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DIRECTORATE OF INTELLIGENCE

20 October 1986

Japan: Would Labor's Agenda Expand Domestic Demand?

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Summary

The Maekawa Commission's call for increased wages and a shorter workweek to foster expanded private consumption and lessen dependence on exports adds some impetus to longstanding demands of the Japanese labor movement. Nonetheless, the recommendations are unlikely to fare well in the present economic and political climate. With union membership down, with labor's traditional political allies--the opposition parties--suffering major losses in recent elections, and with the economy suffering from the strong yen, the labor movement is poorly positioned to push for improved benefits. Indeed, we believe Tokyo's budget austerity and the sluggish economy will keep public- and private-sector wage hikes small during the next 18 months. Over time, however, changes in popular attitudes, as well as political and some business support, should encourage adoption of a shorter workweek. Even so, such a shift would do little to stimulate domestic spending and imports unless combined with measures to increase after-tax incomes and reduce the need to save for major purchases.

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The Recommendations: The Unions' Wish List

Demands for higher wages and a shorter workweek have been on the Japanese labor movement's agenda for years. Last spring's Maekawa report highlighted both goals in its list of recommendations for turning growth inward, but was pointedly short of specifics on both timing and implementation. The report suggested only that wages and salaries rise at a faster pace and that the workweek be shortened, calling on Tokyo to take the lead in making a five-day workweek standard for government employees and for the financial institutions regulated by the Finance Ministry. 


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Organized labor in general views the shorter workweek as the more pressing concern. Japanese manufacturing workers put in an average of 500 more hours per year than their counterparts in Western Europe and 200 more than workers in the United States, according to the Labor Ministry's 1985 White Paper (see figure 1). Union officials argue that the present 48-hour workweek encourages criticism from labor organizations in other industrialized countries, who complain that the long hours give Japan an unfair advantage in trade by increasing weekly output per worker and thus reducing costs. The major labor federations--Sohyo, Domei, Churitsuroren, and Shinsanbetsu--have laid down specific proposals for a 40-hour workweek and limited overtime. They have also called on employers to encourage workers to make full use of vacation time. 

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Nonetheless, not all in the labor camp favor a reduction in hours. Japanese labor experts note that older workers, in particular, have been schooled in the virtue of hard work and do not want a change. Moreover, some workers fear reduced official work hours could lead to cutbacks in overtime. According to the US Embassy in Tokyo, full-time workers depend heavily on overtime earnings to maintain their standard of living. 

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Japanese workers also do not agree on the wisdom of pushing for substantial wage increases. Older male employees--now reaping benefits from the large wage gains made in the 1960s and 1970s--are satisfied with present salaries, according to Embassy Tokyo. Although annual wage settlements are becoming less generous, seniority-based pay and semiannual bonuses help to compensate for the reduction (see figure 2). Moreover, some employees fear that hefty wage demands--especially during the current economic slowdown--could cause bankruptcies, forcing up Japan's traditionally low unemployment rate. 

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Weakened Unions

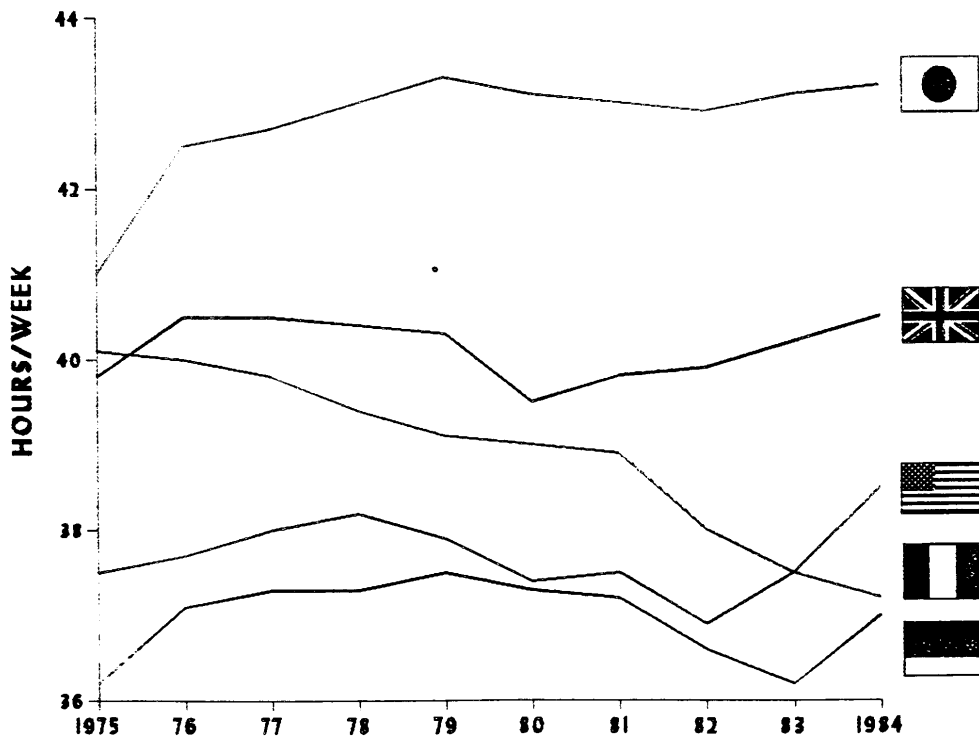
Even with full union backing for the Maekawa Commission proposals, the labor movement would have difficulty convincing management to accept its demands. In contrast to the 1960s, when a labor shortage gave Japanese unions a strong hand, the organized labor movement is both politically and economically weak. Cutbacks in the steel and shipbuilding industries have debilitated unions in these industries. Once the



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Figure 1

TRENDS IN ACTUAL HOURS WORKED IN MANUFACTURING INDUSTRY*

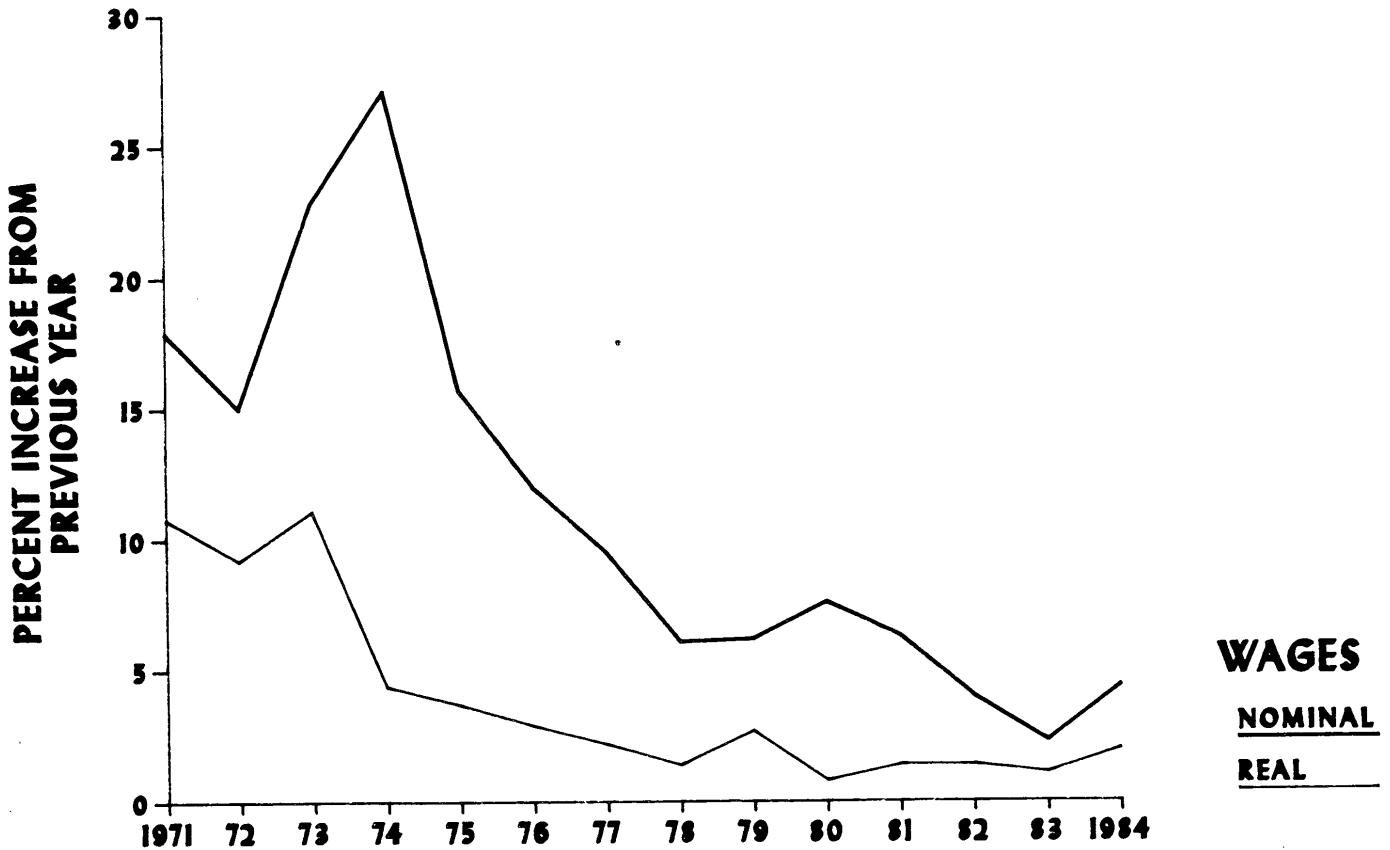


*PRODUCTION WORKERS ONLY.

[Redacted]

Figure 2

JAPAN: WAGE TRENDS 1971-84





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traditional bedrock of the labor movement and the pacesetters for labor's wage demands, these unions can no longer effectively represent workers' interests. Unions in the high-profit and growth sectors, such as telecommunications and electronics, have hesitated to take the leadership reins, preferring to bargain with management independently of the weaker unions, according to Embassy Tokyo.

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Final wage settlements throughout the 1980s spotlight labor's slide, with settlements--especially after adjusting for inflation--consistently lower than in the past. The average rate of increase has not exceeded 8 percent since 1977, and in the last three years the rates have been at historic lows, hovering around 5 percent. The small wage settlements reflect, in our view, a loss of union power as well as the slow rates of economic growth and inflation since the late 1970s.

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Union membership also continues to slip. Statistics published by the labor movement's own think tank reveal membership fell from 34.5 percent of Japan's work force in 1979 to 28.9 percent in 1985. Although the overall work force is growing, many newcomers are part-time or nonpermanent employees, who are not eligible for union membership. Those who remain within union ranks are increasingly dissatisfied.

a majority of union members believe the labor movement does a poor job of representing their interests. The rank and file is disillusioned with ideological squabbling among labor leaders and with their inability to work together. For example, expectations for Zenmin Rokyo--the organization established with the goal of unifying all private non-Communist unions--have dimmed, according to US Embassy officials in Tokyo. Although Zenmin Rokyo was recently inaugurated as a full-fledged national labor organization, labor leaders refuse to cooperate under its umbrella because key issues, such as affiliation with the Western-oriented International Confederation of Free Trade Unions, remain unresolved.

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Finally, the influence of labor's chief political allies--the opposition parties--is waning. The opposition's dismal showing in the July Diet elections suggests the Japanese public is increasingly alienated by the leftist bent of both the unions and the Japan Socialist Party. Part of the Socialist's poor showing--a loss of 25 seats--can also be attributed to a withdrawal of support by the more moderate unions, which are frustrated with the party's ideologically driven policies, according to the US Embassy in Tokyo.

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Tokyo Unlikely To Embrace Higher Wages...

In view of the labor movement's declining influence, we expect government backing will have to be the key to moving the Maekawa Commission's proposals forward. Such backing will be slow to materialize, however. According to the US Embassy, Finance Ministry officials oppose larger wage increases in the private sector, believing they would trigger a recommendation from the National Personnel Authority that the public-sector unions--paid out of the national budget--receive corresponding gains. Such a recommendation would run counter to the government's budget-balancing policies.

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[Redacted]

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We expect the yen appreciation to act as a further deterrent to movement on private-sector wage hikes. Despite Tokyo's talk of reducing the economy's dependence on exports, neither government nor business officials are ready to see Japanese industry lose international competitiveness. As a result, increasing wages when a strong yen has pushed up the dollar price of many Japanese goods will be an unpopular option. Indeed, some major exporters suffering a substantial drop in profits over the next few months may be tempted to cut wages. [Redacted]

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But Forward Movement Possible on Workweek

Recommendations for a shorter workweek will be easier to handle. The Ministry of Labor is the leading government advocate of reducing the workweek, and officials from the Ministry of International Trade and Industry and the Economic Planning Agency recently have spoken out in favor of the idea as well. A private advisory council to the Labor Ministry is studying the feasibility of amending the Labor Standards Law to shorten the legal workday and increase minimum paid vacation. The council had earlier recommended a five-day workweek, although it retreated from a target date of 1985 for nationwide implementation. Admittedly, the Labor Ministry's task is difficult; amending labor laws is a lengthy process involving negotiations among several ministries and eventual submission to the Diet, where opposition from Dietmen who represent business interests could pose problems. Tokyo is apparently taking the first step with its own employees. Press reports note that government workers will get a second Saturday off each month by early next year. [Redacted]

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Despite the delays, we believe changing attitudes and economic realities will push Japan toward adopting a shorter workweek. Media polls indicate growing public support--especially among the young--for fewer working hours and more leisure time. According to the Japan Productivity Center, younger workers are not as company oriented as their elders and want more time with their families. [Redacted]

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The popularity of recent token gestures by Prime Minister Nakasone adds to the evidence of changing perceptions. The media gave widespread coverage to Nakasone's statements that he personally supported reduction of the present 48-hour workweek. The Prime Minister also declared the third week of August an unofficial summer holiday, and, indeed, surveys show that the Japanese are taking more summer vacation days. The Education Ministry's plan to reduce by 1992 the school week from six to five days will add to the clamor for a shorter workweek by expanding the opportunities for family vacations. [Redacted]

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The present economic slump could also push Japan toward shorter hours. A Labor Ministry survey indicates Japanese corporations are cutting back production and the amount of overtime offered. If production continues to lag, many firms may prefer shortening employees' hours rather than resorting to layoffs. Some businesses are already experimenting with a shorter workweek. Japanese banks now give employees every other Saturday off, for example. [Redacted]

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[Redacted]

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Impact on Domestic Demand

Although a gradual but definite move to shorter working hours in the next few years seems likely, the impact on Japan's international competitiveness and on workers' spending patterns will depend in large part on whether the reduced hours are accompanied by the same or lower earnings. If wages are cut back along with hours, production costs will not necessarily rise, and Japanese workers might not increase their spending. 

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Over the longer term, reforms such as a shorter workweek and an increase in labor's share of national income will have a greater impact on domestic demand if they are implemented as part of an interrelated package of measures--such as the Maekawa recommendations--rather than as separate steps. Workers, for example, may have a difficult time increasing spending in their newly won leisure time if their tax liabilities keep rising and they remain concerned about the need to save for housing and retirement. This argues for timely implementation of the complete Maekawa package--tax reform, public works, measures to encourage housing construction, agricultural liberalization, and wages and hours reforms--to gain the full, synergistic effect. 

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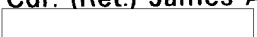

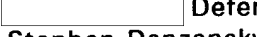



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