



Current developments in industrial relations

Recession and change in labour practices in Japan

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The Japanese economy is currently in serious recession and has been for almost three years. Moreover, this recession is one of the deepest of the post-world war era.

The huge bubble which swelled towards the end of the 1980s, has now burst, with very serious consequences for Japanese corporations. Banks are suffering bad debts on a large scale as a result of aggressive lending against collateral based on inflated land values, and many companies are suffering massive deficits because they invested too much using funds raised cheaply through equity financing. Because of the burden of bad debts, bank loans have been squeezed. Threatened by their deficits, many companies have lost the incentive to invest. Having overspent under the illusion of the so-called wealth effect, consumers are also now cutting back on their spending.

The squeeze on money supply, investment and consumption has served to dampen economic activity. In 1992, the Japanese economy grew by only 1.5 per cent. The Government announced a plan to attain growth of 3.3 per cent in 1993, and published a large-scale economic package of 11.3 trillion yen (US\$99 billion) in April 1993. This followed on the heels of another major economic package of 10.7 trillion yen (US\$94 billion) only six months ago. However, the effects of these measures have yet to make themselves felt.

Under these circumstances, wage hikes concluded in the concerted *shunto* negotiations in spring 1993 were rather modest, averaging much less than 4 per cent, over 1 per cent point lower than the previous year. This is much less than necessary to achieve, through increased consumption, the Government's target of 3.3 per cent economic growth. Moreover, the temptation for employers to cut jobs may well make the situation even worse.

Up to early spring of 1993, employment has not been seriously reduced. The unemployment rate has remained close to 2 per cent, and the

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vacancy/applicant ratio has remained close to parity. However, there are many indications that the cost of maintaining the workforce at its current level will be increasingly difficult to sustain for many employers under prevailing conditions of prolonged stagnation. However, many employers have refrained from laying off workers, so far as possible, for fear of prospective labour shortages in the future. Because of a fall in the fertility rate, the Japanese labour force is expected to decline in a few years' time. Some research organizations claim that Japanese companies are keeping more than 1 million redundant workers on the payroll. The Ministry of Labour has allocated a budget of 60 billion yen (\$528 million) for wage subsidies to maintain their employment.

Some employers in the hard-hit electronics industry have, however, started to solicit the early retirement of middle-aged white-collar workers, many of whom are in lower managerial positions. To such white-collar workers, who have devoted their entire lives to companies in the expectation of lifetime employment, such moves come as unexpected shocks. Observers have been asking themselves if this signals the transformation of the traditional Japanese employment system. However, the fact that Japanese industries have experienced sizeable cuts in employment in almost every recession in the past suggests that employment reduction will not, on its own, significantly transform the Japanese employment system.

On the other hand, reorganization of the basic determinants of pay, particularly for white-collar workers, seems well under way. In the high-cost Japanese economy, with a high yen exchange rate, Japanese companies are less and less able to afford across-the-board pay rises through ritualized wage negotiations and automatic individual pay increases according to seniority.

Some employers have started to introduce annual fixed salary contracts for high-echelon white-collar workers. This represents a critical shift in the Japanese pay system from its traditional practice of monthly pay. To the extent that the value of the knowledge-intensive work of higher-echelon white-collar workers is not measurable merely by sheer numbers of hours, this fixed salary system is reasonable. However, the real challenge for Japanese employers is whether they can develop an alternative scheme for measuring the performance and ability of white-collar workers on which such a new pay system could be based.

In an attempt to survive in a depressed economy, many employers are eager to restructure their companies by reducing labour costs. But what they really need is qualitative reforms for greater efficiency rather than mere quantitative downsizing.