Labor Unions: Changing Corporate Management Systems

By Yoshida Satoshi

The Communist Manifesto, written by Karl Marx and Friedrich Engels, ends with the call: "Workingmen of all countries, unite!"

Marx would have been astonished if he had witnessed the miracle of Japan's economic development following World War II when Japanese workers did unite, but not with their peers around the world. They united with none other than corporate managers and government officials to create Japan Inc., not a communist state.

Now, this Japanese triumvirate is on the verge of collapse. The labor movement in particular is undergoing a radical change, with rapid shifts from equality to an orientation toward ability.

Changing wage struggles

From February to April every year, labor unions hold collective bargaining negotiations with management regarding wages. Known as the spring offensive, or *shunto*, this annual labor campaign is aimed at raising the wage base of all Japanese workers through joint labor action. Under this unique formula, Japanese trade unions, from major industries (such as automobile, electric, steel, chemical, textile, communication and railway) to small businesses, negotiate with management within a company or within an industry.

But, this strategy is destined for change. This year's spring offensive ended with the lowest wage hike rate on record—an average of 2.8% for employees of large companies capitalized at ¥2 billion or more and with a workforce of 1,000 or more, according to a survey by the Japan Federation of Employers' Associations. The figure is well under the 3.1% won in the 1994 shunto, and a far cry from the 10% and more won during the high-flying days of the 1960s, and the 20.1% and 32.9% offered in 1973 and 1974 during the oil crisis-triggered inflation. This year's dismal result was best exemplified in the steel industry, as steel company unions, which boasted unity as strong as iron, failed to win any raise at all. In consideration for the heavy damages suffered by their companies during the devastating earthquake in January, the unions of major private railways in the Kansai region opted out of joint actions during the spring offensive altogether.

Meanwhile, when the yen's value against the dollar topped ¥90 in March, management moved to curb wages, citing a deteriorating business environment. Toyota Motor Vice President Isomura Iwao quipped that the yen's appreciation above 90 to the dollar amounts to a 10% wage raise, thus urging restraint on wage requests. Nagano Takeshi, former chairman of the Japan Federation of Employers' Associations (Nikkeiren) which leads employers in Japan, went further, saying since prices have remained stable, now is the time to consider lowering wages, not raising them.

On the labor side, Ashida Jinnosuke, chairman of the Japanese Trade Union Confederation (Rengo), counters that Japan's business recovery depends on wage hikes. Low wage increases only depress consumption and snuff out business recovery. Nevertheless, Ashida acknowledges the limits of the shunto formula, noting that Rengo only acts as mediator and each union in each industry must play a central role in labor-management negotiations.

Both management and labor blame the Great Hanshin Earthquake and the yen's appreciation for curbing wage increases this year. But, such factors are only temporary.

Japan's labor movement, which once focused on confrontation with management through strikes and collective bargaining, is now undergoing cataclysmic changes. Both management and labor have begun to sense a change in the times and are trying a new tack. The structural changes occurring in the Japanese economy following the asset-inflation in the 1980s and the ongoing extraordinary appreciation of the yen,

Photo: Kyodo News Service

Representatives of the Council of Metal Workers Unions vow to fight endaka *as part of their 1995* shunto *strategy.*

coupled with changes in worker perception, have spurred the trend.

The shunto formula originated with a joint wage raise campaign conducted in the spring of 1955 by unions of eight major industries, including coal, textile, chemical and private rail, with 730,000 workers participating. The following year, government and government-affiliated unions joined the spring campaign in what is regarded as the formal beginnings of the shunto formula. Shunto participants swelled to 2.9 million that year.

At that time, the starting monthly salary for a university graduate was a mere ¥10,780 while rice cost ¥1,090 a kilogram. Most workers saw their salary being eaten up by food and thirsted for higher wages. The shunto could rally millions of workers and labor organizations spread throughout the country, frequently accompanied with strikes.

In 1964, the year of the Tokyo Olympic Games, steel, automobile, electric and other major industrial unions inaugurated the powerful Council of Metal Workers Unions (Kinzoku Rokyo), which played a decisive role in wage negotiations for many years.

The high-growth period from the late 1960s through the first half of the 1970s saw double-digit wage growth yearafter-year.

The turning point came with the shunto of 1973, during the first oil crisis, when price spirals pushed wages up a hefty 32.9%. During the 1975 shunto, unions called for wage restraint on the grounds that higher wages could bring about soaring commodity prices. This was the first time in world labor history that unions took the initiative in curbing wage hikes. The unions defended their action saying that to sever the vicious circle between higher wages and higher prices unions had to set a wage raise target that made economic sense.

During the 1975 shunto campaign, the Federation of Steel Workers Unions (Tekko Roren), the pacesetter, cut its wage raise demand in half from the previous year, with the result that the wage raise for steelworkers was set at 13.1%, down 19.8% from the year earlier. This lower wage raise contributed to curbing soaring prices, with the price rise rate sagging 3.8% three years later.

At that time, the United States and European countries were gripped by stagflation (inflation and recession), and their governments were intervening into wage decisions in industries with wage guidelines known as "income policies."

The union initiative in curbing wages was a unique Japanese phenomenon and was in good contrast to what was then happening in the United States and Europe. The 1975 Tekko Roren decision marked the start of a typical Japanese-style corporate system based on union support to management, which helped bolster Japan's economic development.

As steel was Japan's key industry during the high-growth period, Tekko Roren took the lead in setting wage increases. Automobile, electric, shipbuilding and other heavy industries were swayed by prices of steel, their indispensable material. A high wage raise in the steel industry could force steel prices, which in turn affected other industries. On the other hand, steelworkers would still have had to demand strong wage increases if unions of other industries negotiated for them.

Consciously or unconsciously, labor unions in Japan played a leading role in deciding the costs of their companies, while management highly regarded union demands. This paved the way for the typical Japanese practice of management-labor coordination, which helped bolster Japan's economic development on the one hand but helped expand the nation's trade surplus and brought about the yen's sharp appreciation on the other.

During the period of high growth, the shunto strategy enabled workers to win double-digit wage raises every year, boosted their living standard and helped to expand the domestic market. Even average workers became affluent enough to buy cars and air-conditioners and invest in upgrading the labor force through travel and education.

Labor unions themselves embarked on campaigns for higher productivity of factory production lines, which resulted in the introduction of the "just-in-time" inventory system at Toyota Motor Corporation and the initiation of voluntary quality control systems by workers in other companies.

Former Sony Corp. Chairman Morita Akio and conservative politician Ishihara Shintaro (who resigned as a member of the Diet), in their controversial book *The Japan That Can Say No*, referred to a productivity campaign at a particular company, which I think is quite appropriate. At a semiconductor plant in Kyushu, where the yield ratio was low and more defective products were turned out than at rival factories, all workers were urged to discover the reason for the low yield ratio.

At a railway crossing just in front of the factory, a woman on her way into work felt strong vibrations whenever a train passed. Wondering if the low productivity at her factory was due to these vibrations she raised the issue at a company meeting, where a decision was made to build a pond around the factory to absorb the vibrations with water. The pond worked, and the ratio of defective products immediately fell and productivity rose sharply.

As mentioned before, Japanese labor unions encourage workers to make positive proposals to employers on better corporate management, rather than fighting them. Employers, for their part, are willing to accept such proposals. This management-labor coordination typifies the labor movement in Japan.

Behind the pattern lies the lifetime employment system which guarantees permanent employment until mandatory retirement age, an age-based wage and pension system, good communications between headquarters and factories, and the obedience of Japanese workers.

Following two oil crises, Japanese unions abandoned the strategy of achieving their requests by force in favor of sharing productivity results with management through negotiations. This is in good contrast to the classic Marxist pattern of the labor movement in Europe and the United States.

Yet, it must be remembered that the ratio of personnel costs and labor's share have continued to decline in manufacturing industries, except during the 1950s. In other words, corporate employers succeeded in restraining raises and curbing personnel costs without having to pass them on to workers directly. They were thus able to concentrate on capital spending and technical development to further bolster their international position.

Japanese unions, for their part, have accepted the principle of rising wage levels only in concert with rising productivity levels. As a result, Japanese companies strengthened their international competitive edge and continued to possess production facilities that could oversupply products all the time. Oversupply triggered "torrential exports" to Europe and the U.S., expanded the trade surplus and brought about the yen's rise, which resulted in agonizing the Japanese themselves.

Labor's turning point

Beginning with the 1990s, company restructuring to deal with the aftermath of the asset-inflated economy of the 1980s was put into effect.

As specific measures, an increasing number of companies have introduced the merit-oriented wage system based on each worker's ability and work record. Sony Corporation, Matsushita Electric Industrial Co., and Marubeni Corp., among others, have already abolished the seniority-oriented salary system in favor of salaries based on work somewhat resembling the annual wage contract system practiced by professional baseball. Under the new practice, some managers earn ¥1 million more in annual salary than others.

Supermarket chain operator Daiei Inc. plans to introduce an annual salary contract system for all its 26,000 employees within a few years. Seibu and Tobu department stores project the introduction of a new wage system based on difficulty of job and personal achievement. Service companies, such as Keio Plaza Hotel, automakers, steelmakers, electronics companies, chemical companies, financial institutions and securities companies, among others, are also reviewing their seniority-based wage system and lifetime employment.

A Nikkeiren survey of its 2,000 member companies revealed that some 20% have introduce a work-oriented wage system or revised their wage system. Nikkeiren predicted, on the basis of the survey, that in the future, corporate employees will be classified into career track workers, specialists and general workers and only career track workers will be guaranteed lifetime employment.

The move underlies the intention of Japanese companies to thoroughly revise the existing employment system, which guarantees workers stable employment and wages in return for loyalty. Japanese employers fear that if the existing employment system remains unchanged, the number of elderly workers will continue to increase while the number of management positions are limited and personnel costs will continue to expand, which could deprive companies of their vitality. Particularly, high technology companies, such as computer makers, think that software development involves too much time and money and tends to weaken Japan's competitive edge. So selection of R&D division employees should be strictly based on ability.

Labor unions appear to be ready to follow management's move to revise the existing employment system, reflecting the weakening of their position.

In 1956, the year which marked the full start of the shunto, 6,460,000 (33%) out of 19,570,000 workers were union members. The ratio rose to 33.5% in 1973 at the time of the first oil crunch, and reached a peak of 34.2% the following year. The number of employed workers continued to increase every year during the high-growth period, reaching 50 million in the early 1990s, whereas union membership has remained flat at 12 million since the 1970s, with the ratio of union members sagging to 24.4% in 1993. One in three workers was a union member in the 1970s, but now the ratio is one in five. Workers are steadily dissociating themselves from unions.

Furthermore, Japanese workers are becoming less solidarity-conscious, which is the general tendency of the global labor movement, the exception being some east European countries. Japanese workers are thus shedding the "keep up with the Joneses" mentality. In past shuntos, unions of industries and companies with strong international competitive positions and good bottom lines have set the pace for wage raises and helped raise the wage level of all workers. Now, unions of some companies have begun to express discontent with the notion of equality for all workers.

For example, electric and automobile workers, who labor in industries which have strong competitiveness, say they are naturally entitled to high wages and that they should not be treated equally with workers from sub-performing companies. They contend that under the shunto formula, which is based on keeping up with the Joneses, they are penalized, because they have to give alms to workers of low productivity industries, such as private railway as well as government and public enterprise unions.

In this year's shunto, Nippon Telegraph and Telephone Corporation (NTT)'s union settled on a 2.8% increase to set the pace and other companies were forced to follow in its footsteps. Electric machine unions, which had sought raises of 4% to 5%, followed in step accepting a 2.9% raise, close to the NTT level. Even the union at Toyota, the best performing company, had to accept an ¥8,700 raise against its request for ¥12,000.

On the other hand, the wage gap between big corporations and small businesses has continued to expand since the start of the shunto. Rengo leaders are beginning to feel that Japanese labor unions should no longer stick to the "keep up with the Joneses" principle and that collusion among unions on wage issues should end. In their new frame of mind, each union or industry should be given the latitude to decide on its own wage. They have already agreed that the wage gap between big corporations and small businesses, as well as regional wage gaps, should be narrowed not in terms of the rate but only in terms of amount.

Some member unions of Kinzoku Rokyo, a wage raise pacesetter over the past 20 years, propose that negotiations be held only once every three years. They further suggest higher commodity prices be covered by one-time lump payments such as bonuses and better corporate results also be reflected in bonuses, not in higher wages overall.

These moves amount to an end of the shunto. Ironically, however, neither labor nor management considers the shunto meaningless any longer. "The shunto offers an opportunity for labor unions every spring to contemplate their wages and company as well as their own life, and at the same time to review Japan's economy and politics. In this sense, the shunto is good for labor and so should remain intact for the future," says Rengo Chief Ashida.

Former Nikkeiren Chairman Nagano strikes the same note, saying, "Even as labor unions face the possibility of pay cuts, the shunto remains relevant for both management and labor. It is important for both sides to discuss together once a year the desirable form of the wage system, the future shape of corporate management and the Japanese economy as a whole."

Both corporate management and labor still find a value in the shunto as a catalyst of maintaining coordination. JJTI

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