

# Japanese Social Consultation against Globalization

Focused on Employment Problems at the Prefecture Level: the Cases of Aichi and  
Saitama

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## 1. Introduction

This essay intends to describe how Japanese social actors--unions, employers, and the government--have constructed social consultation against the challenges of globalization. In particular, this research looks into how the social actors at the regional level have cooperated to overcome the increasing instability of employment that globalization<sup>1</sup> presents in the world wide. This investigation attempts to capture why the actors have decided to take a collaborative approach instead of bilateral or unilateral ones.

Japan has seen its economy further integrated into the world economy. The 1970s oil shocks stepped up the integration of the Japanese economy. In the 1980s, the Japanese economy faced the rapid appreciation of yen and the increasing demand for capital and trade liberalization from its trade partners and world-market competitors--mainly the U.S. After the collapse of the bubble economy in the early 1990s, Japan has muddled through the prolonged stagnation while its trade surplus still brings about the appreciation of yen.

Experiencing this process of economic integration, Japanese social actors have continued social consultation to deal with the challenges that the integration provides. In particular, employment instability has been one of the major challenges that the social actors deal with. When the social actors face economic difficulties, they usually turn the misfortune to blessing by engaging social consultation. It is well documented that Japanese actors mobilized Sanrokon--national social consultation--to restrain wages and stabilize employment, which finally enabled them to overcome two oil shocks and advance national competitiveness. However, the 1980s and the 1990s witnessed the weakening of Sanrokon while the rapid appreciation of yen prompted the outflows of foreign investment, industrial production hallowed out, and unemployment went up. Sanrokon has eventually phased out as its meeting has been suspended since the late 1990s. Nonetheless, Japanese actors have diversified social consultation. Accelerated employment instability urged the national actors to embark on social consultation outside Sanrokon, which produced tripartite agreements on employment problems.

What has happened in prefectures? Globalization has affected each prefecture in different ways since individual prefectures have distinctive economic structures and

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<sup>1</sup> In this essay, globalization is defined as the integration into the world market.

labor market conditions. It is apparent that each prefecture has formulated its social consultation against the challenges of globalization. There should be a full text of social consultation in that regional social actors are engaged in a wide range of collaborative actions to solve their employment problems caused by its economic integration into the world market. The OECD has already stressed the creativity and effectiveness of regional collaboration in overcoming economic difficulties and solving employment problems. However, it is not easy to find a document to describe Japanese social consultation at the regional level. Regional social consultation has been a black spot, but it deserves to be investigated.

This paper investigates social consultation at Aichi and Saitama prefectures. This investigation shows similarities and differences in tripartite collaborative actions in two prefectures. Demonstrating the similarities, this essay attempts to generalize regional social consultation. Pinpointing the differences, this essay also attempts to clarify what causes the regional social actors to form the differences. Despite these attempts, this paper mainly focuses on describing how unions, employers, and the government at the prefecture level have formulated social consultation.

## 2. Japanese Collaborative Responses to Globalization

### (a) Globalization and National Responses

Japan started trade liberalization since the 1960s, embarking on its integration into the world market. The rate of commodity liberalization soared from 40 percent in 1960s to 92 percent in 1963 (Kosai 1981: 146-147)<sup>2</sup>. Despite this fast speed, Japan delayed its trade liberalization for a certain goods such as integrated circuits and computers to the mid 70s, beef and rice to the late 1990s. This delay aggravated trade conflicts between the US and Japan, accelerating the excess appreciation of the yen in the 80s and 90s (Koshiro 2000).

Japan also embarked on capital liberalization since the late 1960s as the government presented its plan to liberalize capital transaction in 1967. This plan requested Japanese companies to be prepared to raise their competitiveness because it became possible for foreign companies to enter the Japanese market and compete with domestic companies.

However, this course of liberalization had not appeared as a serious challenge to Japanese social actors until the first oil shock in the early 1970s. The rapid and continuous economic growth in the 1960s allowed companies and labor unions to keep up wage increases. Companies and unions agreed to raise wage rates at the 10 percent in the early 1960s and at the nearly 20 percent in the late 1960s. The government facilitated these wage hikes by adopting the Income Doubling Plan. Furthermore, the fixed exchange rate system accelerated this phenomenon as it permitted the trade surplus in the 1960s to bring about the rapid increase of money supply, which foreshadowed inflation as well as a sudden economic shock.

To hold the accelerating wage increases in the 1960s, the Japanese social actors maintained their strategy, not the incomes policy of other developed countries. Firstly, the government did not devolve its right of macro economic policy determination to the other social actors such as employers and unions but chose to promote mutual understanding among social actors including unions, employers, and academics. The government--especially the Economic Planning Agency (EPA)--had reviewed the necessity and feasibility of the policy since it feared the high possibility that the

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<sup>2</sup> Japan affiliated the General Agreement on Tariffs and Trade (GATT) in 1955 and continued its effort to integrate its economy to the world by joining the Organization for Economic Cooperation and Development (OECD) in 1964.

continuing wage increases would bring about inflation and decrease national competitiveness. Instead of introducing an official incomes policy against the wage hikes, the government asked the other social actors to raise national productivity (Koshiro 2000). Secondly, employers and unions selected to follow the principle of productivity-based wage determination, whose basic idea was the same as incomes policy (Imamura 1992). These social actors wanted to avoid any governmental intervention but maintain the existing collective bargaining structure based on enterprise unionism.

However, the integration of the Japanese economy into the world economy changed Japanese trade structure and requested Japanese actors to adapt to the changes. As the 1970s came nearer, metal industries excelled the position of traditional industries in exports: iron and steel ranked the first in 1969, passing textiles. The U.S and the European Community (EC) imposed regulations on increasing Japanese exports. These regulations forced the Japanese social actors to search a new way to take. The government liberalized private companies' foreign investment in 1969, and companies started significant outward investment to avoid the trade conflicts.

In the 1970s, Japanese social actors went their steps forward to social consultation to fight back against economic crises brought by the changes in external environments and internal policy mistakes. The U.S gave up strong dollar policy and dollar's convertibility for gold. This move called for changes in world financial system and urged developed countries to introduce floating exchange system, which undermined national governments' policy sovereignty. Japan was also pushed to take the floating exchange system. The Tokyo foreign exchange market adopted the system in 1973, and Japan came under the instability of the world market. This change increased the susceptibility of the Japanese economy to external economic shocks. The Japanese economy became much shakier as land speculation and commodity price rise were prompted by the government's large scale construction project. Oil price explosion and Japan's high dependence of oil import finally brought about economic crisis. Consumer price went up over 20 percent, and the average wage of major private companies rose over 30 percent in the early 1974. However, this economic crisis was not a catastrophe by itself. According to Koshiro, Japan's crisis consciousness helped turn a misfortune to a blessing.

Despite the economic crisis, the government did not introduce an official incomes policy. A committee was set up by the EPA in June 1974 in order to restrain wages, and the committee continued its review of introducing incomes policies.

However, the government did not take incomes policy<sup>3</sup> and instead routinized social consultation by utilizing the meetings (Sanrokon) that the Ministry of Labor had had with leaders of unions, employers, and academia to share information and improve mutual understandings. Leaders of union movement--especially the IMF-JC--also did not go further to institutionalize an official incomes policy even though they set a principle of wage increases compatible with the stability of the national economy. The government compensated the lack of institutionalization of the meetings by letting the prime minister and the related diet members sit chairs with the social actors. In the meetings, the participants did not make any official agreements, which required no official promise and evaluation of agreement implementation.

Japanese social actors routinized social consultation, facilitating cooperation among them. Social consultation was scheduled in the context of spring offensive, and the social actors were able to coordinate wage negotiation. In social consultation, participants were able to share a picture of yearly national economic situations and make a common understanding of the needed wage restraints before spring offensive. This shared understanding was respected during the spring offensive, which produced wage restraints. In 1975, the average wage rates of major private companies went down to 13%, from over 30% in the previous year. After 1976, the wage rates seldom went up to 10 percent, which stayed within productivity growth, consumer price rates, and economic growth. It was said, "the first oil crisis in the early 1970s led Japan to strengthen its international competitiveness by encouraging energy conservation and the development of microelectronic technologies, and by prompting unions to accept wage restraint. Japan was also able to maintain better economic performance than other industrial nations during the second oil crisis in the late 1970s by applying those lessons learned in the first oil crisis<sup>4</sup>" (Koshiro 2000). This Japanese social consultation received high recognition from domestic and abroad and continued its activities (Soskice 1989).

The first oil crisis presented a challenge to employment stability. Combined with the government's tight fiscal policy, the oil shock sharply reduced Japan's industrial production in 1974. This caused the size of regular workers to shrink for the

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<sup>3</sup> The Ministry of Labor opposed incomes policy. In its analysis, it made a claim that wages in Japan could be effectively restrained by negotiation, without an incomes policy, in accordance with the national economy such as consumer prices (MOL 1975 White Paper).

<sup>4</sup> During the second oil shock, Sanrokon (an unofficial body of routinizing social consultation) was held monthly to make the shared understandings of economic situations and wage restraints among the leaders of unions, employers, and the government. The government upgraded the body as it reported a consensus of Sanrokon to the Cabinet although the consensus was a written agreement among Sanrokon participants (Mori et al. 1981).

next three years (Koshiro 2000). According to the Ministry of Labor, more than 2/3 of employers in the manufacturing sector carried out employment restructuring (1998, White Paper). Due to court's restriction on the dismissal of redundant workers, employers often made use of alternatives such as overtime reduction and new hire suspension. The use of these alternatives prevented such a rapid increase in unemployment as the U.S showed. Nevertheless, the unemployment rates almost doubled in the economic crisis, from 1.3% in 1973 to 2.0% in 1980, and this level of unemployment rates continued despite economic recovery. In addition, employers started to be concerned about the cost of keeping regular workers and conduct subcontracting works (Takanashi 1989).

Facing the worsening of employment stability, unions failed to make a consensus toward the revision of the unemployment insurance system that would reduce unemployment benefits of the disadvantaged groups such as young workers, seasonal workers, and female workers. Without further tripartite discussions after the oil crisis, the unemployment insurance system was enacted in the end of 1974. This course of the revision foreshadowed the difficulties that the Japanese social actors would meet with in solving employment problems as globalization would proceed.

Despite its success in overcoming the two oil shocks, Japan did not escape from challenges caused by globalization. The Japanese economy grew annually at nearly five percent in the late 1970s. Japanese manufacturing--in particular, metal industry--led the economic growth as it raised international competitiveness by improving product quality and productivity over the two economic crisis. However, this increase in competitiveness raised trade conflicts--especially with the U.S.--since Japan enjoyed continuous trade surplus. Japanese companies were pressured to find a way to avoid increased trade conflicts. The companies raised foreign direct investment and transferred their production to overseas sites while the appreciation of the yen facilitated this increase of outward foreign investment. The Japanese government also prompted this situation by implementing the liberalization of capital movement: for example, the government liberalized exchange transactions in 1980. The scale of FDI grew ten times after the two crises, from 3.5 billion dollars in 1973 to 36.5 billion dollars in 1980. These statistics shows that the Japanese economy became more integrated into the world economy and more affected by the external impact: it was not the domestic factors but the world wide recession that stumbled the Japanese economy during 1981-83; the rapid appreciation of yen after the 1985 Plaza Accords caused a brief recession in 1986; the crash of the New York stock exchange market brought a short fall of the Japanese stock market in Oct. 1987 (Koshiro 2000).

This course of the further integration provided a continuing challenge to employment stability. For example, the electrical machinery and appliances workers' industrial union claimed that domestic employment in the industry decreased from 1.4 million to 1.2 million during 1973-78 while foreign direct investment allowed offshore employment to increase from 87 thousand to 181 thousand (Denki Roren 1979). The increase in FDI<sup>5</sup>, combined with the appreciation of yen, started to hollow the Japanese manufacturing employment.

The economic growth in the 1980s did not solve the growing instability of employment. Japan enjoyed trade surplus every year in the 1980s, accumulating 543 billion dollars. This huge surplus rapidly appreciated Japanese yen and permitted Japan to be the world's largest creditor in 1990. During the same period, Japan's nominal GDP almost doubled. However, the 1980's economic growth prepared the bubble economy<sup>6</sup> and the severer employment instability. In contrast to trade surplus, foreign investment experienced massive losses in the 1980s mainly due to the depreciation of the dollar. According to a study, 35 trillion yen was wasted in overseas investment in assets (Koo 1994). Although the economy flourished, the unemployment rates never returned to the pre-oil-shock rates but instead steadily grew. A study commission (Kokusai Kyocho no Tame no Keizei Kozo Kenkyukai) presented a warning in 1987 and proposed the reduction of working hours to accommodate global challenges and facilitate Japan's industrial adjustment. During the 1980s, employers stayed with the same strategy of employment adjustment by taking alternatives to layoffs and displacement (MOL<sup>7</sup> 1998).

The routinization of social consultation (Sanrokon) started to lose its usefulness as the Japanese economy confronted new problems in the course of the progress of globalization. Wage restraints lost priority as employment stability became the problem. This came to question the continuing feasibility of the Japanese industrial system composed of the three pillars such as permanent employment, seniority-based

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<sup>5</sup> It is well documented that inflow foreign investment has been extremely very low relative to GDP (Standard&Poors 2003.4.24). According to S&P analyst, Naoko Nemeto, Japan's economy has been structured to avoid reliance on foreign capital. He argues that with the numerous obstacles to potential investors, it will be very long time until Japan matched the level of inflows in countries such as the U.S. and U.K.

<sup>6</sup> It continued from the late 1980s to the early 1990s. During this period, the unemployment rates shortly fell down to cause labor shortage. This labor shortage not only misguided the government in preparing the collapse of the bubble economy but also allowed employers and unions to stay with the existing system. Small and medium-sized companies took the most cost of the labor shortage. Responding to the shortage, the Japanese social actors admitted foreign immigrant workers and enacted labor laws introducing a five-day 40-hour week in three steps by 1997.

<sup>7</sup> The Ministry of Labour (MOL) was merged into the Ministry of Health, Labour and Welfare (MHLW) in 2000.

wage system, and enterprise unionism.

Japan's deeper integration into the world economy and the failure of the Japanese government's policies eventually turned its blessing into a misfortune. According to Koshiro, there were four major factors of the collapse of the bubble economy (2000). First, Japanese banks depended their management for foreign lending and speculative investment so much that they were hardly able to endure the higher international requirement, 8% of the Bank for International Settlement (BIS). Second, the German Central Bank (Bundesbank) decided to adopt a tight monetary policy and raise interest rates, which caused the massive outflow of foreign reserves and dried the liquidity of Japanese financial institutions. Third, the fall of the world stock market and the rise of the Japanese central bank's discount rates caused the Japanese stock market to crash. Forth, the Japanese government did not fight against the weakening of the Japanese financial sector and did not recognize the possibility that the financial crash would lead the Japanese economy to fall into a long depression.

After the collapse of the bubble economy in the early 1990s, the Japanese economy has experienced a long depression with sporadic upturns. At the same time, its integration into the world market has continued as Japan observed its economy tumble down in the face of 1997 Asian financial crisis with the same pattern of the collapse as in 1992: the crash of the stock market-the increase of bad debts in the financial institutions-the government's emergency economic measures-the prolonged economic downturn. Unlike the past recessions, the post-bubble recession has been maintained by the combination of the financial sector weakness and the yen appreciation. The financial sector has suffered from bad loans while the sharp appreciation of yen has forced Japanese companies to raise foreign investment. The latter has hollowed domestic industry as well as domestic investment. What makes things worse is that the continuing trade surplus with the U.S not only has furthered trade liberalization but also has maintained the appreciation of yen.

As the depression continued, employment instability aggravated. In ten years, unemployment rates became twice from 2.1 percent in 1990 to 4.7 percent in 2000. During the early phase of the recession, employers sharply cut the total hours worked more than any previous recessions except the first oil shock (Koshiro 1995). This indicates that employers still maintained the similar strategy toward employment restructuring as in the past. According to MOL, the reduction of overtime was the first measure for employment adjustment<sup>8</sup> while layoffs and displacement was the last

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<sup>8</sup> The strategy of reducing overtime, however, had limitations. First, the enactment of labor laws for a five-day 40-hour week had already cut working hours. Second, unions were not eager to reduce

(1998). However, differences came to appear as employers were more willing to adopt adjustment measures than in the past; transfers were more frequently used; layoffs were more adopted. After the second phase of recession caused by the 1997 financial crisis, employment became more instable. In the middle of 1999, Japan recorded the highest unemployment rates, 4.9%, since the end of the Second World War. This employment instability continued, and the unemployment rates went up over five percent in 2001.

The short of labor demand during the recession has distributed different costs of employment instability among workers. For example, regular workers in large companies not only have enjoyed the higher level of employment security that those in small and medium companies but also have maintained almost the same level of employment stability in the past since employers select to reduce redundant workforces through attrition. Employers tend to avoid the displacement of workers due to the courts' job protection and enterprise unions' resistance<sup>9</sup>. There are also incentives for employers to keep employees as it saves transaction costs as well as training costs (Lee and Lim 1999). Instead, large companies tend to withhold new recruits. These tendencies cause both the youth (below 30) and the old (over 60) to receive most burdens of employment instability (Lee and Lim 1998). A large portion of these workers have become non-regular workers such as temporary workers and dispatch workers, raising the share of non-regular workers<sup>10</sup>.

With the continuing recession, the Japanese three pillar system has been under fire. Unlike the case of the past, employers came to question one pillar, a seniority-based wage system, with a consensus and an organizational voice. Nikkeiren (former national employers association, Japan Federation of Employers' Association) even started to argue the necessity of cutting wages, which is not compatible with annual wage increases and shunto wage negotiation practices. The government also started to raise labor market flexibility as it demonopolized its employment services in 1997 and abolished restrictions on dispatched workers in 1999. These measures intended to increase labor turnover and temporary employment, which showed contradiction to another pillar of permanent employment. In addition, enterprise unionism came to be

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overtime since overtime earnings took an important part of workers' earnings.

<sup>9</sup> In his analysis of the relationship between wage settlements and inflation for 1975-95, Kohiro argued that organized workers in Japan have a strong consciousness of the scarcity of good job opportunities. According to him, organized workers have preferred to choose stable employment rather than demand high wages under the stronger economic constraints that have prevailed since the early 1970s as a result of the oil crises, the intensification of global competition, and the introduction of the floating exchange rate system and the subsequent continuous appreciation of the yen (2000).

<sup>10</sup> A survey reported that the share of non-regular members recorded 30% of employees (Ministry of Public Management, Home Affairs, Posts and Telecommunications 2002).

criticized ineffective. It excludes non-standard workers, causing union density to plunge. Grievance procedures set by enterprise unions do not cover workers with individual labor contracts although the number of these workers grows. A certain group of unions also departed from traditional wage negotiations based on enterprise unionism: the steelworkers' industrial union (Tekko Roren) announced to negotiate wages every two years in 1999.

Despite the continuing aggravation of employment stability, Sanrokon (the routinization of social consultation) has not succeeded in formulating solutions. In contrast to the experience of the 1970s, the social consultative body has failed to turn a misfortune to a blessing until now<sup>11</sup>. The Japanese social actors have watched Sanrokon losing importance in producing measures for employment stability. The reduction of resources owned by the government could be one reason for this situation as the government came to suffer from the fiscal deficits caused by increasing social security expenditure. However, the major reason is that the government tends to neglect social consultation as Sanrokon has suspended its meeting since 1999<sup>12</sup>. The lack of institutionalization of Sanrokon has also permitted the government's ignorance. In addition, wage restraints pursued by Sanrokon became unattractive.

Instead of abandoning social consultation, the social actors, however, have tried to find an alternative in order to fight back the employment problems in the course of globalization. The social actors have come to take a new direction, diversifying social consultation and moving emphasis from national level to regional level.

The diversification of social consultation has been apparent since the late 1990s as informal tripartite meetings continued outside Sanrokon. Rengo revitalized social consultation in order to improve employment situations by proposing the establishment of a tripartite council in September 1998. Nikkeiren supported Rengo's request that the government set up a council dealing with employment problems as early as possible. Accepting the request, the MOL held the Government-Labor-Management Employment Council (GLMEC) two weeks later (Oh 2003). Like the case of Sanrokon's first phase, the government expressed its sincerity as the MITI joined in the council, and the prime minister promised to reflect the opinions shared in the council. In the council, Rengo, Nikkeiren, and the government have continued their discussions over employment

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<sup>11</sup> Even the unification of labor movement—the establishment of Rengo in 1989—did not strengthen social consultation, which questions an classical argument that the interest monopoly is required for neo-corporatist political bargaining such as social concertation.

<sup>12</sup> This neglect of Sanrokon tends to lessen the effectiveness of any employment policies. To be effective, employment policies are required to coordinate a wide range of public policies across the governmental bodies (Takanashi 1989).

problems: they formed a tripartite study group reviewing employment problems and searching for solutions. Along with Sanrokon, the council experienced the suspension of its meeting for one and half year due to conflicts between the Liberal Democratic Party and Rengo over political issues. However, the aggravating employment problems urged the three actors to resume the council. After four years of 10 meetings, the participants made an agreement that they would ensure employment stability, create employment, and reform the labor market. Following the promise of the prime minister, the government has tried to embed the agreement in its public policies: not so much so far.

In addition, the three actors have occasionally succeeded in making agreements on employment issues. Work-sharing has been a hot issue since the three actors regard work-sharing as an effective measure to maintain employment and restrain unemployment. Rengo, Nikkeiren, and the government reached an agreement on work-sharing in 2002 while the three actors opened a question of how to distribute the cost of work-sharing. While unions claimed to increase real wages and reduce working hours, employers argued to relieve wage burden and raise labor market flexibility: no further concrete measures but announcement. Watching this process of social consultation, industrial actors have come to put more weight on social consultation at the prefecture level.

#### (b) Construction of Regional Social Consultation

Japanese industrial relations actors have built regional social consultation in two directions. First, regional unions and employers associations continue bilateral discussions and present their shared opinions to the government--the MOL regional office or the regional government. Bilateral discussions are usually focused on labor issues such as regional employment, the reduction of working hours, paid-holidays, and retirement while these discussions are seldom formal negotiations. Second, three social actors set up tripartite meetings to share a common understanding of the current issues at the regional level. The second is the typical form of social consultation.

The tripartite meetings at the regional level have been supported by three institutions: the regional minimum wage committee, the regional labor council, and the regional labor management committee. The first two institutions tend to function as an administrative body while the last plays the role of social consultation. Notwithstanding, these three institutions legally enforce the regional actors to continue formal meetings.

By capitalizing the legal status of these institutions, the MOL had led social consultation at the regional level. During the heydays of Sanrokon in the 1970s, the MOL even reviewed the feasibility of establishing a regional Sanrokon (Mori 1981).

However, the regional government has slowly replaced the MOL's position as an organizer and initiator of social consultation slowly by incorporating the voice of unions and employers associations into the process of making regional public policies. In the recent days, social consultative meetings held by the regional MOL office have functioned only to explain the government public policies and ask for cooperation from unions and employers. Regional unions and employers associations have taken more practical approach to social consultation to represent their members. They are willing to participating in informal/ad hoc meetings that the regional government provides to find a solution to specific issues or solicit cooperation from unions and employers associations.

In addition, unions have been disappointed with national attempts including tripartite national agreements and national action programs made by the government, which leads them to search for alternatives. Since enterprise unions have difficulties in fighting back against problems caused by globalization, unions come to put more weight on regions than in the past. Employment instability is one of the major problems that globalization presents to the enterprise unions (Interview with Rengo 2004).

The reason why social partners are engaged in social consultation at the regional level is that social consultation has strong advantages for regional employment problems. First, social consultation enables social actors to recognize characteristics of regional employment problems so that the social actors are able to search effective solutions to the problems. As Takanashi pointed out, unemployment occurs during industrial restructuring, and its characteristics reflect differences among the industrial structures of regional economies (1989). Public policies made by the central government hardly capture the characteristics, which may be ineffective in the end. Second, social consultation provides an effective mechanism of coordinating a wide range of public policies. Effective employment policies should invent a comprehensive package of economic and social policies coordinating industrial development, investment, finance, taxation, social security policies (Takanashi 1989). Sanrokon had provided a function of coordinating a variety of public policies at the same time (Mori 1981), which employment policies are desperate to be equipped with. Third, social consultation also enables social actors to coordinate a variety of interests across the actors and within the actors. As the above explains, a wide range of

economic and social issues are engaged in employment problems. This causes a number of interest groups to compete with one another in order to represent their voices, which may prevent employment policies from being formulated and from being implemented. Social consultation provides the social actors with vested rights to represent their rights while they need to coordinate their internal voices. During the social consultation, the participating social actors are also asked to coordinate different interests among them.

With these advantages, social consultation is regarded as an effective mechanism for solving employment problems in the regional level. The OECD presented its research outcomes in 1998 after it reviewed the diverse management mechanism of local employment policies in member countries including Japan. According to the OECD research, employment policies could be territorized in three ways such as geographical targeting of national measures, devolution of responsibilities to regional and local authorities, and constitution of local partnership. These three ways are also interpreted as decentralization/regionalization of employment policies. The OECD recommended the last way of constructing local partnership as the best by pointing a wide range of advantages: the advantages mentioned above were the major ones. It also pointed that local partnership can be also utilized with the other two ways since local partnership makes the others more effective. As the research identified, social consultation among unions, employers associations, and the government is the most representative and traditional mode of local partnership.

Regional employment policies have been related to Japan's integration into the world economy, globalization. During the two oil shocks, two laws were enacted to encourage regional employment by creating new business<sup>13</sup>. After Japan experienced a recession in the mid 1980s caused by the rapid appreciation of yen, these laws were incorporated to a law, 1987 Regional Employment Development Law. This regional employment law not only set up the regional administration of employment measures but also coincided with regional industrial policies reinforcing regional industrial bases and nurturing advanced technology. The employment law helped job-seekers, restricted dismissals, and subsidized the employment of local residents.

In the course of the development of regional employment laws, social consultation at the regional level was constructed as the MOL began to set up the concerned councils/committees to induce cooperation from unions and employers.

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<sup>13</sup> One was the 1977 law which concerned the interim treatment of workers dismissed from specific depressed industries, and the other was the 1978 law which concerned the interim treatment of dismissed workers in sluggish regional economies (Takanashi 1989).

During 1979-1981, local employment development committees consisting of unions, employers, and public authorities were established in rural prefectures. Tripartite local employment development promotion councils were also set up to manage local employment promotion benefits in special areas in 1982. Since the enactment of the regional employment development act, tripartite committees/councils were more activated with more resources<sup>14</sup>.

At the same time, regional (prefecture) governments also came to obtain more says in public training as it managed more grants and training subsidies. These grants and subsidies were entitled to assist workers in small and medium-sized companies in regions. For example, prefecture governments came to provide small and medium companies with benefits for sending workers to vocational training facilities after 1975; with benefits for providing training to workers in order to change or diversify business activities after 1987.

Despite these construction of social consultation, it is often questioned whether those councils/committees functioned to coordinate regional social actors' different interests about employment problems and formulate effective regional measures while promoting local partnership. In its research, the OECD presented an evaluation that employment policies were firmly centralized. According to the OECD review, the MOL was responsible for the design of employment policy while social actors such as unions and employers associations were consulted at national levels. The OECD did not capture any cues for regional social consultation over employment policies<sup>15</sup>.

The worsening of unemployment problems has urged other governmental bodies to acknowledge the necessity of vitalizing regional economies although they usually do not fully appreciate social consultation. The Ministry of Economy, Trade and Industry (METI) has come to emphasize the importance of regional industrial development. From the mid 1990s, the METI realized that it had to find a solution not only to maintain and create employment but also to enhance national competitiveness. It hardly ignored unemployment problems caused by the hollowing of Japanese industry that the rapid appreciation of yen after 1985 prompted. According to the METI, the number of manufacturing companies in 2000 decreased to 3/4 of 1985 while the share of abroad production in 2000 charged almost 15% from only 3% in 1985. In addition,

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<sup>14</sup> For example, prefectural local employment development councils came to take in charge of local employment development promotion services such as counseling, guidance, research and personnel training with consignment fee of 15 to 30 million yen.

<sup>15</sup> The OECD only recognized that public employment services were managed by various divisions of the MOL under the supervision of the 47 prefectural administrations while the MOL elaborated employment policies and the prefectural offices designed subpolicies to complement the MOL policies. According to the OECD, the prefectures only supervised the 270 vocational training centers (1998).

the METI was required to search a way to fight back against Japan's dropping national competitiveness. According to the evaluation of an international organization (IMD), Japan's national competitiveness dropped from the top to the tenth in the 1990s: Japan's rank continued to drop at the eleventh in 2003 (IMD 2003). In a series of public analysis, the METI has pinpointed the ineffective response to globalization as one of major reasons for the decrease and has presented the strengthening of regional economies as a main solution<sup>16</sup>. The METI attempted to foster regional economies by setting up a system of industrial clustering as it enacted a law facilitating clustering of small and medium sized companies in 1995<sup>17</sup>. However, it has not incorporated social consultation into the process of industrial clustering. Instead, it has stressed the collaborative relations among companies, universities, and governmental bodies in regions.

The METI has accelerated its effort to promote regional economies by embarking 19 projects of industrial clustering in 11 regions<sup>18</sup> from 2001: its budget was about 40 billion yen in 2002. The projects are propelled by non-governmental core bodies because the METI intends that regional actors initiate industrial clustering<sup>19</sup>. Another governmental body, Ministry of Education, Culture, Sports, Science and Technology (MEXT), has joined in developing regional economies as the MEXT started to establish 13 systems of knowledge clustering in 15 regions after 2002<sup>20</sup>: its budget was about 7 billion yen.

Thus, Japanese government has taken an important step to vitalize regional economies against challenges of globalization since this century. By vitalizing regional economies, the government intends to improve national competitiveness and create employment. Japanese government also devised innovation in policy administration. To raise effectiveness and efficiency in regional economic and employment policies, the METI and the MHLW government have cooperated in line

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<sup>16</sup> Annual white papers on international trade and periodical policy information on structural reform are the major sources that show the METI's policy direction toward vitalizing regional economies ([www.meti.go.jp](http://www.meti.go.jp)).

<sup>17</sup> A public research institute emphasized the active role of small and medium sized companies against globalization. It argued that Japanese government and academics need to view small and medium sized companies as local entrepreneurs since they create jobs and generate innovation in the process of economic structural reform against globalization (Japan Small Business Research Institute 2002).

<sup>18</sup> The METI tends to identify these regions with its administrative areas as its 11 regional offices are in charge of managing the projects.

<sup>19</sup> The core bodies usually include scholars, experts, and employers but not unions ([www.meti.go.jp](http://www.meti.go.jp)).

<sup>20</sup> The knowledge clustering projects are also executed in the same way of the METI's industrial clustering. The collaboration between employers and universities is the core resource of the knowledge clustering ([www.mext.go.jp](http://www.mext.go.jp)).

with the Regional Industry and Employment Promotion Program since 2001. The government attempts to promote coordination among industrial and employment policies at the regional level as it asks for cooperation among regional offices of the METI and the MHLW, and other related organizations (METI 2002).

### 3. Social Consultation at Aichi and Saitama Prefectures

#### (a) Regional Economic Environment<sup>21</sup>

As Dunlop pointed out, regional economic (technical) environment greatly affects regional industrial relations actors in building regional industrial relations system in both Aichi and Saitama Prefectures. In particular, industrial structure and labor market structure provide grounds where the IR actors interact with one another and construct institutions such as social consultation at the prefectural level.

As Japan has observed national manufacturing sector decrease its share in the national economy, Aichi and Saitama has witnessed a clear tendency that their manufacturing sector is losing their portion in the regional production. This decrease of the manufacturing sector share in Japan has continued in accord with the loss of union members, the reduction of regular workers' share in employment and the development of social consultation in the prefecture level. In the last decade of the twentieth century, the national manufacturing output was getting smaller from 117 trillion yen in 1990 to 112 trillion yen in 2000. This reduction of the manufacturing production becomes clearer when it is compared with the national economic growth. Despite economic difficulties, the Gross Domestic Production (GDP) in Japan grew from 450 trillion yen to 510 trillion yen during the same period. This caused the share of national manufacturing sector to decrease from 26.1% in 1990 to 22.0% in 2000.

That tendency is also found in both Aichi and Saitama. In Aichi, manufacturing output was reduced from 12.4 trillion yen in 1990 to 10.6 trillion yen in 2000. The share of the prefectural manufacturing sector shrank almost 10% from 40.1% to 31.5% during the same period. In Saitama, its manufacturing sector production underwent downturn from 5.8 trillion yen in 1990 to 4.9 trillion yen in 2000, which recorded the loss of its share in the prefecture economy from 32.3% to 24.3%. (The employment of the manufacturing sector has experienced the same situation as Table 1 shows).

This reduction of Japanese manufacturing sector's share in the economy has brought about some significant changes in industrial relations system in both the national and prefectural levels. Particularly, labor unions in Japan have suffered from the loss of their members. As the number of union members decreased from 12.3 million in 1990 to 11.5 million in 2000, the union membership rates went down from

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<sup>21</sup> Appendix 1 collects statistics appeared at this part.

25.2% to 21.5%. This decrease of union members was clearly coincided with the shrink of the manufacturing sector. In addition to the loss of membership itself, the share of union members in the manufacturing sector was reduced from 31.5% to 29.8% during the same period. Both Aichi and Saitama experienced this losing share of union members in the manufacturing sector.

However, Aichi and Saitama have quite distinctive economic characteristics despite the similar tendency that the manufacturing sector in both prefectures demonstrates. First of all, the distribution of company size in the manufacturing sector is quite different from each other. When it comes to the general situation all over the industries, the size of establishments seems to be quite similar in both Aichi and Saitama prefectures. At the national level, the proportion of large establishments with more than 300 employees across all industries is 0.2%. Both Aichi and Saitama have the same proportion of 0.2%. The average number of employment is also similar: the national average is 9.5; Aichi 10.2; Saitama 9.6. The proportion of employment at the large establishments is not quite distinctive: 12.9% in Japan, 15.5% in Aichi, and 10.9% in Saitama. The manufacturing sector, however, shows a clear difference. The proportion of employment at large establishments with more than 300 is quite different: 25.9% in Japan, 34.9% in Aichi, and 20.8% in Saitama. Therefore, it is clear that large companies control the manufacturing sector in Aichi while small and medium sized companies grasp a leading role in Saitama's manufacturing sector.

Second, the pattern of globalization in Aichi and Saitama differs. Globalization (the integration into the world market) is often calculated by the openness of the economy--the proportion of the trade in the economy. Japan's openness has been lower than any other developed countries except the US although the openness of Japan has fluctuated. Japan's openness rates recorded 16.7% in 1990, down to 14.7% in 1995, but up to 18.2% in 2000. The openness rate in Aichi is much higher as it demonstrated 35.6%, twice higher than that of the nation, in 2000. The rate in Aichi tends to grow as it went up from 28.6% in 1990 and 28.5% in 1995. This high openness affects the regional economy in Aichi. In particular, Aichi's economic growth seems to depend much on trade surplus. During 1990-2000, the regional gross production grew from 30.9 trillion yen to 33.6 trillion yen while the regional trade surplus increased from 3.7 trillion yen to 5.1 trillion yen. The trade surplus in Aichi even takes share of a significant portion of national trade surplus: 48.2% in 1990, 38.5% in 1995, and 47.6% in 2000. Until now, the Aichi's globalization seems to present more advantages than disadvantages as the trade surplus in Aichi has grown. Nonetheless, the high rate of Aichi's openness shows that the regional economy

becomes more volatile as it is further exposed to the instability of the world economy.

Unlike Aichi, globalization in Saitama seems to present more disadvantages than advantages. Any institutions including Saitama prefectural government did not provide statistics for the prefectural's openness rate, making it difficult to compare Saitama with Aichi. Instead, interviews with Saitama social actors revealed that Saitama has experienced a severe challenge from its integration into the world market. According to the interview, Saitama witnessed the reduction in the number of establishments, employment, and manufacturing production: 4,000 establishments, 75,000 employees, and 3 trillion yen from the economic peak to 1995. These misfortunes of Saitama seem to be related to its economic structure that its manufacturing sector depends highly on small and medium-sized companies for production. Many small and medium sized companies in Saitama are parts-suppliers, and these suppliers have faced two challenges against globalization. On the one hand, their production depends on large assemblers who want to reduce the cost of parts against the growing competition in the world market. On the other hand, small and medium sized companies find it attractive to utilize low wages of developing and under-developing countries while assemblers are getting more ready to buy low cost parts produced abroad.

#### (b) Regional IR Actors<sup>22</sup>

At the prefectural level, four major social actors--Rengo prefectural office, Nihon Keidanren prefectural office, the prefectural government, and the MHLW prefectural office--set their strategies against their regional market environment. They often find their strategies influenced by their organizational structure. In both Aichi and Saitama, the social actors identify their interests by clarifying challenges of environment and interact with one another to satisfy their interests.

Rengo Aichi and Rengo Saitama are entitled to represent workers in both prefectures. Compared with the case of the nation, Aichi unions organize more workers while Saitama unions do less workers. The unionization rates of Japan, Aichi, and Saitama were 21%, 23%, and 13% in 2000, respectively. The unionization rate of Aichi had, however, rapidly decreased from 27% of 1990 while Saitama underwent a slow downturn from 14% of 1990. Despite the continuing decrease of the unionization

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<sup>22</sup> Appendix 2 and 3 collect statistics appeared at this part

rate, Aichi Rengo strengthened its representative voice as its coverage became wider: Aichi Rengo came to include 71% of Aichi union members in 2000, higher than 1990's 68%. In Saitama, a different story went on as Saitama Rengo experienced 3.5% of loss in coverage: from 55% in 1990 to 51% in 2000. While these two prefectures took different ways, national case followed Aichi's step: Rengo obtained 2% of coverage more during the same period.

The distinct pictures of Aichi and Saitama seem to reflect the extent of changes in unionization of the manufacturing sector. The shares of union members in the manufacturing sector stayed almost the same in Aichi while the share plunged in Saitama. Unions in the manufacturing sector were in charge of 48% of union members in both 1990 and 2000 in Aichi. However, Saitama observed 7% of loss during the same period: 38% in 1990 and 31% in 2000. This showed the economic downturn hit Saitama harder than Aichi as many small and medium sized companies in Saitama failed to survive the economic difficulties during the 1990<sup>th</sup>.

With more membership and financial resource, unions in Aichi have more rooms to elaborate strategic interactions with their partners than unions in Saitama. The average size of Aichi unions was 265, almost 80 more than the case of Saitama, in 2000. Aichi unions also enjoyed higher union dues coming from higher wages of their members: the monthly average wage in Aichi recorded 396 thousand yen while 348 thousand yen of Saitama in 2000. These membership and financial advantages permit unions in Aichi to respond actively to public issues. Compared to Aichi unions, Saitama unions do not afford to pay their full attention to developing public suggestions. However, Aichi unions can not escape from all organizational difficulties. For example, Aichi unions came to find themselves smaller while muddling through the 1990s. The average size of unions decreased from 275 in 1990 while the average union size slightly grew in Saitama from 184 to 188 for 1990-2000. The continuing loss of union members and the shrink of union size, thus, in Aichi compel unions to further their participation in social consultation.

Unions in Aichi pioneer union reactions to globalization and employment problems by actively participating in social consultation. Aichi Rengo even intends to take advantage of foreign investment by supporting an international convention, 2005 Expo, from preparation. Aichi Rengo is willing to accommodate foreign investment in a wide range of industries, transcending the manufacturing sector. This willingness enables Aichi Rengo to develop a more flexible approach to employment creation, which brings about active tripartite interactions as well as bipartite meetings between unions and employers. This approach of Aichi Rengo seems to reflect Aichi's capacity

of maintaining a high road strategy that permits high wages and stable employment against globalization by upgrading companies' competitiveness based on high skills and labor management cooperation. In Aichi, the manufacturing sector still enjoys high competitiveness in the world market while the other sectors including IT industry increase their investment in developing technology.

In Saitama, unions tend to pay their attention to limiting the negative influence of globalization on employment. Aichi Saitama gives its effort to sustain employment stability rather than creating employment. This tendency reflects Saitama's industrial structure that small and medium companies provide their products to large companies. Saitama unions try to figure out how to balance industrial restructuring and employment against globalization as Saitama Rengo participates in social consultation to make its high road strategy come true. Unions in Saitama, however, have great difficulty in muddling through challenges of globalization as the unemployment rate in Saitama continues to grow. In the manufacturing sector, monthly average wages decreased from 356 thousand yen to 348 thousand yen during 1995-2000 while Aichi's average wages grew from 369 thousand yen to 396 thousand yen for the same period.

As the major partner to unions, employers in Aichi and Saitama establish their organizational strength and raise their voice. Like the case of their partners, Aichi employers are equipped with more employees and finances than Saitama employers. This phenomenon is apparent in the manufacturing sector. In average, Aichi manufacturing companies hired three employees more than Saitama employers who maintained 15 employees in 2000. At the same time, 35% of Aichi manufacturing companies kept more than 300 employees while only 21% of Saitama manufacturing companies managed to hire more than 300 employees. Aichi employers particularly show their high competition capacity in the world market. During 1990-2000, they accomplished almost 40% of increase in trade surplus from 3.7 trillion yen to 5.1 trillion yen. In 2000, Aichi employers shared nearly the half of national trade surplus, 10.7 trillion yen. Employers in Aichi and Saitama embody these characters in their organizations, Aichi office and Saitama office of Nippon Keidanren (the Japan Business Federation)<sup>23</sup>. Compared with Saitama office, Aichi office takes advantage of more financial resource in dealing with challenges of globalization. In addition, Aichi office is more aware of large companies' interests in developing management stance on public policies.

Aichi office and Saitama office of Nippon Keidanren are required to find a

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<sup>23</sup> Nikkeiren (the Japan Federation of Employers Associations) and Keidanren (the Japan Federation of Economic Organizations) merged into Nippon Keidanren in May 2002.

solution to employment problems against globalization. Aichi office tends to put more emphasis on bipartite effort to solve employment problems while Saitama office actively participates in tripartite social consultation. This difference reflects the regional industrial structure. Aichi employers have more financial resources to deal with unions over employment and wage issues at the enterprise and the prefectural levels. Both offices, however, share the same position that the ultimate solution to employment problems stay at the company level as individual companies create employment and maintain their employees. In their perspective, employees and companies are required to cooperate to solve employment problems.

The government also plays a role as an industrial relations actor as it shares a seat with unions and employers in social consultation on employment problems. However, at the prefectural level, the government shows some limitations in handling employment issues. First of all, it is not clear who represents the government and take a charge of coordinating public policies across a wide range of governmental bodies. As Takanashi pointed out, many governmental bodies are involved in employment: in particular, employment creation and employment maintenance need the development of an efficient public policy package covering industrial policies, tax policies, training and education policies, labor policies, and social welfare policies. Governmental bodies are segmented in the prefectural level. Central governmental bodies, such as regional offices of MHLW and METI, provide their administrative services that are often independent from the prefectural government's public services. The central governmental bodies and the prefectural government sometimes compete with each other: for example, job search /matching service. Second, but not lesser, governmental bodies at the prefectural level do not retain the public policy capacity of managing the regional economy. Unlike the central government, they are hardly able to raise their own voice on macro economic policies such as foreign exchange policies, monetary policies, and fiscal policies in order to manage the regional economy.

Despite the large amount of financial resources, the regional offices of the central government have not actively initiated social consultation due to their lack of sovereignty. In most cases, the regional offices do not share the public policy making authority with the central government. In particular, the autonomy of the regional offices in finances is strictly limited. Therefore, the regional offices tend to carry out public services set by the central government and distribute its financial resources in accordance with guidelines made by the central government. However, it should not be ignored that the regional offices still have an important room for facilitating social consultation. While the regional offices localize public policies, they are able to set

priorities in public agenda and financial distribution. As the regional offices handle a large amount of budget, unions and employers often feel attractive--sometimes are even forced—to cooperate with the governmental bodies. This strength is apparent when the prefectural government's financial situation is considered.

In Aichi and Saitama, two regional offices are concerned with employment problems: Aichi MHLW office and Saitama MHLW office at the one hand and Kansai METI office and Kanto METI office on the other hand. However, the regional offices of METI are not directly related to the issues since they are interested in the industrial policies covering a broader region (usually multiple prefectures) or a narrower region (usually a city). Therefore, the regional offices of MHLW are the major partner of social consultation on employment issues at the prefectural level. Compared with Saitama MHLW office, Aichi MHLW office goes further in dealing with employment problems. Aichi MHLW tends to widen their range of policy services while Saitama MHLW articulates policy options developed by the MHLW. Despite this difference, the regional office of MHLW has not transcended their tradition of social consultation as the regional office do not invent a new type of social consultation or strengthen their existing institutions of social consultation.

Unlike the regional offices, the prefectural government has come to play an active role in social consultation. Employment problems transcend economic issues, urging the government's leaders to solve. Due to the lack of empowerment in the other macro-economic policies, the prefectural government depend its effort to solve employment problems for its fiscal policies. The prefectural government, therefore, tends to be very sensitive to its budget situation. However, the budget is not sufficient as the average independence rate of budget among prefectures recorded only 49% in 2000. Nonetheless, this lack of budget does not always present disadvantages to social consultation. The sufficient budget may lead unions and employers actively to participate in social consultation while the prefectural government may choose to conduct a unitary action with the budget and withdraw social consultation. Contrary, the lack of budget tends to urge the prefectural government to build a more collaborative relationship with unions and employers in solving employment problems.

Saitama prefectural government is more actively engaged in social consultation on employment problems. Saitama's insufficiency in financial resources is clearly documented. Its budget independence rate recorded only 52.3% in 2000, plunged from 63.8% in 1990. This financial situation led Saitama prefectural government to participate diverse meetings with unions and employers. Despite the weakening of prefectural government's financial capacity, Saitama Rengo and Saitama Nippon

Keidanren were forced to participate in social consultation since their lack of financial resources also did not make unions and employers take unitary actions or bipartite actions in order to solve employment problems.

Aichi prefectural government focuses on dealing with the cases of disadvantaged groups rather than the general employment problems at the prefectural level. Aichi shows the continuing decrease of financial capacity as its independence rate went down from 80% to 65% during 1990-2000. Despite this decrease, Aichi still enjoys the nearly 20% higher independence rate than the national average level. Thus, Aichi prefectural government tends to deal with prefecture's employment problems in its own and pay more attention to improve social welfare of disadvantaged groups. Unions intend to widen the scope of social consultation while employers in Aichi attempt to solve employment problems at the enterprise level and try to find a bipartite solution. However, unions and employers support the prefectural government's effort to raise social welfare condition at the prefectural level. Aichi's tripartite efforts have made social consultation succeed in inventing a scheme by which they evaluate annual situation of social welfare and devise measures to improve the situation.

#### (c) Employment Problems and Social Consultation<sup>24</sup>

Employment problems can be analyzed in terms of employment creation, labor market flexibility, and working conditions such as wages and working hours. We may recognize the existence of employment problems when employment size shrinks and unemployment rates go up; when employment size declines and the share of non-regular workers increases; when employment size decreases and working conditions aggravates. Due to the lack of consistency in statistics, this essay only looks at the late 1990s. During 1995-2000, all these phenomena occurred at the national level. The employment size shrank from 64 million to 63 million while unemployment rates grew from 3.2% to 4.7%. The share of regular full-time workers decreased from 60% (1996) to 56% (2001). Monthly average wage was also cut from 363 thousand yen to 355 thousand yen. Fortunately, monthly average working hours reduced from 159 to 154.

Despite the existence of employment problems, Aichi and Saitama have followed different roads from the national case during the same period. Like the national case, unemployment rates grew in both prefectures. However, the slope was not

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<sup>24</sup> Appendix 4 and 5 collect statistics appeared at this part

as acute as the national case. The rates increased only from 3.7% to 4.2% in Aichi and from 4.4% to 4.7% in Saitama. When we look at before and after 1995, there exist an interesting story. The unemployment rates were higher in both Aichi and Saitama than the national unemployment rates before 1995 while this phenomenon disappeared after 1996. It may be wondered whether something happened after 1996: the strengthening of social consultation can be one of tentative candidates.

The differences between the national case and the two prefectures become apparent when we look at the employment size and working conditions. Contrary to the national case, the employment size in both prefectures stayed at least at the same level during 1995-2000. Employment increased from 3,685 thousands to 3,687 thousands in Aichi and from 3,513 thousands to 3,528 thousands in Saitama. Contrary to the national case, monthly average wages increased in Aichi while Saitama observed wage cuts. These differences again raise a question of whether something happened during the period: social consultation again? Maybe or maybe not.

Despite some differences from the national case, both prefectures have not solved employment problems at all. It is clear that the problems of Aichi and Saitama are not as severe as the national case. For example, Aichi recorded the increase of employment size and wages while it enjoyed the reduction of working hours and restrained the growth of unemployment. Nonetheless, the two prefectures have suffered from employment problems in terms of labor market flexibility. The shrink of regular and full-time workers are particularly clear. Aichi and Saitama witnessed the rapid reduction of the advantaged group. The shares of regular and full-time workers decreased from 63% to 60% in Aichi; from 57% to 52% in Saitama; from 60% to 59% in nation for only three years during 1996-1999.

These employment problems present different benefits and costs to the major social actors. During the late 1990s, unions in Aichi and Saitama enjoyed employment growth and restrained unemployment but lost employment stability. Employers in Aichi and Saitama gained a slight increase of labor market flexibility but allowed wage increase and working hour reduction. The government at Aichi and Saitama welcomed employment growth with labor market flexibility but still confronted the increase of unemployment, the growth of non-regular workers, and the burden of raising regional competitiveness.

Unions, employers, and the government in Aichi and Saitama have continued social consultation on employment problems while they attempt to raise their benefits and reduce their costs. The social consultation has advanced fast since the late 1990s because the integration of the regional economy into the world market urged the social

actors to make collaborative efforts to employment problems. These tripartite efforts at the prefectural level have also coincided with the social consultation at the national level. Some regional innovation produced by the prefectural actors has sometimes prompted national social consultation that enables the national social actors to conclude national agreements on employment problems. In return, these national agreements have facilitated social consultation at the prefectural level.

The social consultation in Aichi and Saitama has been carried out in a variety of ways. There exist bilateral meetings between unions and employers, unions and the government, employers and the government. Tripartite meetings are also operated as the regional offices of the central government initiate the meetings or the prefectural government organizes the social consultation. This paper deals only with the major meetings of social consultation in Aichi and Saitama: bilateral meetings between unions and employers and tripartite meetings. The reason of including the bilateral meetings is that the meetings tend to evolve to social consultation. Unions and employers present their shared opinion to the government; then, the three actors become engaged in tripartite meetings. Unlike the bilateral meetings between unions and employers, the other types of bilateral meetings hardly evolve to social consultation since unions and employers tend to lobby the government.

The tripartite meetings on employment are categorized into two groups: one with the regional offices of Rengo, Nippon Keidanren, and MHLW; the other with the prefecture government and the regional offices of Rengo and Nippon Keidanren. This paper describes Aichi's case because both Aichi and Saitama have the similar system of social consultation. However, major differences are also documented in order to clarify unique characteristics of two prefectures' social consultation on employment problems.

The Council of Government, Unions, and Employers on Employment (the CGUEE) is the representative meeting of the first group of social consultation in Aichi. Consisting of top leaders, the CGUEE was transformed from an irregular and informal meeting to a regular and formal body of social consultation in 2001. The council was institutionalized by the administrative order of the MHLW. Affected by the formation of a national social consultation council on employment, the MHLW directed its Aichi regional office to set up the CGUEE. Aichi Rengo president, Aichi Japan Keidanren chair, and Aichi MHLW regional office director have taken a chair while Nagoya Chamber of Commerce chair as well as scholars representing public is also the regular member. The CGUEE is two-tiered as its subcommittee consists of practitioners from Aichi Rengo, Aichi Nippon Keidanren, and other participating groups. Despite its

legal status, the CGUEE does not retain financial and administrative resources and is not a permanent organization. The council has been held once a year, showing that it is not fully activated. The MHLW regional office sets public agenda after collecting suggestions at the subcommittee. The council has spent three years in making bylaws, setting up a study group, and discussing measures against companies' bad credits. The MHLW regional office plans to deal directly with long-term and structural employment problems such as the nationally highest level of mismatches between labor supply and demand as well as the problems of the old and the youth. There has not been consensus among the participants on the prior function of the council. The MHLW regional office intends to share the information of public policies among the social actors and deliver prefectural social actors' suggestions to the MHLW. Employers regard the council as a centralized social consultation body whose agenda tend to be set by the central government. They point out that the council does not affect employment policies at the prefecture level.

The Committee of Promoting Employee Welfares (CPEW) is the representative social consultation body consisting of Aichi prefecture government, Aichi Rengo, and Aichi Nippon Keidanren. The committee started its activities in 1999 by formalizing the existing tripartite meeting among the three actors. The committee mainly intends to set up a schedule to promote social welfare and review the progress, following a social welfare life scheme that had been initiated by Aichi Rengo in 1993 and developed by collaborative efforts in 1994. The scheme was made at the informal tripartite meeting whose participants were aware of employment problems as the scheme incorporated employment stability as one of five standards scaling social welfare. This awareness of employment problems was also taken by the CPEW.

Despite the lack of legal status, the CPEW has two-tiered social consultation structure: the top-level committee and the subcommittee. Like the CGUEE, the CPEW has Aichi Rengo president and Aichi Nippon Keidanren chair as members at the top-level committee. A small division of Aichi prefecture government takes in charge of the meetings, which hardly enforces top-level participants to convene (even Aichi governor does not take a seat). The top-level committee has an annual meeting where the participants review agenda made by the subcommittee. Since the CPEW is a voluntary body, the top-level participants are not engaged in conflict, competition and agreement during their discussions. The subcommittee has regular meetings, once a quarter, and focuses on finding practical measures to enhance the welfare of the youth and employees working at the small and medium sized companies. Unions have tried to expand the scope of discussions as the subcommittee dealt with work-sharing and

cafeteria welfare system in 2002 and 2003.

Although the prefecture government is not obliged to respect the result of discussions, the subcommittee has sometimes found its discussion reflected in public policies: for example, the prefecture government has decided to support a project of Job café to help the youth find their jobs in 2004. In this decision, the prefecture government gives a consideration to the regional youth labor market condition that the youth in Aichi has the highest rates of job acquirement after school departure but records the high rates of turn over. This condition raises the possibility that the youth becomes a freeter, not a permanent employee. To solve the problem by the project of Job café, Aichi prefecture government attempts to build a collaborative network to consolidate all employment policies about the youth across many government bodies such as the MHLE's Aichi regional office that is in charge of Young Job-Support, Young Hollow-Work, and Nagoya Student Job Center.

In Saitama, tripartite social consultation has taken a similar pattern as the case of Aichi. Saitama regional office of the MHLW organizes formal meetings with Saitama Rengo and Saitama Nippon Keidanren. Saitama prefecture government also holds informal meetings with the other two actors. However, there exists a slight difference. Saitama prefecture government has more positive approach to social consultation on employment problems. In particular, Saitama Rengo and Saitama Nippon Keidanren share the seats on a prefecture level project--Saitama economic development project team. Following the incumbent Governor's promises, this team was established to create employment by supporting the establishment of new firms and assisting the management of venture firms. The reason why Saitama prefecture government throws a sincerer effort to social consultation is that Saitama economy is based on small and medium companies. To create and maintain employment, Saitama prefecture needs cooperation from unions and employers.

Besides tripartite social consultation, unions and employers have been involved in bilateral discussions on employment problems in Aichi. These bilateral discussions have facilitated information sharing between unions and employers over regional labor market conditions and regional competitiveness. In addition, the discussions have made varied collaborative products on employment problems since the mid 1990s. This co-works preceded the national actors' efforts to tackle employment problems as the efforts started to make a tripartite agreement only after this century. Aichi Rengo and Aichi Nippon Keidanren hold their regular conferences twice a year, one at spring offensive and the other in November. In every two years, the conference presents co-suggestions, which guides their future action programs. The co-suggestion on Aichi

employment creation plan and the co-suggestion on job career development in 1999 are the representative ones that both unions and employers share their strategies. As the conference adopts public agenda provided by a sub-conference consisting of practitioners in both union and employer organizations, the sub-conference plays an important role. This sub-conference tends to operate as a study group, conducting researches and producing public policy proposals. Since the mid 1990s, the conference has published a research result on employment almost every year. Aichi Rengo and Aichi Nippon Keidanren have focused their discussions on aging workers and work-sharing. In 2003, they finally agreed to change the current employment practices based on permanent workers and automatic annual wage increase. However, they have not made an agreement on how working hour reduction and wage restraint can be fairly distributed to workers and companies.

The bilateral discussions have sometimes evolved to a tripartite agreement. For example, Aichi Rengo, multiple employers associations, and the regional office of the MHLW concluded the establishment of the Job Support Aichi (JSA) in December, 2002. To establish this institution, Aichi Rengo and Aichi Nippon Keidanren had to make the 1999 co-suggestion that unions and employers would cooperate to set up a two-way job search program differing the existing one way job search (companies usually provide job search advertisement, and job-seekers visit the companies). In addition, the two regional organizations decided to take advantage of the MHLW's 2001 employment policy permitting a regional tripartite committee to conduct a job support project. The MHLW also promised to give the regional committee autonomy of specifying the project and pronounced to provide financial support to the project. Unions, employers, and the regional office of the MHLW finally agreed to give Aichi Nippon Keidanren with an authority to manage the job service function of the JSA while all the participants promised to continue their involvement in the project. The JSA became an internet job support system that job-seekers, unions, and employers share job information. Although this system intended to correct the mismatch in the regional labor market and create employment, the system required unions' concession that employers would select a list of job-seekers after reviewing the information provided by the job-seekers. To relieve employment problems, Aichi Rengo took a flexible position, which allowed the tripartite agreement. Instead, Aichi Rengo has utilized the JSA by leading the JSA to organize a sub-study group on work-sharing and give job education to teenagers at middle and high schools. Aichi Rengo has even persuaded the central Rengo to send the MHLW its request. Accepting the request, the MHLW obliges any regional job support service institutes to set up a review committee,

which eliminates the possibility that employers associations take advantage of their authority of managing the regional job support service.

In Saitama, bilateral discussions have experienced a dramatic change in principle: from confrontation to collaboration. The challenges of globalization directly affected the relationship between unions and employers. In particular, the rapid appreciation of yen and the weakening of competitiveness threw a severe blow to the manufacturing sector. Unions and employers were required to search for a solution to the rapid collapse of Saitama's manufacturing sector as 5,000 manufacturing companies disappeared; workers lost 75,000 manufacturing jobs in the first 1990s. These difficulties led unions and employers to hold collaborative discussions on employment problems. Saitama Rengo and Saitama Nippon Keidanren set up a study group to search for measures to facilitate industrial activities and create employment. The two organizations continued their discussions in the study group and persuaded the prefecture government to reflect the study result to employment policies. Like the case of Aichi, bilateral discussions in Saitama have sometimes evolved to tripartite action programs.

Job Finding System (the JFS) in Saitama is a job matching/supporting mechanism which is very similar to Job Support Aichi (the JSA). Both systems utilize internet to help job-seekers find their jobs and allow employers to collect information about job-seekers. Unlike the JSA, the JFS has mobilized the prefecture government instead of the regional office of the MHLW mainly because the prefecture government came to finance the JSA although the central government gave the money in order to relieve the rapid aggravation of employment problems in Saitama. Unlike the JSA, the JFS has also entitled a public body to manage the JFS instead of employers associations such as Saitama Nippon Keidanren. The public body, led by the previous Saitama Rengo activist, relays companies and job-seekers since companies are permitted to contact with job-seekers only through the public body. The JFS has elaborated its service since June, 2000 while the prefecture government agrees to increase its financial support.

## 5. Conclusion

Japanese economic integration into the world market has advanced social consultation among unions, employers, and the government at the national level. These social actors have conducted collaborative actions to turn their economic difficulties into their opportunities to raise national competitiveness. These concerted actions have usually made a success as the case of Sanrokon showed.

Under the surface of the national consultation, another tripartite activity has been formulated. Unions, employers' associations, and the government (the regional offices of the central government as well as the prefecture government) at the prefecture level have continued their discussions on employment problems that globalization provokes. As their economy gets further integrated, the regional actors have found regional employment more instable. The actors have been forced to search for solutions to employment creation and work-sharing and have accelerated social consultation since the mid 1990s.

In both Aichi and Saitama, regional interest organizations of the labor and capital have been engaged in social consultation with varied government bodies. On the one hand, unions and employers' associations persuade government to reflect their agreements reached during the continuing bilateral studies and discussions. On the other hand, the government shares information with unions and employers over public policies and forms mutual understandings among the participants. In this process, Aichi and Saitama have developed social consultation and strengthened collaboration among the social actors. In Saitama, the social actors have transformed their confrontational relationship to find a better way to relieve employment problems. Despite their lack of financial resources, the prefecture governments become more ready to initiate tripartite meetings. A variety of informal but flexible meetings have enriched social consultation and produced a shared strategy against employment problems.

The different economic structures and labor market conditions in Aichi and Saitama have affected regional social actors to form distinctive social consultation. Aichi's economic activities are based on larger companies with higher competitiveness than the case of Saitama. Employees in Aichi also enjoy higher wages and higher employment stability than their colleagues in Saitama. The social actors in Aichi have paid more attention to inward foreign investment to create employment and to the mismatches in the labor market. Compared to the case of Aichi, Saitama social

actors have been more concerned with relieving employment instability of small and medium sized companies. Their agenda on social consultation is broader than the case of Aichi because Saitama social actors are obliged to incorporate the issue of industrial restructuring when discussing employment problems.

It is not clear whether social consultation at the prefectural level has improved employment situation. It has not passed ten years since regional social actors actively started to focus their discussions on employment problems after the collapse of bubble economy. However, the advance of social consultation has enabled them to coordinate different interests among them and form a shared strategy against the challenges that they face. It is an open question whether Japanese regional actors turn their misfortune to a blessing. Nonetheless, one thing is clear. Each actor is not able to solve the problems that the regional economy meets in the process of globalization.

### Appendix 1. Economic Environment, Employment and Wages and Working Hours in Saitama, Aichi and Japan

	Saitama			Aichi			National		
	1990	1995	2000	1990	1995	2000	1990	1995	2000
<b>Environment</b>									
Gross Domestic Product (bil.yen)	17,869	19,527	20,092	30,904	32,930	33,558	449,997	496,372	509,702
Manufacturing Output (bil. yen)	5,764	5,217	4,891	12,407	11,508	10,588	117,315	114,669	112,114
Trade Size (bil.yen)				8,841	9,392	11,940	75,312	73,080	92,592
Trade balance (bil.yen)				3,663	3,842	5,103	7,602	9,982	10,716
Inward foreign investment (bil.yen)							405	370	3,125
Outward foreign invest (bil.yen)							8,353	4,957	5,385
<b>Employment</b>									
Number of Employees ('000)	3,232	3,513	3,528	3,513	3,685	3,687	61,682	64,142	62,978
Manufacturing sector	876	829	750	1,183	1,102	1,031	14,642	13,556	12,228
unemployment rates (%)	2.7	4.4	4.7	2.4	3.7	4.2	2.1	3.2	4.7
<b>Wages and Working Hours</b>									
Monthly Wages (all ind. yen)	305,516	336,544	323,945	343,603	374,642	378,672	329,443	362,510	355,474
Monthly Wages (mftg, yen)	330,383	356,161	348,352	342,112	369,337	395,589	321,802	357,524	371,452
Monthly Working Hours (all ind)	163.9	153.3	148.7	171.0	157.8	155.4	171.0	159.2	154.4
Monthly Working Hours (mftg)	172.0	164.3	160.1	178.3	163.2	165.0	184.5	164.3	163.9

Source: Aichi and Saitama Prefecture Government Homepages, [www.pref.aichi.jp](http://www.pref.aichi.jp) and [www.pref.saitama.jp](http://www.pref.saitama.jp)

Ministry of Finance Homepage, [www.mof.go.jp](http://www.mof.go.jp)

Ministry of Health, Labour and Welfare, *General Survey on Working Conditions (until 1999, General Survey on Wage and Working Hours System)*.

Ministry of Public Management, Home Affairs, Posts and Telecommunications, Statistics Bureau, *Labour Force Survey; Social Indicators by Prefecture*.

## Appendix 2. Unions, Prefecture Government and Employers in Saitama, Aichi and Japan

	Saitama			Aichi			National		
	1990	1995	2000	1990	1995	2000	1990	1995	2000
<b>Union</b>									
union members ('000)	402	429	414	847	868	803	12,265	12,614	11,539
Manufacturing shares (%)	38.5	34.3	31.3	48.2	48.5	47.6	31.5	31.4	29.8
Unionization Rates (%)	14.3	13.8	13.0	26.9	25.2	22.7	25.2	23.2	21.5
Union size	184	197	188	275	285	265	170	178	168
Inclusiveness (Rengo coverage, %)	54.9	52.5	51.4	68.2	69.6	70.7	62.1	61.2	64.3
<b>Prefecture Government</b>									
budget size (expenditure, bil.yen)	1,360	1,688	1,748	1,810	2,144	2,180	69,269	75,938	89,019
budget balance (bil.yen)	28	24	20	19	19	15	-4,877	-7,979	-3,862
budget independence (%)	63.8	55.5	52.3	80.4	66.7	65.6	47.2	48.4	48.9
<b>Employers</b>									
total number of companies ('000)	271	277	267	382	382	360	6754	6,717	6350
coverage (Japan Kendanren, %)									

Source: Ministry of Health, Labour and Welfare, *Basic Survey on Labour Unions*.

The Bank of Japan, .www.boj.or.jp. and *Comparative Economic Financial Statistics*

Ministry of Public Management, Home Affairs, Posts and Telecommunications, Statistics Bureau, *Social Indicators by Prefecture*.

Ministry of Public Management, Home Affairs, Posts and Telecommunications, Statistics Bureau, *Establishment Survey*

### Appendix 3. The Distribution of Company Size in Saitama, Aichi and Japan

2001	Saitama		Aichi		Nation	
All industries						
N of Establishments (with)	266,775	100.0	360,358	100.0	6,350,101	100.0
1-49	259,696	97.3	350,456	97.3	5,782,428	97.2
50-299	6,605	2.5	9,130	2.5	154,674	2.6
300-	474	0.2	772	0.2	11,898	0.2
N of Persons Engaged	2,556,596	(Average 9.6) 100.0	3,689,316	(Average 10.2) 100.0	60,158,044	(Average 9.5) 100.0
1-49	1,639,086	64.1	2,218,360	60.1	37,558,597	62.2
50-299	639,141	25.0	897,973	24.3	15,035,516	24.9
300-	278,369	10.9	572,983	15.5	7,789,484	12.9
Manufacturing Industry						
N of Establishments	37,595	100.0	52,975	100.0	651,111	100.0
1-49	35,636	94.8	50,304	95.0	607,020	93.7
50-299	1,766	4.7	2,330	4.4	36,927	5.7
300-	193	0.5	341	0.6	3,887	0.6
N of Persons Engaged	576,731	(15.3) 100.0	949,487	(17.9) 100.0	11,133,726	(17.1) 100.0
1-49	275,239	47.7	375,379	39.5	4,836,439	43.4
50-299	181,270	31.4	242,928	25.6	3,421,168	30.7
300-	120,222	20.8	331,180	34.9	2,886,262	25.9

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, Statistics Bureau, *Establishment and enterprise census of Japan*.

#### Appendix 4. The Number and Share of Workers following Employment Status (National, Private Sector)

	1,996		1,999		2,001	
All industries						
N of Persons Engaged	57,583,042	100.0	53,806,500	100.0	54,912,703	100.0
Regular full-time workers	34,626,468	60.1	31,481,796	58.5	30,802,371	56.1
Regular but non-full-time	11,066,724	19.2	12,544,023	23.3	14,393,750	26.2
Temporary or Daily workers	2,896,131	5.0	1,620,011	3.0	1,538,868	2.8
Dispatched or subcontracted workers			2,363,398	4.4		
Manufacturing Industries						
N of Persons Engaged	12,922,034	100.0	11,452,317	100.0	11,126,145	100.0
Regular full-time workers	9,401,834	72.8	8,297,496	72.5	7,873,824	70.8
Regular but non-full-time	1,851,078	14.3	1,799,886	15.7	1,973,663	17.7
Temporary or Daily workers	320,389	2.5	186,367	1.6	161,304	1.4
Dispatched or subcontracted workers			614,670	5.4		
Transportation mfg						
N of Persons Engaged	1,131,728	100.0	1,011,214	100.0	1,026,216	100.0
Regular full-time workers	957,269	84.6	873,350	86.4	853,243	83.1
Regular but non-full-time	103,338	9.1	77,875	7.7	113,218	11.0
Temporary or Daily workers	18,490	1.6	12,913	1.3	13,025	1.3

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, Statistics Bureau, *Establishment and enterprise census of Japan*.

(According to JIL's Japanese Working Life Profile, we could also refer to the MOPHP's Report on the Labour Force Survey and the Management and Coordination Agency's Report on the Special Survey on Labour Force).

**Appendix 5. The Number and Share of Workers following Employment Status in Saitama and Aichi (Private Sector)**

	Saitama				Aichi			
	1,996		1,999		1,996		1,999	
All industries								
N of Persons Engaged	2,591,583	100.0	2,275,605	100.0	3,847,294	100.0	3,432,862	100.0
Regular full-time workers	1,464,602	56.5	1,182,207	52.0	2,422,338	63.0	2,045,877	59.6
Regular but non-full-time	632,550	24.4	694,442	30.5	741,682	19.3	827,488	24.1
Temporary or Daily workers	130,617	5.0	62,409	2.7	168,758	4.4	86,646	2.5
Dispatched or subcontracted workers			103,451	4.5			186,510	5.4
Manufacturing Industries								
N of Persons Engaged	660,754	100.0	590,794	100.0	1,080,844	100.0	979,356	100.0
Regular full-time workers	435,825	66.0	384,516	65.1	796,325	73.7	724,636	74.0
Regular but non-full-time	135,657	20.5	133,863	22.7	150,025	13.9	143,315	14.6
Temporary or Daily workers	18,078	2.7	9,675	1.6	22,665	2.1	11,696	1.2
Dispatched or subcontracted workers			28,023	4.7			56,675	5.8
Transportation mfg								
N of Persons Engaged	69,034	100.0	58,482	100.0	242,832	100.0	220,144	100.0
Regular full-time workers	54,880	79.5	46,958	80.3	213,986	88.1	198,666	90.2
Regular but non-full-time	9,133	13.2	7,525	12.9	17,883	7.4	13,039	5.9
Temporary or Daily workers	1,262	1.8	713	1.2	3,622	1.5	1,629	0.7

Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, Statistics Bureau, *Establishment and enterprise census of Japan*.

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