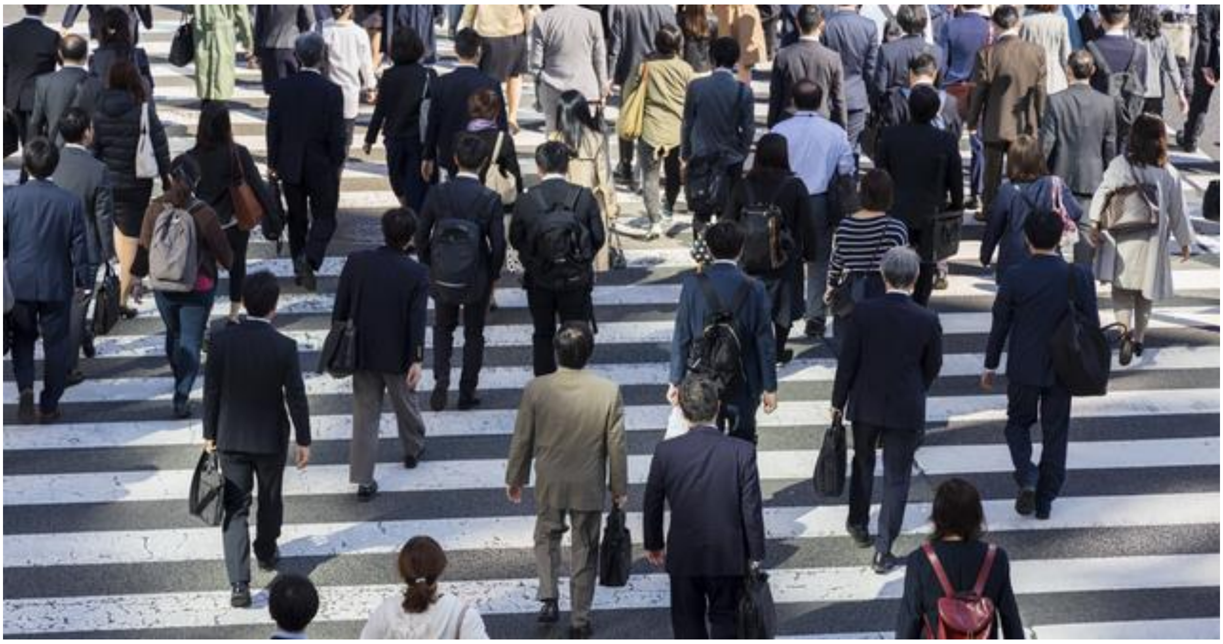
Are Japanese wages not increasing because of "the misfortunes of virtue"?



At a time when inflation was the greatest macroeconomic problem in 1970s, the mode of trade unions refraining from wage increase was truly a virtue. But this noble act became the weakness of the trade unions, and the virtue became the "misfortune of virtue."
Photo: lost corner / PIXTA

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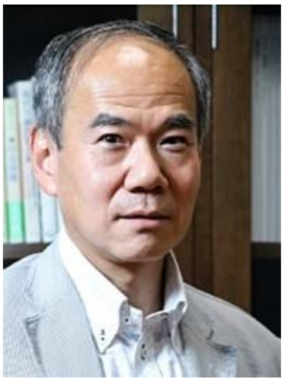

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In recent years, the question "Why are Japanese wages not rising?" has become a hot topic. Five years have already passed since a book with the very title *Hitodebusoku nanoni naze chingin ga agara nai no ka* (Why Haven't Wages Been Raised Even With a Labor Shortage?) (Genda Yuji ed., 2017) came out. The analysis from various economic perspectives developed there may seem like it makes sense, but it really doesn't sound right. In the past, during the period of high economic growth, Japanese wages rose sharply, spurred on by the "income-doubling plan." Prices also rose, but wage growth was even larger. When did that change? Let's look back at history.

The oil crisis success backfired

The first change came with the wage suppression in the spring wage negotiations of 1975 after the oil crisis. While inflation was already rising due to Tanaka Kakuei's Plan for Remodeling the Japanese Archipelago and the Nixon shock, oil prices soared in the aftermath of the Yom Kippur War (Fourth Arab–Israeli War) in 1973, and in response to this, an unprecedented wage increase rate of 32.9% came about in the previous year's 1974 spring wage negotiations. Shortly after, however, Miyata Yoshiji, chairman of the Japan Federation of Steel Workers' Unions, launched the so-called "economic consistency theory," which rejected the previous year's higher-than-usual year-on-year wage increase pattern. Other unions, such as the Japanese Confederation of Labor (JCL), joined in, and in the spring wage negotiations of 1975, the increase was only 13.1%. This is a well-known story that everyone knows in the world of labor-management cooperation theory, but its meaning is not always accurately understood.

First of all, it is important to note that this is not a labor-management cooperation theory (at the level of individual firms). It is a fact that if Japanese enterprise unions are left to their own devices, they tend to develop a loyalty to the enterprises, which in turn leads to labor-management cooperation. This is why the Japanese trade unions devised a system called the spring wage negotiations. If only your own company raises wages and product prices, then other companies in the same industry that did not do so will celebrate and snatch away market share by selling at a lower price. The idea is that in order to dispel this concern, companies in the same industry should receive wage increase demands at the same time in the spring, so that they are fulfilled all at once. The spring wage negotiations, which began in 1955, worked well for at least 20 years during the period of high economic growth. The logic that rejects it does not come from a relationship on the micro level but with the macroeconomy.

In Western countries, there already was growing criticism that trade unions were too powerful and that excessive wage increases were creating cost-push inflation. The idea is that if micro-level union behavior has a negative impact on the macroeconomy, then it must be curbed. At that time, "income policy" was a buzzword worldwide. You could say that it is a kind of pressure policy in which the government presents guidelines for wage increases in order to guide the actions of the "state within our state"[1] called trade unions, which are beyond the reach of regular macroeconomic policy tools like fiscal and monetary policy. In fact, even in Japan, following the massive wage increase in 1974, an income policy was close to being seriously considered within the government.[2] What made me pay attention was Miyata's remark. Miyata later described the process in his oral history as follows.[3]

> [...] Yes. Incomes policy was debated. So I told Mr. Fukuda [Takeo, then prime minister], "I am against an income policy." Then [Fukuda said]. "even if you say you are against it, if you raise wages under such circumstances, inflation will not stop, and there is no other way but an income policy," so [I said] , the "trade unions should just stop. More to the point, it would be better to refrain from raising wages."

This pattern of voluntarily refraining from wage increases rather than reluctantly complying with government demands because they would lead to malignant inflation due to a wage-price spiral was economically correct. Needless to say, the British trade unions, which rejected the calls of the Labor government and pursued wage increases, finally invited the Thatcher government and self-destructed, but the trade unions of other countries did not voluntarily refrain from doing so. During this period, German trade unions achieved modest wage increases of less than 10% due to coordinated government-labor-management cooperative action, and under the Social Democratic government of Brandt to Schmidt, they successfully brought about a revision of the Codetermination Act, which assigned an

[1] Kumazawa Makoto's *A State Within Our State* depicts the situation in England at that time (Nippon Hyoron Sha) and took this as its title.

[2] Furusawa Kenichi, *Fukuda Takeo and the Japanese Economy* (Kodansha, 1983) argues that Fukuda succeeded in avoiding a vicious cycle of wages and prices by using his deep connections with the trade unions in "Chapter V. Fukuda Takeo and Labor Policy."

[3] *Miyata Yoshiji Oral History*, GRIPS, 2003.

equal number of seats on companies 'supervisory boards to labor and management.

But this economically correct action (at least correct at the time) tied subsequent Japanese unions to a position of being the guardian angels that protect the macroeconomy from inflation. At a time when inflation was the greatest macroeconomic problem, this mode of behavior was truly a virtue. Some people may feel uncomfortable with the word "virtue." What is the "virtue" of trade unions refraining from raising wages? In labor-management relations, if you refrain from raising wages in relation to management, that cannot be considered a "virtue." However, this was not the case. For the sake of the entire country of Japan and its macroeconomy, workers acted beyond their own interests. It was nothing but "virtue."

However, already from this stage, management took advantage and brandished a logic of wage restraint called the productivity standard principle. It was the first act of the "misfortune of virtue" in which the noble actions of trade unions in government-labor relations turned into a weakness of those same trade unions in labor-management relations. Even in the times since the 1990s, when deflation became the biggest macroeconomic problem, Japanese trade unions have probably continued to be unconsciously bound by the successful experience of the oil crisis.

The cause of "cheap Japan" is criticism of "expensive Japan"

Recently, there has been a growing awareness of not only wages but also the problem that prices in Japan are unusually low compared to other countries. There is a book by Nakafuji Rei titled *Cheap Japan: The stagnation indicated by "price,"* (Nikkei Premier Series). However, if we go back in time, we can see that "cheap Japan" was sought and realized jointly by the business world and the labor world.

About 30 years ago, in the Japan of the Showa and Heisei eras, "expensive Japan" was a big problem (you might not believe it today), and making things cheaper was a common issue for labor and management. On July 2, 1990, Yamagishi Akira, President of the Japanese Trade Union Confederation (JTUC-Rengo), and Suzuki Eiji, President of the Japan Federation of Employers 'Associations (Nikkeiren; later merged into the Japan Business Federation [Keidanren]), jointly issued a "request for the elimination of price differences between Japan and abroad and price reductions" and called for "true affluence" to be achieved by lowering prices through the abolition and relaxation of regulations and taxes. The "Interim Report on the Joint Project on Price Issues," dated the same day, set out four pillars of the roles that the government, companies, trade unions, and consumers should play

1. Deregulation and abolition of public regulations
2. Thorough implementation of market principles and promotion of fair competition
3. Shift to an industrial structure that thoroughly emphasizes consumers and contributes to improving the quality of life of the people
4. Collaboration and cooperation between the government, companies, trade unions, and consumers

Indeed, if trade unions, whose primary purpose is to raise wages, that is, the prices of factors of production, work with companies and consumers to lower prices, it is no wonder that subsequent Japanese society followed this path.

Why did the JTUC-Rengo at that time come up with this idea? The interim report states that "trade unions should have the face of consumers as well as the face of professionals," that "trade unions should with regard to companies reflect consumers 'voices in industries and companies through labor-management consultations and other means, while aiming for management that emphasizes the interests of consumers," and finally that "trade unions themselves should raise consumer awareness and strive to arouse awareness and public opinion among consumers as needed to lower prices." The issue that "cheap Japan" may be pleasing to consumers but not necessarily to workers was never raised (despite supposedly being a key concern for the JTUC-Rengo). However, if you think about it, this may have been a manifestation of the "virtue" of workers trying to go beyond their own interests and serve the interests of consumers.

On the macroeconomic front, the Nikkeiren's "Report on the Research Project on the Problem of Price Differences between Japan and Abroad" in August 1993 depicted the following rosy picture of the future.

> "Lower prices → improvement of real income → economic growth"
>
> An increase in real income through price reductions naturally leads to an increase in the real purchasing power of the country as a whole. Considering the figures for FY1992, if prices were to be reduced by 10% in three years, real incomes would increase by about 9 trillion yen every year, which would increase employee incomes by about 4 trillion yen each year. It should also be recognized that these figures correspond to an increase of compensation of employees by about 4% in each fiscal year.
>
> As a result, the public acquires new purchasing power, which in turn leads to an increased willingness to purchase goods. Following from this, companies will be able to take proactive action such as developing new products and entering new industrial fields, and the environment will be conducive to R&D and new capital investment in view of stable future market trends. In this way, expanded private spending and capital investment will greatly stimulate economic growth.

The zero growth of the subsequent lost three decades proved that this plausible economic logic circuit was 100% a lie. Both nominal wages and real wages kept dropping and the purchasing power of the people continued to decline, with the willingness to purchase products also shrinking (in a way commensurate with the growing poverty), while corporate R&D and capital investment retreated to a level inferior not only to Europe and the United States but also to other Asian countries such as China, all clearly and considerably contributing to the dramatic decline in Japan's economic power. It beggars belief that they were able to paint such a rosy picture of the future so shamelessly. I think this may be described as the second act of the "misfortune of virtue" of the Japanese workers.

Misconceptions about productivity

Adding to this have been misconceptions about productivity. No one would directly oppose productivity improvements. However, it is not always obvious whether people talking about productivity are always using the term in the same sense. In January and February 2015, Mogi Yuzaburo, Chairman of the Japan Productivity Center (JPC), which has been using the word "productivity" in its name for more than 60 years in modern Japan, announced that labor productivity in Japan is the lowest in the G7, saying that "Japan is considered to be a hardworking country and should be productive, so this is a disappointing result." In other words, he was saying that Japanese people should work harder to be more productive.

According to the "International Comparison of Labor Productivity" published annually by the Japan Productivity Center, Japan has been at the bottom for many years. In the latest 2021 edition, Japanese labor productivity per capita was in 28th place out of 38 OECD member countries, the lowest in the group of seven. Nothing has changed over the past few decades. But is it because the workers lack "diligence"? In the first place, what and why are figures on labor productivity published by the Japan Productivity Center? To what extent does it coincide with the concept that many Japanese reflexively think of as "labor productivity" (an indicator of "diligence")?

To get an intuitive idea of this, just look at the list of countries with the highest labor productivity. No. 1: Ireland, No. 2: Luxembourg, No. 3: USA, No. 4: Switzerland, No. 5: Belgium, and so forth. To be honest, I don't feel like this is a lineup of especially hardworking countries. I lived in Belgium a quarter of a century ago and traveled to neighboring countries from time to time, but I rarely felt that they are hardworking people. Although I felt that the cost of living was high.

In fact, the website of the Japan Productivity Center clearly describes what labor productivity is. The concept of labor productivity includes physical productivity and value-added productivity, both of which have the number of workers as their denominator (hourly productivity is the number of workers × hours worked), while the numerators are the amount of production for the former and the value added for the latter. When discussing the labor productivity of a country, it is not possible to add up the production of a wide variety of goods and services, so of course we can only compare them in terms of value-added productivity. In essence, added value is what is obtained by subtracting raw material costs from sales, so if you sell high, value-added productivity will be high, and if you sell low, it will be low. This is a matter of definition. As I felt when living in Belgium and traveling to Luxembourg from time to time, these countries that were hardly diligent had fairly high wages, resulting in high prices and thus high value-added productivity. In other words, Japan had lower wages than these countries, which leads to lower prices and so lower value-added productivity.

Nevertheless, many people may feel uncomfortable with this concept of productivity. In fact, Japanese trade unions have a history of playing an important role in the productivity increase movement since the spring wage negotiations began in1955. Although various objections were raised by factions in the labor movement, the model of working diligently within a company to increase productivity and distributing the results as wages has been accepted. Productivity has meant producing as many goods as efficiently as possible in the factories. This is the physical productivity mentioned above. It is wonderful that labor and management work together in the field to increase physical productivity. Working diligently to improve productivity is deserving of the word "virtue." It would be even better if goods could be sold at a high price to convert it into value-added productivity, but this is not really the responsibility of the workers. However, for some reason, crude arguments tend to run rampant that the stagnation of value-added productivity is due to the lack of diligence of the workers.

Meanwhile, what does labor productivity mean in the service industry, which now accounts for 70% of GDP? The "things" produced in the service industry are intangible and consumed instantaneously at the place of production. Especially in the interpersonal service industry, various actions by real people are themselves "things" produced. Therefore, unlike the manufacturing industry, where products have to compete on price in the international market, they do not compete with services provided by real people in other countries. As long as the service industry requires living people, it is impossible to talk about labor productivity without considering service provider availability by location.

This is a frequently cited example, but consider how the labor productivity of barbers ought to be measured? For a long time, barbers 'services remained largely unchanged, but their prices rose along with the price and wage levels. Barbers in developing countries may offer their services at much lower prices, but their bodies are not on Japanese territory. Unless you have supernatural abilities, you can't provide hairdressing services to Japanese customers while you're somewhere else. So, if you bring them to Japan and put them to work, will they provide services at the same price as when they were in a developing country? That's not true. They have to live in Japanese homes, eat Japanese food, and reproduce labor in Japan to pay for their living. On the other hand, even in the same service industry, it is easier to outsource services abroad if a telephone line is sufficient and there is no need for living persons to be present, as with call centers.

In short, as far as the service industry provided by living persons is concerned, there is little point in discussing raw physical productivity (without monetary value) other than value-added productivity, which is determined by selling price. However, the debate on productivity in recent years has identified especially the low productivity of the Japanese service industry as a scapegoat, and there is a tendency to call for further improvement of productivity in the service industry. However, since the concept of physical productivity such as in the manufacturing industry is impossible in the first place, the concept of productivity, including the service industry, is determined by value-added productivity, meaning at what prices the services were sold, so the low productivity of the service industry in Japan is because of the low prices of services and labor themselves. The harder you work, as if it were in the manufacturing industry, the lower your productivity will become. Some even argue that the high labor costs of Japanese workers are the cause of low productivity in the service industry. Should we perhaps say that the "misfortune of virtue" has reached an extreme here?

So, what to do?

However, it is difficult to simply answer that raising wages requires raising the prices of goods and services. This is because no consumers who purchase a company's products and services are present in the actual wage decisions. Even if workers = consumers on a macro level, workers ≠ consumers on a micro level, so the objection that "if wages are raised that much, the price will increase and consumers will not buy it, causing them to flow to other companies' products and services" is an unequivocal fact and an ideal argument that cannot be overcome. The only way to do this is for the industry to raise prices all at once so that consumers do not flow to other companies' products and services. However, that would be a cartel prohibited by the Antimonopoly Act and so not allowed.

Right, we're in a pickle now. Is there a way to solve this? Actually, there is. Although it is hardly noticed in Japan where trade unions are almost exclusively enterprise trade unions, trade unions go back to workers in the same industry and occupation deciding prices and wage rates of labor beyond any individual company and not letting them sell things at a discount. In that sense, a trade union is a cartel of workers. As such, in the United States from the 19th century to the early 20th century, the Sherman Antitrust Act targeted all trade unions and effectively outlawed collective bargaining. In order to overturn this, the American Federation of Labor touted the slogan "Labor is not a commodity" (Hamaguchi Keiichiro and Ebihara Tsuguo, "Hatarakikata Kaikaku no Sekaishi" [the World History of Work Style Reform], Chikuma Shinsho).

Workers 'solidarity wouldn't be targeted today. Trade unions can do things legally that would be illegal for businesses to do. This is actually done by industry trade unions, which are common in developed countries other than Japan, and collective bargaining by industry. They establish a minimum labor price for workers working in an industry beyond individual companies as well as prohibit wages lower than that. This makes it impossible for companies that cannot afford their wages to sell goods and services at low prices, and encourages consumers to accept the purchase of goods and services at reasonably high prices. It can only be done because trade unions are legitimate cartels.

However, where there is no forum for industry-specific negotiations, things do not suddenly move with arguments to that effect being raised. Thinking about what can be done with the weapons we have at hand, we could possibly create a virtual industry-specific wage negotiation forum by combining the government's demands for wage increases with a minimum wage by industry system. Speaking of minimum wages, attention is focused almost exclusively on regional minimum wages for part-time and temporary workers, but industry-specific minimum wages (currently the specified minimum wages), which set the minimum wages for ordinary workers in each industry, is closely linked to the original activities of trade unions. Although increases in regional minimum wages unfortunately have grabbed all the attention in recent years, decisions regarding minimum wages by industry by three-party regional minimum wage councils is the way that negotiations about industry-specific minimum wages can exist in Japan today, and that is also the only forum where the necessary cartel functions can be exercised.

However, for a long time, management has been extremely reluctant to adopt minimum wages by industry. It will be difficult to proceed simply by making casual demands. That's why we should tie it to the government's demands for wage increases. As long as only individual companies are asked to increase their wages, those companies won't readily listen, regardless of whether the demands come from the government or a trade union. This is because even if the tax system compensates for wage increases, it will not help companies that have increased wages and lose sales. Isn't it necessary now to have the wisdom to change the playing field from individual companies to industries as a whole, and to successfully organize wage cartels impossible for business in a respectable manner with minimum wages by industry?

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