

# ACTRAV Symposium

Income Inequality, Labour Market  
Institutions and Workers Power

Geneva 10.12 – 13.12.2013

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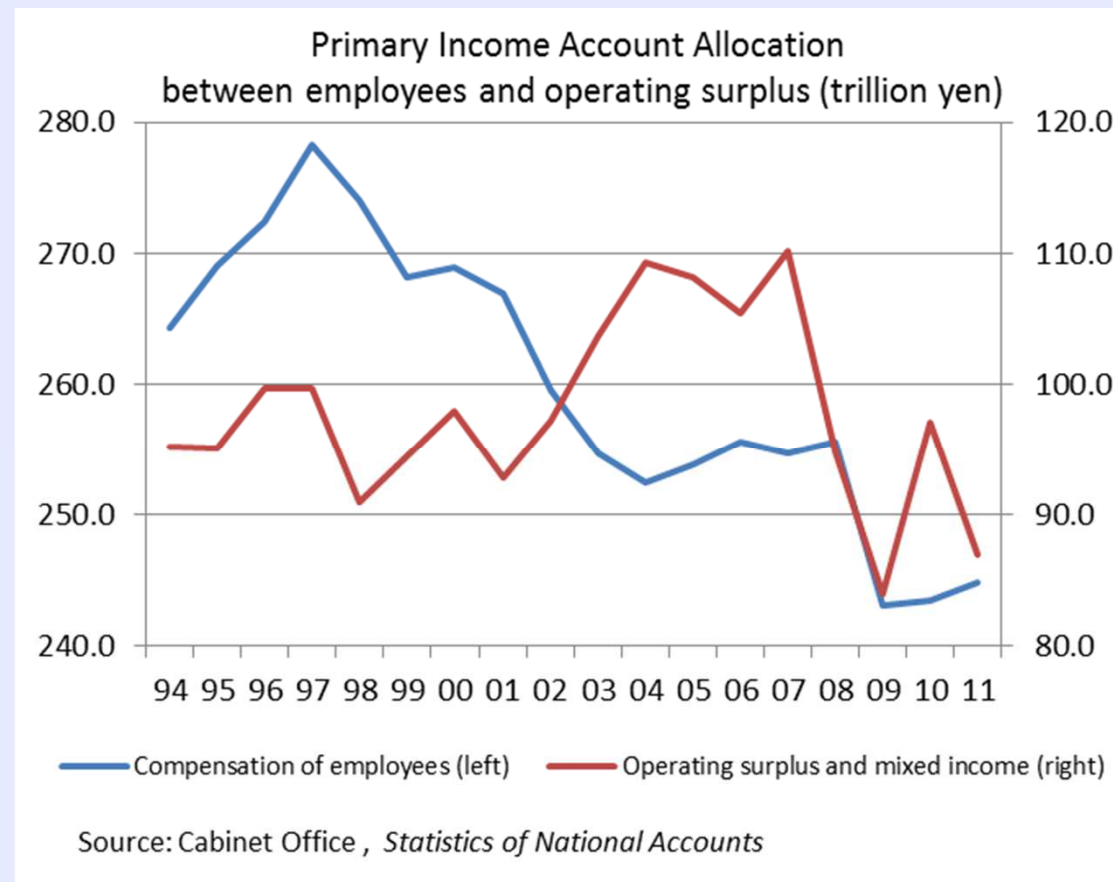
Member of the Governing Body, ILO

# ( 1 ) State of Japan's Economy and Labour

# The “Lost Two Decades” and long-lasting deflation (1)

- ◆ Employee wages stagnate while allocation to corporations balloon.

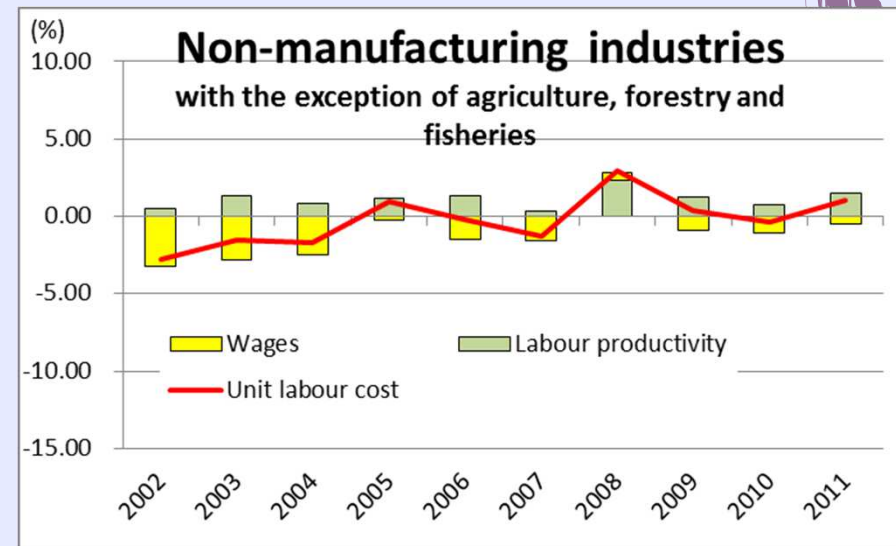
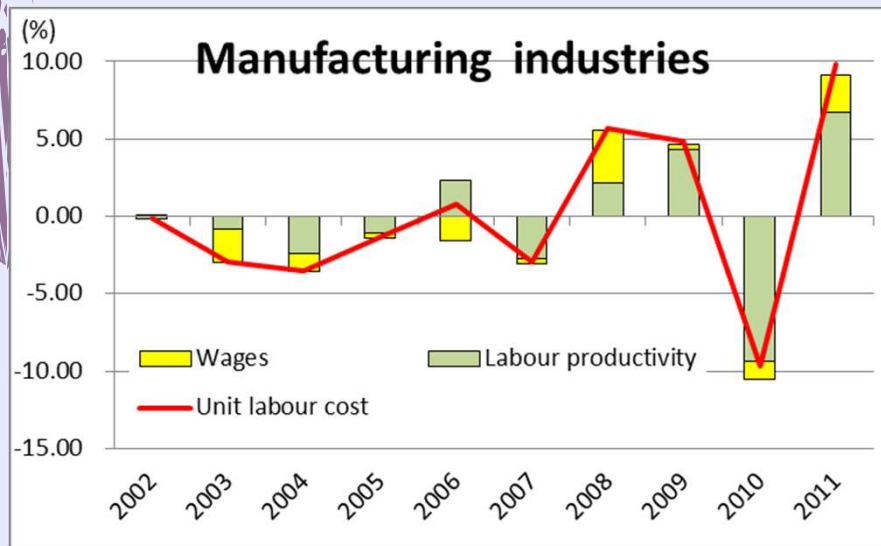
[Figure 1]



# The “Lost Two Decades” and long-lasting deflation (2)

## ◆ Factor analysis of growth in unit labor cost

[Figure 2]



Note: Unit labour cost (ULC) = Compensation of employees / GNP

Labour productivity (Lp) = GNP / Labour input (= Number of employees X Work hours)

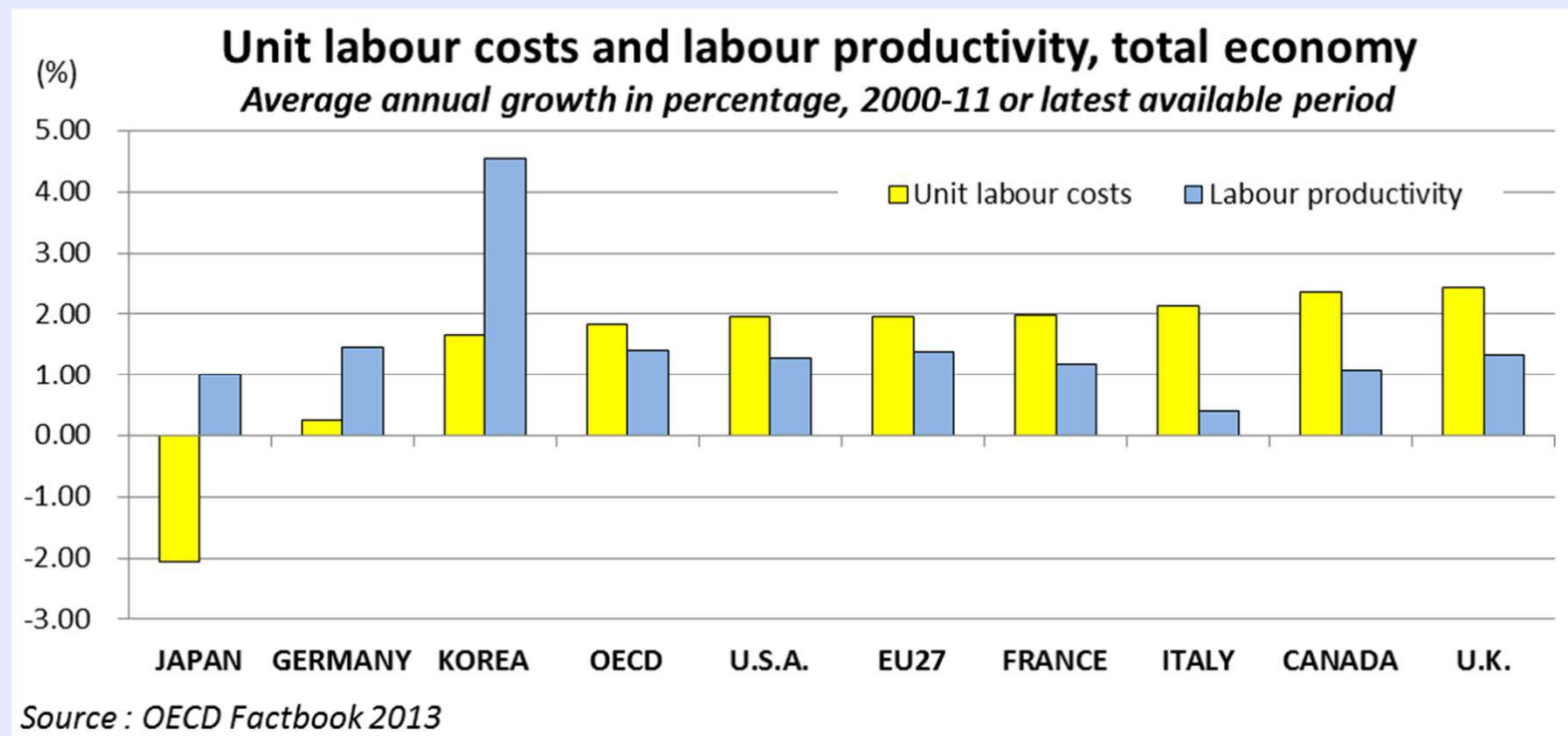
Wages (per unit of labour input) (W) When (W) is considered compensation of employees / labour input, because  $ULC = W / Lp$ , ULC can be broken down into Lp and W, factor analysis is carried out on  $(\Delta ULC/ULC) = (\Delta W/W) - (\Delta Lp/Lp)$ .

Source: Cabinet Office, *National Accounts of Japan*

# The “Lost Two Decades” and long-lasting deflation (3)

- ◆ Only Japan has reduced unit labour costs

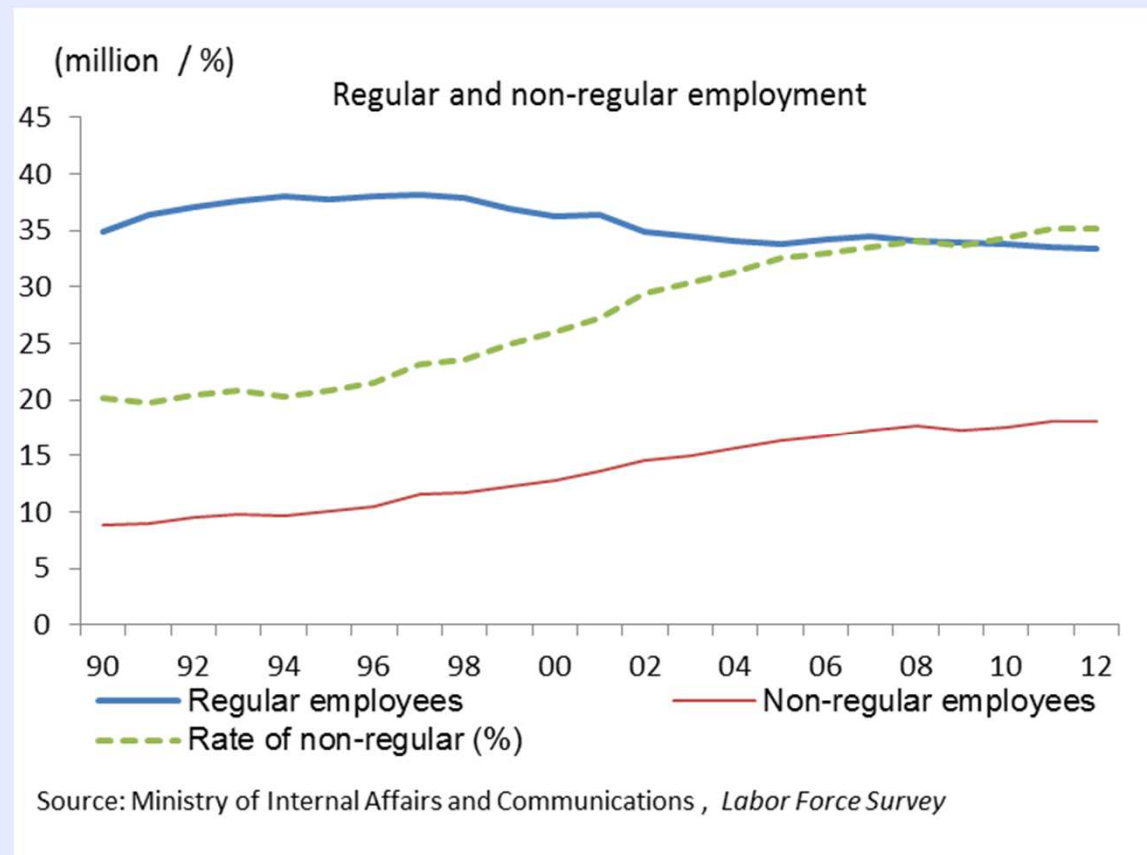
[Figure 3]



# The “Lost Two Decades” and long-lasting deflation (4)

- ◆ Non-regular employment continues to increase

[Figure 4]



# Widening inequality

- ◆ Wage level by type of employment, gender, company size, region (only Tokyo)

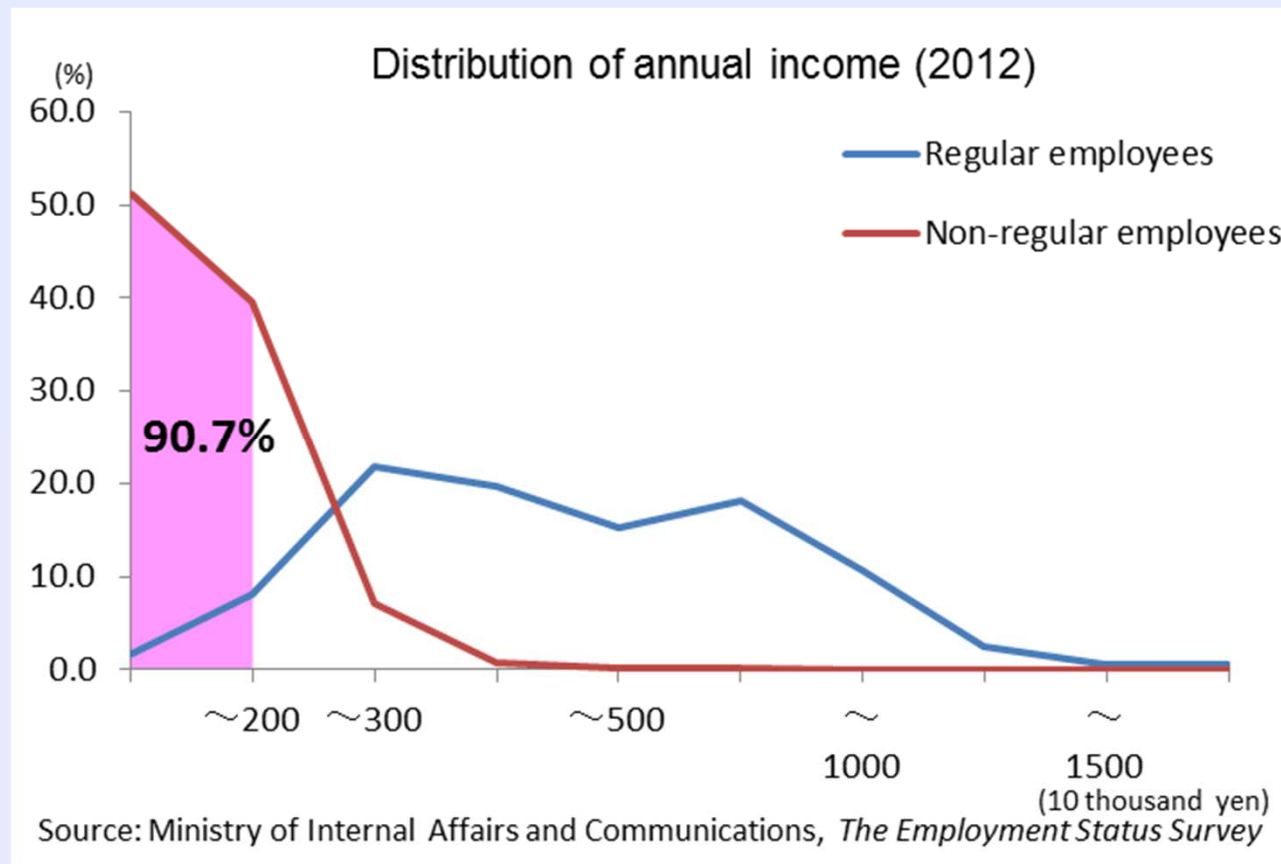
[Figure 5]



# Growing poverty (1)

- ◆ Annual income of 90.7% of non-regular employees is 2 million yen or less

[Figure 6]

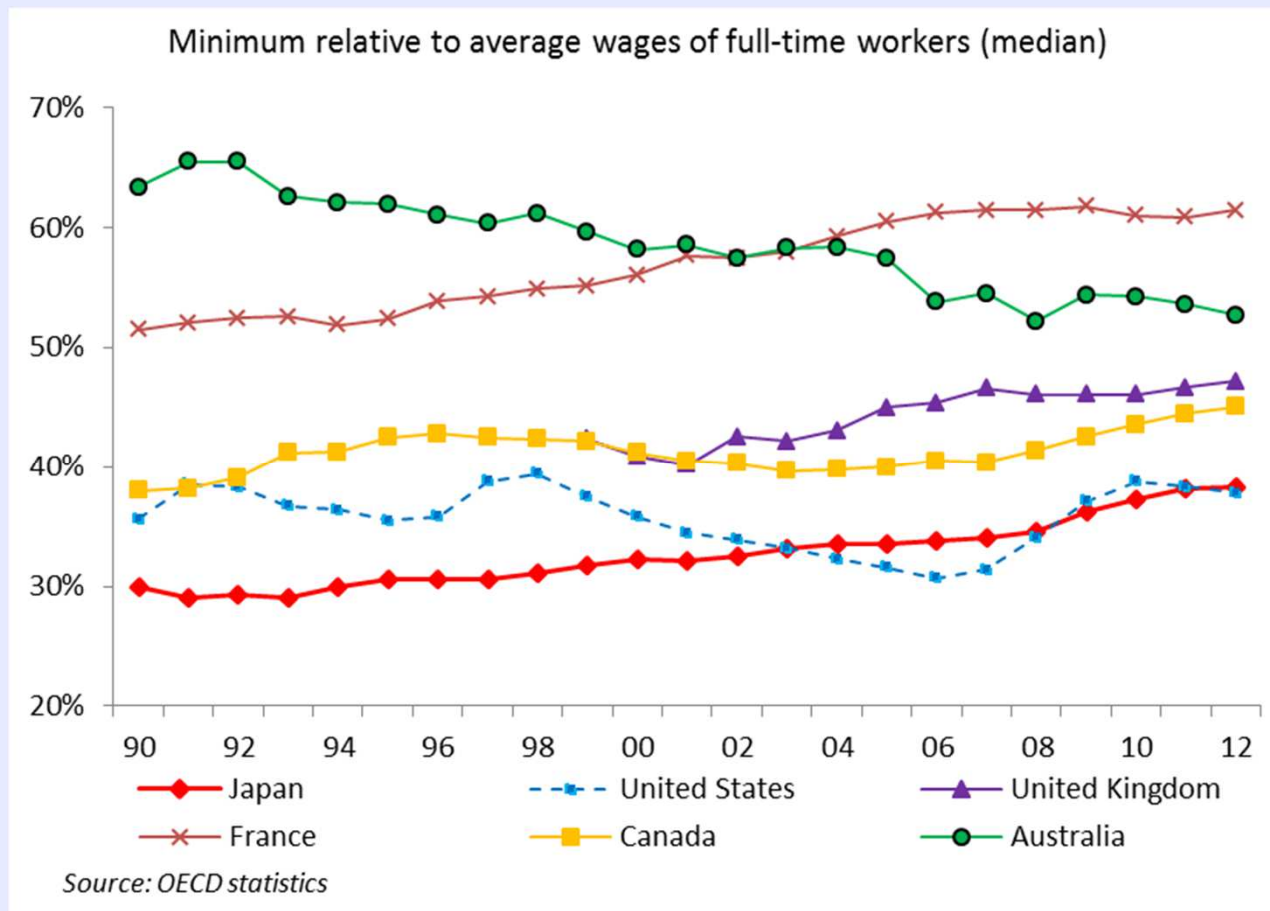




## Growing poverty (2)


- ◆ Minimum wage is lower in Japan than in other developed countries.

[Figure 7]



## JTUC-RENGO's fundamental stance

- ◆ Instead of trickle-down policies, we need bottom-up policies
  - While it is essential that we free ourselves from deflation, recovery is not sustainable without an economy supported by firm domestic demand and a stabilized society.
- ◆ Concerns about the government's stance
  1. Exceedingly strong national control
  2. Short-term economic growth > long-term economic health
  3. Priority is placed on deregulation.



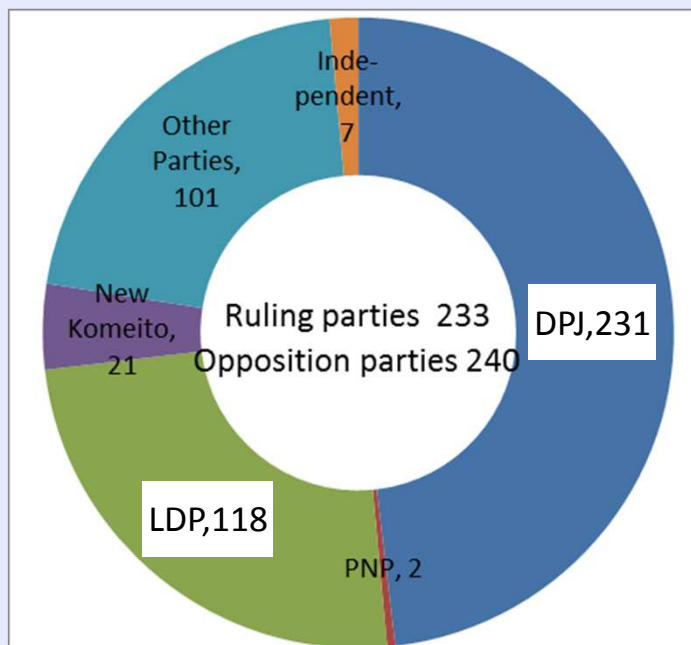
(2) Change in Administration  
and Rise of Super-majority  
Ruling Party

# Rise of super-majority ruling party (primarily LDP)

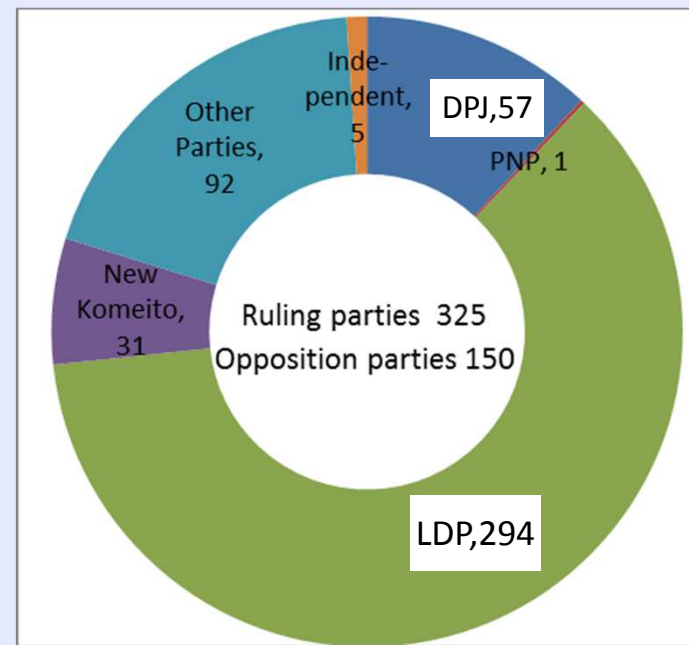
- ◆ December 2012 General Election of the Lower House

[Figure 8]

Before public notice



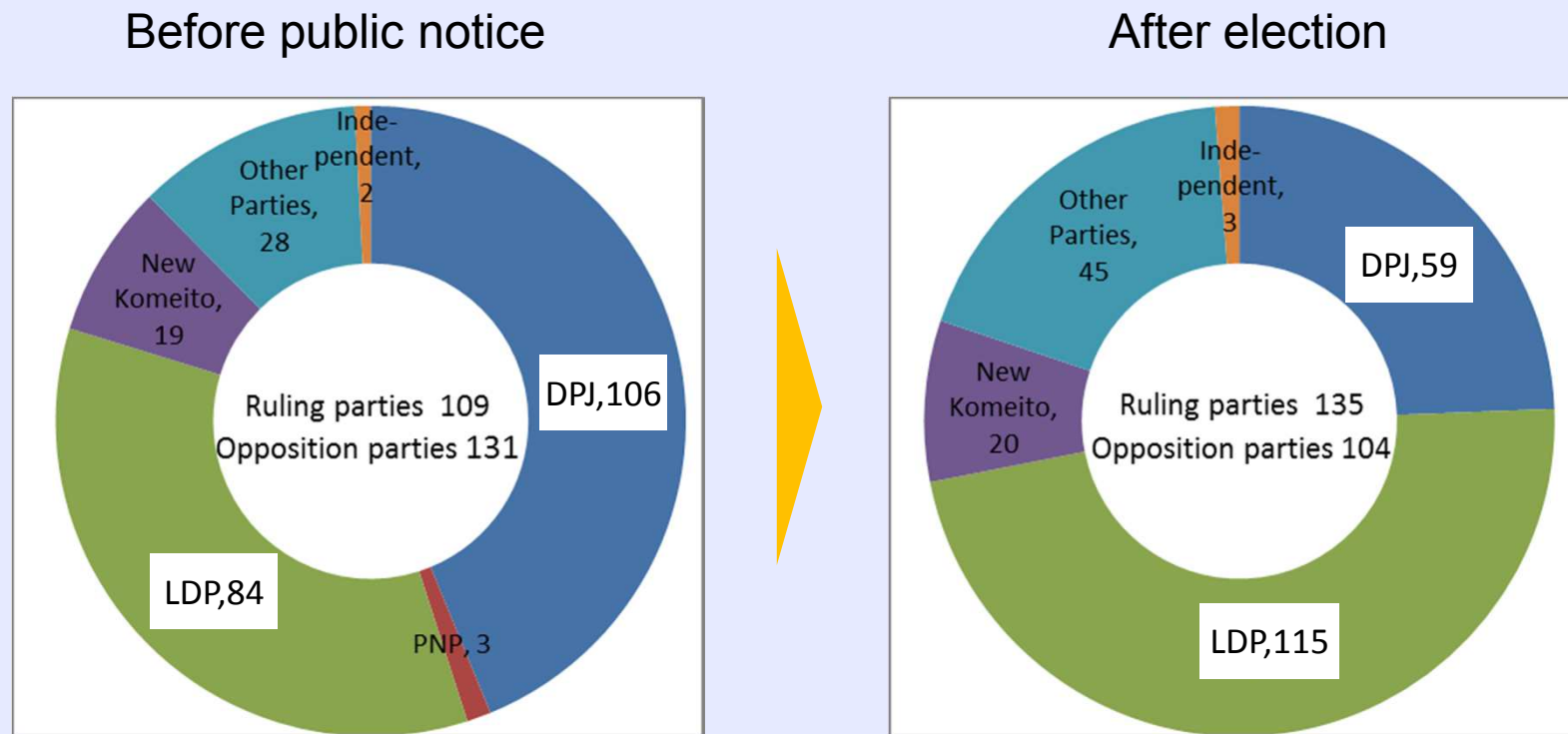
After election



# “Checks and balances” between Upper House and Lower House reduced

- ◆ July 2013 Upper House election

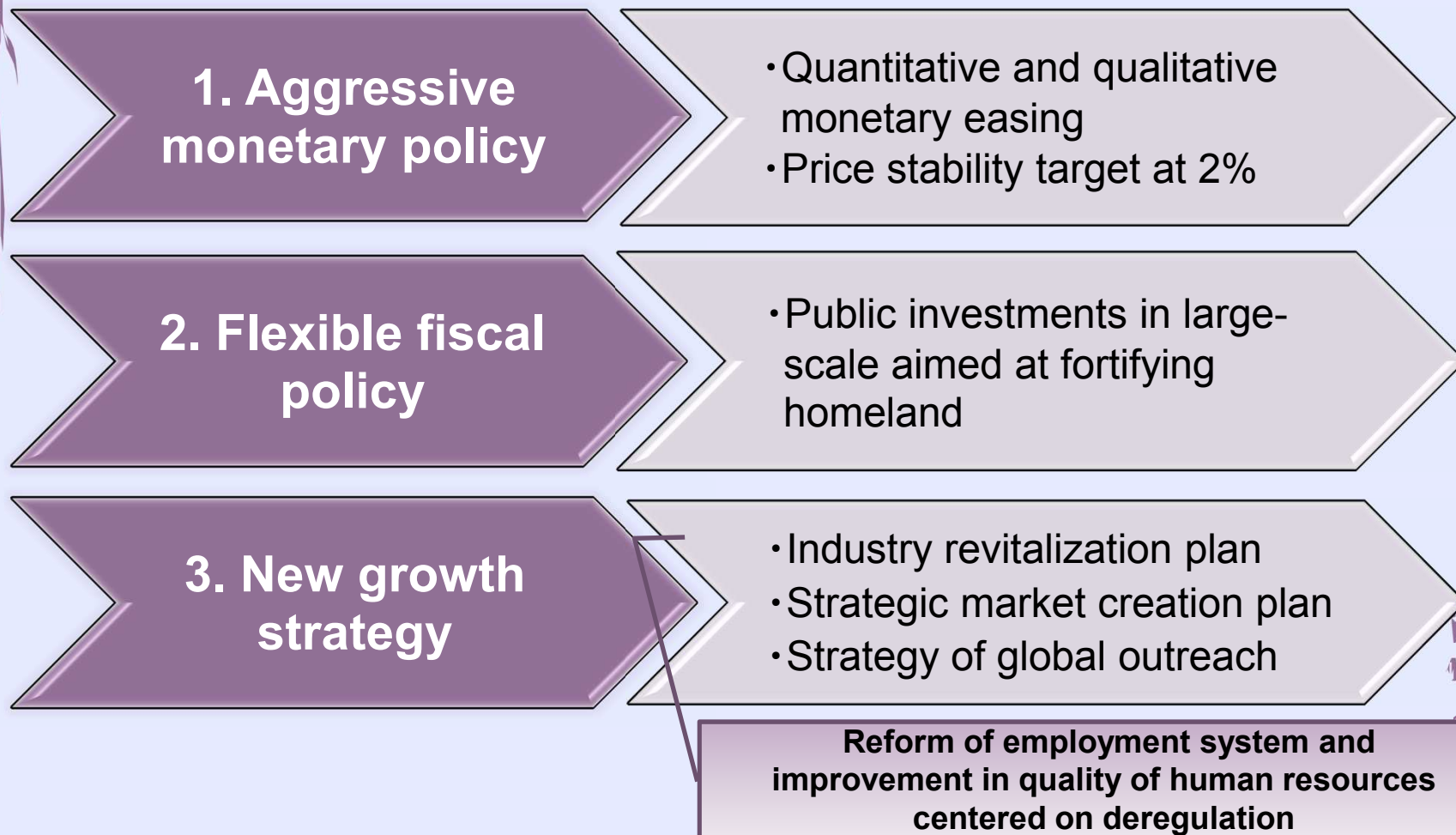
[Figure 9]



# Current administration's policy package

## ◆ So called “Abenomics”

[Figure 10]

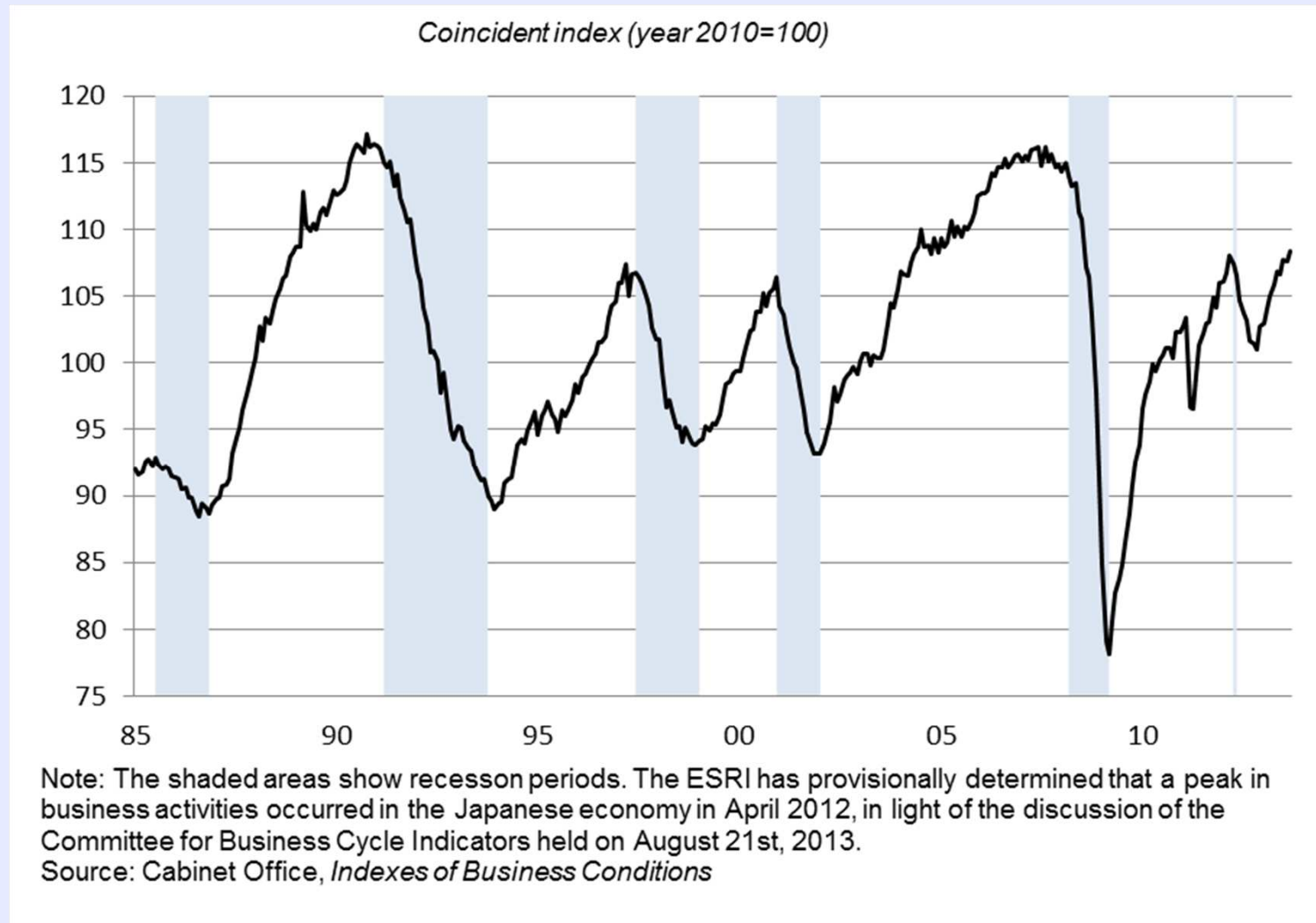


*To overcome long-term deflation*

# Recent signs of economy turning for the better

- ◆ Index of business conditions

[Figure 11]



# Economic indicators before and after change of administration

[Figure 12]

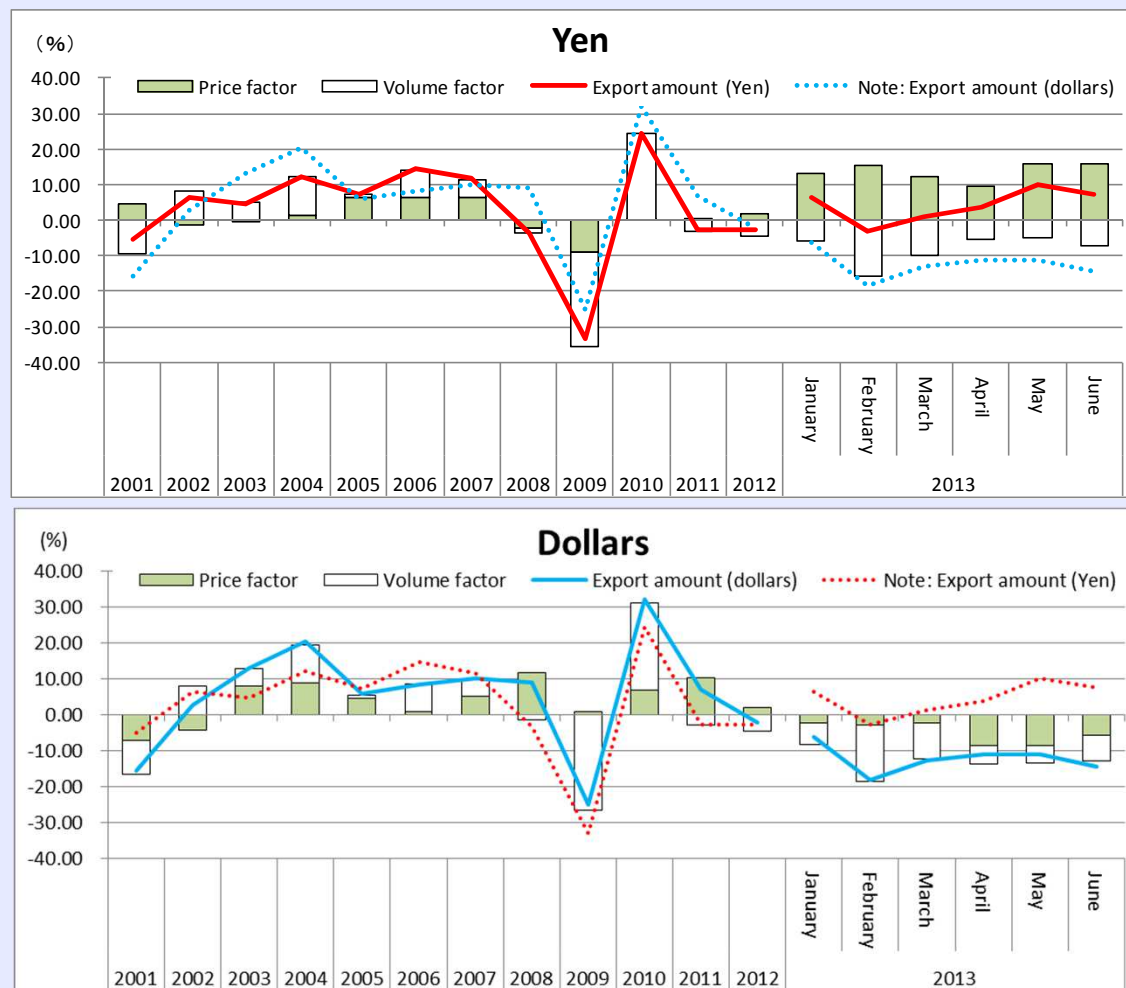
Index		Term	2012	2013	YoY
industrial production	CY2010=100	Q3	95.9	97.8	+2.0%
Export (Value)	Billion yen	September	5,357.9	5,971.9	+11.5%
Export (Volume index)	CY2010=100	September	93.4	91.7	-1.8%
Import (Value)	Billion yen	September	5,926.1	6,906.3	+16.5%
Import (Volume index)	CY2010=100	September	107.8	105.5	-2.1%
Unemployment rate	%	Q3	4.3	4.0	-3.0%point
Employment	Million persons	Q3	55.11	55.64	+1.0%
Active job openings	applicants ratio	Q3	0.81	0.95	0.16point
Total Cash Earning(Monthly)	Yen per Person	September	265,178	265,376	+0.1%
Money Base	Trillion yen	September	124.5	181.5	+45.8%
Nikkei Stock Average	Yen	End of October	8,928.3	1,4327.9	+60.5%
yen-dollar exchange rate	Yen /US Dollar	End of October	79.8	98.4	+23.3%
Consumer Price Index	CY2010=100	September	99.5	100.5	+1.0%
Family expenditures (Two-or-more-person , Workers' Households Monthly)	Yen per Household	September	299,821	315,443	+5.2%
Housing	Number <sub>(Annualized)</sub>	September	874,764	1,044,396	+19.4%
Public investment Contract	Billion yen	Q3	1820.9	2203.48	+21.0%



# Export industry in Japan is susceptible to exchange rate

## ◆ Factorization of export amounts

[Figure 13]



Note: Factor analysis was carried out according to the following equation.

Export amount = Export price (unit price) x export volume.

Source: Ministry of Finance, *Trade Statistics of Japan*; JETRO, *Japan's International Trade in Goods*

However, there are many worrisome issues . . .

- ◆ Expectations exceeding reality
  - ▶ Bi-polarization of consumption
  - ▶ Sustainability of sense of economic boom
- ◆ Increase in consumption tax next spring
  - ▶ Concern over rise in cost of living without wage increase
  - ▶ Consumers react with stampeding demand for houses, etc. before tax increase.
- ◆ Purpose of consumer tax increase
  - ▶ Allocation for strengthening rectification of disparity/poverty measures is mere 10%
    - Insufficient amount – cannot possibly reduce inequality

# Ensuring stable funds for social security system with 5 pct-points tax increase

[Figure14]

- Consumption tax rate (nation, regional) will increase to 8% from April 2014, and increase to 10% from 2015.
- The purpose of increased consumption tax revenue initially is to support three current elderly costs (basic pension, elderly healthcare, nursing). In the future it will expand to four social security costs (pension, healthcare, nursing, child-raising).
- Clarify consumption tax uses (consumption tax revenue becomes source of social security funds)
- Consumption tax revenue is returned to the entire country. It is not to expand the size of the government.

1% level

**Enrich social security**

**+2.7 tril. yen**

● Support children child-raising

0.7 tril. yen

● Enrich healthcare/nursing

~1.6 tril. yen

● Improve pension system

~slightly less than 0.6 tril. yen

- Strengthen anti-poverty and anti-inequality measures (measures for low-income earners)
  - Reduce insurance fees of low-income earners, introduce "comprehensive add-up system," etc.

~1.4 tril. yen from above (reprint)

4% level

**Stabilize social security: Protect current social security system**

**+10.8 tril. yen**

● National treasury bears 1/2 of pension

2.9 tril. yen

● Reduce pushing burden to later generations

7.0 tril. yen

● Increase payment of social security as consumption tax increases

0.8 tril. yen

# (3) Start of Tripartite Dialogue

# Government-labor-management meeting for realizing a positive cycle of the economy

- ◆ Since September 2013

- ◆ Participants

(Government) Prime minister, deputy prime minister cum finance minister, chief cabinet secretary, economic and fiscal policy minister cum economic revitalization minister, minister of health, labour and welfare, minister of economy, trade and industry, minister for reconstruction, etc.

(Management) Nippon-Keidanren, Japan Chamber of Commerce and Industry, National Federation of Small Business Associations, representatives of employers associations, key figures of industries (representing separate industries)

(Labour) Representatives of JTUC-RENGO and affiliates (industrial federations), etc.

Also several influential academic figures

# Purpose of tripartite dialogue

- ◆ Government's awareness of issue (Minister Amari)

Realizing a virtuous economic cycle is an urgent matter to free Japan from deflation.

It is to be accomplished by the following mechanism. Improving the revenue of businesses in the environment of global competition will promote quick increase of wages, expansion of employment, and then increase of subcontractor pay. These conditions will stimulate the growth of consumption and investment accompanied by prompt shift of management resources, including human resources with improved skills, to growth areas.

To establish the mechanism, this conference is to serve as an opportunity to foster mutual understanding among the three parties regarding the way to deal with these issues from each party's standpoint.

# Shared awareness through conference

- ◆ Sound macro socioeconomic policies
  - Importance of avoiding “fallacy of composition,” which falsely sees what is good for one company or industry in Japan as being good for the entire society
- ◆ Importance of improving wages
  - Growth cannot take place without wage increase in base pay, not with simply a lump-sum allowance
- ◆ Necessity of improving non-regular employment situation
  - Not simply an economic issue
  - Also a social issue – leads to instability of social security and low childbirth rate
  - Non-regular workers cannot marry due to poverty and low wages.
  - Urgent improvement needed

# ( 4 ) Tremors in Worker Protection Rules



# Proposals that degrade worker protection rules

1. Relaxation of dismissal rules
2. Creation of “limited regular employee” (new type of regular employee) system
3. Revision of Worker Dispatch Act
4. Revision of working hours rules

# Specific policy issue – labour field (1)

## ◆ Relaxation of dismissal rules

(Government's proposal)

- Promote transfer of labour from declining industries to growth industries
  - Regressing dismissal rules as established by law, making it easier to terminate workers
- Introduce “financial settlement system for dismissals”
  - Does not allow workers to return to the workplace even if they have been unjustly dismissed.

(JTUC-RENGO's stance)

- We cannot permit relaxation of dismissal rules.
- We cannot permit society to change into one where the freedom to terminate workers is accepted simply because money is paid.
- Growth industries should be created first in order to promote labour mobility.

## Specific policy issue – labour field (2)

- ◆ Creation of “limited regular employee”(new type of regular employee) system

(Government's proposal)

- Actively increase full-time employees limited to jobs, workplace, working hours, etc.
  - “Full-time employees that are easy to dismiss” under the name of improving employment rules

(JTUC-RENGO’s concern)

- Leads to downgrade of regular employees instead of upgrade of non-regular employees
- Creates new level different from previous regular employees, and entrenches disparities.
- Prevents conversion of non-regular employees to regular employees, which is what should happen.
- Actually 50% of companies have already introduced such a system. Why must this be made uniform through laws nationwide?

## Specific policy issue – labour field (3)

### ◆ Revision of Worker Dispatch Act

(Government's proposal)

(1) Abolish 26 specialized businesses. (2) Change criteria for limit of dispatch period from business to individuals. (3) Make possible dispatch without a definite term regardless of industry through contracts without a definite term with temporary agencies.

(JTUC-RENGO's stance)

- Introduce “direct employment without a definite term” instead of increasing unstable and low-paying dispatch work
- Improving treatment of dispatch workers, such as by treating them equally with other workers at the workplace, is an urgent matter.

## Specific policy issue – labour field (4)

### ◆ Revision of working hours rules

(Government's proposal)

- Expand scope of discretionary labour
- Introduce “white collar exemptions” that exclude employees with annual income above a certain level from working hour regulations

(JTUC-RENGO's stance)

- Oppose “white collar exemptions,” which encourage no pay for overtime and long working hours
- Declare the importance of revising working hours rules to prevent overwork
  - Implement “11-hour rule” – a 11-hour rest period between shifts
  - Strengthen measures to prevent overtime work

# (5) Further Concerns of Labour

# Issues concerning schemes / methods of policymaking

- ◆ Relaxing labour regulations using lawmaker-introduced bills
- ◆ Relaxing regulations for special zones in various regions and for individual corporations
  1. Deregulation on regional basis — “Bill for Act on National Strategic Special Zones”
  2. Deregulation on individual company basis — The “Special System for Corporate Field Tests” found in the “Bill for the Industrial Competitiveness Enhancement Act”
- ◆ Challenge to ILO’s tripartism

# (6) Conclusion