Achieving Stability
—Employers' Views—

By Toshio A. Suzuki

The domestic economy, after continued expansion since November 1986, began to slow down last year. This was the setting for the wage negotiations this year. As wages have climbed and people are demanding a more leisurely lifestyle, a shortening of working hours, especially total annual working hours, has become a major issue for management and labor. While some sources maintain that Japanese still work many more hours than their counterparts in other industrialized countries, total annual working hours currently stand at 2,052 hours, a drop of 30 to 40 hours compared with the previous year. If current efforts are continued, average working hours will fall to British and American levels at 1,900 hours within this year, except for some industries.

The basic position of industries on shorter working hours is this: like higher wages, shorter hours result from improved productivity and thus, balance between wage increases and shortened hours must be thoroughly considered; cutting down labor consumption and improving business efficiency must be carried out in a planned manner; the issue of working hours should be considered in total annual terms. These questions should be decided not by administrative intervention but through discussions and cooperation between labor and management. For smaller companies and in certain industries where achieving shorter hours is particulary difficult, the issue should be tackled by parent companies working with their affiliates, and by the industries in question as a whole.

As for concrete methods of shortening working hours, top executives should take the initiative; hours should be shortened systematically, paying due attention to the opinion of line workers conveyed through in-house working hours committees or other bodies; and changes should be initiated where it is possible to do so first and continued later in other areas to ensure steady progress. Hours can be shortened by cutting down overtime, by establishing a five-day workweek and encouraging employees to take annual leave systematically, for example, timing leave to coincide with slack periods, by adopting varied work hours patterns or flextime, and by introducing long sabbaticals.

As society becomes more affluent, people may start to demand freedom of choice in working hours according to a life plan based on their personal values. Enterprises should foresee these trends, acknowledge that the country's prosperity has been earned by the diligence of its citizens, and give this issue more serious consideration.

Labor's share

There has been widespread debate among management, labor, scholars and social critics in the past few years over the issue of labor's share in Japan. In this discussion, it is necessary to clarify the standard that is being used.

Japan's economic growth rate is currently high among the industrialized countries. Since prices are stable, though at a high level, and the yen has appreciated, the increase in per capita income is high and nominal wages are among the world's highest. The rise in employment has contributed to economic growth, but an even more important contributing factor is that Japan's high rate of saving has brought about a rapid increase in capital investment, which in turn has made its rate of increase in capital accumulation and capital-labor ratio the highest among the industrialized countries. Thanks largely to this, labor productivity has improved and strong and stable growth has continued (Table 1).

A future issue will be how to respond to our aging society and the demands that an expanded international role will place on the domestic economy. In addition, certain sectors of the economy still have low productivity by international standards. Under these circumstances, the basic policy and position to aim at a certain amount of economic growth should remain unchanged. To maintain the current high capital-labor ratio, capital's share must be maintained at a matching

Table 1 International Comparison of Basic Factors (%)

	Japan	U.S.	Former West Germany	Britain	France
Real economic growth rate	4.7	2.8	3.1	3.1	3.1
Ratio of labor's share	76.7	80.3	71.4	79.9	84.4
Capital investment rate	29.6	16.9	19.8	18.2	20.1

Notes: 1. The real economic growth rate is the average for each country for 1986–1990.
2. Ratio of labor's share = employee income/(total national income less self-employed income). For Japan, Britain and France, figures are averages for 1985–1989. U.S. figure is average for 1986–1990. Statistic for Germany is employee income/total national income.
3. The capital investment rate is the ratio of total fixed asset formation to GNE. Figures are averages for 1986–1990 (France 1985–1989).

Source: *Comparative Economic and Financial Statistics—Japan and Other Major Countries*, Bank of Japan.

level. It should be borne in mind that only in such a situation will the steady increase of wages in fact be guaranteed. As labor unions state, raising labor's share and lowering capital's share would raise current wage levels temporarily, but this would make capital accumulation and investment more difficult at the next stage, and would hold back the rise in labor productivity, which would slow the speed at which working hours could be shortened and higher wages paid.

Labor's share is to be determined by the long-range economic and management goals set by countries and enterprises. It is not simply a question of comparing highs and lows for a given period and debating the pros and cons of the situation. Appropriate investment and capital accumulation will be necessary if the economy is to maintain sound growth, while it is also important to maintain a suitable share for labor.

Since 1969, Nikkeiren (Japan Federation of Employers' Associations) has advocated adherence to the productivity standard principle in setting the level of wage increases. The principle holds that an appropriate wage increase for the nation as a whole should remain within the bounds of the real rate of increase in the level of productivity of the economy. Doing so will prevent inflation and ensure steady growth, improving the standard of living.

In practice, actual wage determination has not always been made according to this principle, but Japan has adhered to it the most closely among the industrialized nations. It is perhaps for that reason that while wage levels have been among the world's highest, inflation has been kept in check and growth has been strong.

This principle is a macroeconomic concept, however. In actual wage determination in individual enterprises, consideration should be given not only to the productivity standard but also to the enterprise's ability to pay total labor costs based on its management plan. Ability to pay should be calculated according to each company's mid-term and long-term sales forecast in line with trends for the economy over that time frame, plans for increases in added value productivity, or should be compatible with investment or capital accumulation plans. Appropriate wages can only be decided on once policies for the particular company's management are settled.

Table 2 Breakdown of Total Labor Costs (Total for industries surveyed in 1990; ¥)

Total labor costs 445,067 (174.7/100.0)	**Total cash earnings** 372,986 (146.4/83.8)	Scheduled wages	254,700	(100.0/57.2)
		Overtime pay	28,100	(11.0/6.3)
		Bonuses	90,186	(35.4/20.3)
	Other labor costs 72,081 (28.3/16.2)	Retirement allowances	18,484	(7.3/4.2)
		Statutory welfare expenditures	35,025	(13.8/7.9)
		Non-statutory welfare expenditures	12,351	(4.8/2.8)
		Payments in kind	2,091	(0.8/0.5)
		Education and training expenses	1,700	(0.7/0.4)
		Others	2,430	(1.0/0.5)

Notes: 1. The first figures in parentheses indicate ratio to scheduled wages shown as 100. The second figures indicate ratio to total labor costs represented by 100.
2. Scheduled wages and overtime pay were based on source 1. Other personnel expenses were calculated from source 2.

Sources: 1. *Basic Survey on Wage Structure*, Ministry of Labor, 1990.
2. *General Survey on Wages and Working Hours Systems*, ibid., 1988.

Personnel practices

Over the coming years, there will be a shortage of young workers in the labor force. The population is aging steadily, more women are working, and workers' attitudes are becoming more diverse. The labor situation is changing markedly and enterprises will have to develop personnel management policies appropriate to the new climate. It is important to bear in mind that some practices, such as excessive adherence to seniority or continuing to remunerate all personnel as members of a team, will need to be modified to respond to changing realities, and that others such as people-oriented management based on a strong relationship of mutual trust between management and labor should be retained.

Today, it is common to find regular employees, former employees rehired after retirement, part-timers, staff transferred from affiliates and temporary workers working side by side in the same company. This is a natural outcome to matching up needs on the supply and demand sides of labor.

One important question in the area of personnel management in connection with wage issues is the level of higher starting salaries paid to employees hired as new graduates. Over the past three years, starting salaries have risen so quickly that companies have had to readjust wage levels for current employees. Some are even cutting back wage increases for older workers and apportioning the funds to raising salaries for new employees.

The first point for personnel administration to consider here is whether it is right to raise starting salaries for new employees so high, when they are essentially unskilled compared with more experienced current employees. The second point is that the new graduates do not necessarily select an employer simply because of higher pay. It is up to an enterprise to offer a better overall package, which might include challenging work, shorter working hours, holidays and days off, employee perquisites, a total remuneration package and so on. With so much variety in the labor force composition today, the issue of starting salaries should perhaps induce employers to reevaluate their practice of hiring principally new graduates.

Another issue is the need for a comprehensive approach to remuneration at the time of negotiations. Improving conditions for workers is not only a question of raising wages, but must be a comprehensive approach of how to distribute total added value gained by the company. As mentioned earlier, more employees today want shorter hours and more holidays just as much, if not more, than they want higher pay. Labor unions are also beginning to lean in that direction.

Since both shorter hours and higher pay are the fruit of improved productivity, labor and management must discuss which they will choose. It should also be borne in mind that although wage increases discussed at the spring wage negotiations concern the percentage or the amount by which monthly scheduled wages will rise, most other labor costs, which include bonuses, retirement allowances and welfare expenditures, will also reflect this increase (Table 2).

In Japan, management and labor have acted with the overall domestic economic picture in mind, especially since the first oil crisis of 1973. This has contributed greatly to the growth and stability of the economy. As Japanese business becomes more globalized, other countries are showing interest in our labor-management relations; mutual trust nurtured by placing priority on employment, voluntary agreements between the two sides to exchange opinions and information, and flexibility in setting wages and introducing new technologies. If, through exchanges with various countries, we can update these practices to meet today's needs, our style of labor-management relations could serve as a model for other parts of the world.

Management and labor must continue to work toward their common goals of corporate development, stable economic growth, steady employment and higher living standards. Labor relations should be a matter of learning and teaching, and if the two sides harbor differences, they should discuss them thoroughly. Only then can they contribute to the stability of the economy and society.

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A Fair Share
—A Labor Viewpoint—

By Fujikazu Suzuki

The first oil crisis abruptly aggravated Japan's trading environment in the second half of the 1970s, and as a result the nation simultaneously suffered from current account deficits, inflation and recession. Consequently, Japanese workers began to see their wages rise only by a small margin after years of high growth.

Given the serious conditions that prevailed at the time, the slowdown in wage increases was unavoidable. But the slow wage-raise pattern then introduced by Japanese employers as a "crisis management initiative" was carried over to the 1980s, even after Japan had coped with the second oil crisis and the country's trading conditions had seen a turnaround.

While Japan's per-capita gross national product grew at an annual rate of 3% during the decade from 1980 to 1990, workers' income per capita during the period rose only 1.8% per annum on average. Not surprisingly, labor's relative share in the nation's wealth tended to decline. The fact that economic growth was not fully reflected in wage increases discouraged strong growth in personal consumption and made Japanese people extremely reluctant to spend as much as the country's economic growth alone might have suggested they would. It is this kind of factor in the Japanese economy that has often led to an export drive from Japan at a time of business slowdown.

Taking a serious view of this problem, Japanese labor unions have argued for a reasonable distribution of the results of growth to working people through a major wage increase, shorter working hours, and the enhancement of social infrastructure. Labor unions believe that these measures would help shift Japan's economic structure to focus more on people's quality of life led by domestic demand, essential for healthy development of the national economy and for international partnership.

Japan may be a major economic power, but it remains in the second rank in terms of its people's quality of life. This discrepancy has become so wide that it can no longer be left as it is. Prime Minister Kiichi Miyazawa has pledged to give top priority to efforts to improve Japanese people's quality of life to a level commensurate with the nation's economic power. Miyazawa is not alone in focusing on improvement in the quality of life. Leading figures in various fields have suggested that Japan's socioeconomic system be thoroughly reviewed. Japanese labor unions have long pursued wages justified by Japan's economic power—an important prerequisite if Japan is to provide its people with an affluent life that reflects the country's economic achievement.

Overseas compared

Japanese employers often contend that the wage level in Japan is now among the highest in the world and say that further increases would only weaken the Japanese economy's international competitiveness. Yet this argument is not necessarily convincing when working hours and purchasing power are considered.

The left part of the accompanying figure shows that the annual wage level of production workers in Japanese manufacturing industry in 1990, calculated in yen exchange terms, was still below that of their German counterparts but was almost on a par with the level of their American counterparts. Calculated in terms of purchasing power parity, however, the Japanese wage level was only three-quarters of the American level. If per-hour wages are compared taking account of the difference in working hours, as shown in the right part of the figure, the Japanese level is below the American level even in yen exchange terms, and is less than two-thirds of the American and West German levels in terms of purchasing power parity.

In a nutshell, Japanese workers now earn annual wages almost equal with their American counterparts', but get less