workers have for the same reason increased relatively more than those of other types of workers. However, among middle-aged and older workers, whose proportion to the entire population is relatively large, and whose proportion of educated workers is rapidly increasing, the effect of the rise in the supply of highly-educated workers is greater than that of the increase in demand.

Of course, there are other possible explanations, apart from an oversupply of labor in that generation, for the brake on wage increases and employment insecurity among middle-aged and older people at the moment. First, a sharp growth in technological innovation may have made previously acquired skills and experience out-of-date. Second, assuming that the level of education and training in workplaces is higher when the number of subordinates per superior is smaller, one might say that the human capital of the baby-boomers is lower than that of other generations. Furthermore, the rise in the proportion of university graduates among baby-boomers may simply mean that the quality of university graduates has declined. If so, then the increase in the number of workers with higher education could bring a drop in wage inequalities between workers of differing educational levels, a trend that might continue in the future.

## **6.0 Consumption Inequality**

We have seen how the rise in income inequality in Japan has its roots in the aging of the population. Now, let us consider whether income and wages are appropriate means of gauging inequality. Let us take the following example: A and B earn the same wages, but A is from a poor family, whereas the parents of B own a large area of land. Since B can certainly rely on inheritance from his parents in the future, he travels abroad every year. On the other hand, A cuts down on his expenditure so that he can buy a home in the future.

Although the two seem to be equal in terms of present income, B is obviously richer when future bequests are taken into account. The implications of this comparison are important when one considers inequality between generations in a society with inter-generational income transfers through pension systems. That is to say, in considering inequality it is not enough to use current income differentials to gauge actual dispersions. To measure inequality accurately, it is necessary to measure life-time income dispersions.

In practice, it is difficult to estimate future incomes of individuals. Nevertheless, consumption expenditure, it is safe to say, closely approximates lifetime income; individuals make decisions about their current level of consumption on the basis of their expected future incomes. Of course, individuals are restrained by their current income levels in that they

cannot borrow money on their future income even if they are sure that they will receive a certain amount of income in future. Nonetheless, in a society such as Japan, in recent years, where stock accumulation is substantial, it is more likely that consumption levels rather than income levels reflect more accurately the degree of inequality.

Makoto Saito, Associate Professor at Osaka University, and the author have analyzed the characteristics of inequality of consumption expenditure and how it changed during the 1980s. The study revealed that consumption inequality increases according to age. In particular, inequality rises sharply among people aged 40 or older, a rise that is brought about by sudden, unpredictable threats to future income. The differences in consumption levels cited above, which depend on future inheritances, can be foreseen; this is precisely why they appear in the form of such consumption differentials. On the other hand, sudden dismissals, accidents, illnesses, and the like are unforeseeable, and in such cases people adjust their consumption levels once what has happened is apparent. In Japan, people aged 40 or older face various unexpected threats to their income. In the 1980s, when the baby-boomers passed the 40 years' mark, consumption inequality in the economy as a whole rose sharply. Thus, in the case of consumption as elsewhere, the graying of the population is the major cause of increases in inequality in Japan.

## **7.0 Conclusion**

The rise in income and consumption inequality seen in Japan since the mid-1980s can, then, be explained to a large extent by the graying population. This is a major difference from the situations in the U.S. and the U.K., where the rise in income inequality was induced by rises in inequality between various groups, and within those groups, not by the aging of the population as a whole.

What policy measures are desirable where, as in Japan, an economic inequality is caused by demographic pressure? One important aspect is to treat the two factors involved — prolonged longevity and the declining birthrate — separately. With prolonged longevity, the accumulation of unexpected threats to income over the years means a rise in uncertainty concerning life-long income. If people are unwilling to accept uncertainty in their living standards when they get old, then an aging society needs to establish security systems that will allay their fears. In this sense, the improvement and expansion of public pension systems and of services for caring for the aged is crucial. What should be taken into account here, however, is that the need for such security systems should be satisfied by pooling risks within each generation — that there should be a redistribution among those who are fortunate enough to live comfortable lives in their old age and those who are unfortunately unable to do so. Of course, it is also true that some generations are more fortunate than others, but the



issue of inter-generational redistribution is beyond the scope of public security systems or public schemes of caring for the aged, and should be left to a system of progressive taxation.

On the other hand, what happens in a society whose aging is caused by a declining birthrate? In such a case, the uncertainty concerning the individual's life-long income remains unchanged regardless of the number of children. In this sense, a reinforcing of existing security systems is hardly necessary. Yet one should remember that the family incorporates a complementary security system in areas that private and public security systems cannot cover. A large family functions as a security system in itself. However, as family units shrink due to the declining birthrate, diminishing the family's value as a security unit, public or private income security systems will become more necessary.

In a demographically young society, many of the population have not yet drawn their "lots" in life, whereas in an aging society many already know the outcomes of the lots they drew. The important thing is that a preponderance of people who are already aware of these outcomes should not hinder appraisal of the element of chance in the "lottery." To treat those who were unlucky in the lottery as "losers" will have a demoralizing effect on people. The distinction here is significant in fashioning economic policies. There must be income redistribution policies to take care of what happens after the unexpected.

Notes:

\* Tachibanaki (1998), as the basis of his claim, refers to the "Income Redistribution Survey" of the Ministry of Health and Welfare. The notion of "initial (*tōsho*) income" in this survey, however, is substantially different from the definition of income used in the "Family Income and Expenditure Survey" of the Management and Coordination Agency. One primary difference is that "initial income" includes a lump sum retirement allowance and insurance benefits but not public pension grants, which tends to exaggerate the degree of inequality. For further details, see Ohtake and Saito (1999).

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## Opinion

### The 1999 Labor-Management Negotiations

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As a result of the prolonged serious recession and record poor performances by Japanese enterprises, this year's labor-management negotiations are proceeding in an unprecedentedly tough atmosphere. Negotiations in large companies have more or less concluded, but continues at small- and medium-sized companies. Wage offers from management and agreements are, on the whole, somewhat delayed, with only a little more than 50 percent of all offers on the table.

### The Lowest Wage Increase in Shunto History

According to Nikkeiren's monitoring of the final outcome of this year's spring wage offensive in major private companies, the average pay hike, including both regular and basic wage raises in 223 companies (all the companies where outcomes are available with the exception of those with individual wage systems), amounted to ¥6,879. This is an increase of 2.14 percent. Compared with the previous year, this is a decrease of ¥1,414 or down 0.48 percent. This 2.15 percent marked the lowest wage increase ever, since the *shunto* started in 1956.

Meanwhile, Nikkeiren, in cooperation with local management associations, is monitoring the present state of negotiations at small- and medium-sized enterprises (i.e., 769 enterprises each with less than 500 employees, spanning 17 industries). The average wage hike offered or already agreed (regular and base wage increases included) at 391 enterprises for which figures are available as of May 18, was ¥4,813 or 1.87 percent. This shows that negotiations

are even tougher than in the previous year, when the wage increase was the lowest since monitoring began. Expectations of regular wage increases are around two percent in general, but some enterprises with poor business performances state that it is impossible to increase wages, or that wage increase schemes have never existed in their company. Thus, the final average wage increase for enterprises as a whole, including small- and medium-sized firms, may be much lower than the figure estimated by Nikkeiren. Judging from the present state of wage negotiations, one can say that both management and labor are together facing the harsh economic conditions and, faced with unpalatable choices, are doing their best to reach acceptable decisions.

### **Towards a New Negotiation Style to Meet the Changed Situation**

In the run-up to this year's negotiations, Nikkeiren noted, "There are in fact quite a few companies unable to raise wages, and the situation is far too critical to settle wage negotiations in the traditional way." They also insisted that "Among affordable labor costs, stability of employment should be considered the top priority, and both management and labor unions should be flexible concerning other labor conditions." The outstanding features of this year's wage negotiations at major private firms are: (1) the lowest wage increase in *shunto* history, reflecting unprecedentedly poor business performances; (2) emergency expedients in some enterprises such as wage cuts for limited periods, extension of working hours within the legally permitted range, and cuts in wage rates for overtime work; (3) responsible decisions concerning wages based on an appraisal of the position taken by both sides in the light of managing total labor costs, including wages, bonuses, lump-sum allowances, retirement allowances, company pensions and so forth, as well as employment. In addition, various other measures are being mooted, such as the introduction of a bonus scheme directly linked to an employee's performance, and a new emphasis on appointments and promotions based on ability and achievement.

The intensified competition is drastically affecting business management. In terms of performance, the gap between industries and between companies has widened. The justification for uniform wage decisions preoccupied only with "wages" is collapsing. In this sense, this year's wage negotiations seem to highlight the need to "reform the spring offensive." It will be extremely important for enterprises to thoroughly manage their total labor costs if they are to secure both management stability and employment.

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## The Role of Wages in Macroeconomics and the Social Responsibility of Enterprises

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At the end of this year's intensive phase of wage negotiations, that is, between March 17 and March 26, which was the crucial period that Rengo had set for reaching decisions, the net base wage increase was ¥1,012 for a 35-year-old worker (high-school graduate, 17 years of service), far below the ¥3,544 demanded and the previous year's increase of ¥2,105. The result represents a compromise reached after a series of earnest negotiations between individual enterprises and the unions representing their employees. Thus, I shall refrain from commenting in terms of "victory" or "defeat," but analyze the results from a macroeconomic viewpoint. In conclusion, this year's small wage increase, which will restrict the expansion of demand, is a reflection that enterprises ignore their social responsibility.

The most serious issue facing Japan today is the drastic increase in unemployment. The unemployment rate stood at a record high of 4.8 percent in March 1999. This is largely attributable to cyclical economic factors caused by two successive years of negative growth. To counteract negative growth, demand must be increased. This is contrary to the structural reform policies, such as increased labor market flexibility, pushed by management. In order to avoid deflation, demand expansion policies are seen worldwide as the common sense approach.

Four conditions are necessary to expand demand: (1) an environment in which new businesses can develop; (2) social safety nets in the form of pensions and employment insurance; (3) fair income distribution; and (4) decent wage increases. In 1997, an increase in public pensions payments, medical expenses, and the consumption tax blunted consumption incentives and insecurity concerning future pensions and employment further tightened purse strings. In order to loosen purse strings or stimulate personal consumption, the government has an immediate responsibility to carry out macroeconomic and social security policies, such as improving pension schemes and reinforcing employment security systems. What of enterprises, then? Do they bear no responsibility here?

Even assuming that the government should fulfill the first two conditions, the latter two, in my opinion, are conditions that enterprises should realize through negotiations between management and labor unions. However, the business world insists that the government

should adopt demand-expanding policies and yet does just the reverse by implementing policies of stringency and austerity in the name of cutting overall labor costs. For companies to leave all the macroeconomic policies to the government while busily trying to cut their own costs is an excessively self-centered and socially irresponsible way of doing business.

To justify the low wage offer, managements implied there was a simple choice between employment security and wage increases. However, Rengo was in no sense requesting a wage increase at the expense of companies. The wage increase requested during this year's *shunto* represented the best possible compromise, one that took into consideration both the need to maintain company performance and the role of wages in macroeconomic terms. On the other hand, Nikkeiren not only declined to promise that workers would not be dismissed in Nikkeiren-affiliated firms in return for union acceptance of a zero basic wage increase, but made various counter-proposals of its own, such as a change in the wage system, a reconsideration of company pensions and personnel reductions.

Even if one concedes that management's answer is understandable from the viewpoint of redistributing wealth, we cannot help feeling, when considering the social meaning of wages in a broader sense, either that we, the labor unions, have overestimated the fundamentals of Japanese companies, or that companies are taking their own responsibility to society too lightly.

## JIL News and Information

### Publication

*Highlights in Japanese Labor Issues Volume IV, 1997* (modified B-5 size, 228 pages; price: ¥3,883)

This book includes all the Special Topic section articles in the Bulletin from January 1993 to December 1996.

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**Statistical Aspects**

**Recent Labor Economy Indices**

	April 1999	March 1999	Change from previous year
Labor force	6,811 (10 thousand)	6,724 (10 thousand)	11 (10 thousand)
Employed	6,469	6,384	63
Employees	5,312	5,291	39
Unemployed	342	339	52
Unemployment rate	5.0%	5.0%	0.7
Active opening rate	0.46	0.53	0.09
Total hours worked	159.4 (hours)	154.7 (hours)	1.4
Total wages of regular employees	(¥ thousand) 264.7	(¥ thousand) 262.4	0.3

Note: \* Denotes annual percent change.

Source: Management and Coordination Agency, Ministry of Labour