

***THE JAPANESE LABOR MOVEMENT AND  
INSTITUTIONAL REFORM***

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What has the role of the labor movement been in the process of institutional change in Japan and what role is it likely to play in the current process of institutional reform? Given the deeply ingrained image of the Japanese labor movement as “cooperative” unions subservient to management, perhaps this is not a question that comes readily to mind when thinking about the process of institutional change in contemporary Japan. However, the fact remains that despite a dwindling rate of union density, in terms of sheer membership numbers Japanese unions remain the country’s largest organized mass interest group and, thanks to the practice of automatic dues check off, unions remain a major source of funding for political parties as well as a source of candidates. Furthermore, if we extend our gaze overseas, there are numerous precedents for unions acting as a major force in shaping the process of institutional change in both the political and economic arenas, in particular where marketizing institutional reforms of the sort that are being pursued in Japan today are involved. In this sense, the engagement of unions certainly has the potential to become an important factor in the process of institutional reform.

In light of these concerns, this chapter explores the changing nature of the labor movement’s general stance toward the process of institutional change in Japan. In doing so, it builds upon and attempts to extend Ono and Moriguchi’s game theory-grounded analysis of the institutional dynamics of the so-called Japanese employment system in this volume. It does this by interpreting the so-called Japanese employment system as the axis of a “social contract” whose terms and implementation provide the key to understanding the attitudes and behavior on the part of the Japanese labor movement toward the institutions of the Japanese political economy and its stance and its role in the process of institutional change.

Building on prior work in the field of Japanese political economy—most notably that of Gordon (1993, 1998), Garon and Mochizuki (1993), Kume (1998), McNamara (1996), Schwartz (1998), Shinoda 1997, and Watanabe (1990)—the body of the chapter begins with an overview of the relationship between the labor movement and institutional change prior to the emergence of the centralized “social contract.” Section II follows by discussing the social contract that has governed the political economic terms of engagement on the part of the mainstream Japanese labor movement until recently and the way in which it has defined labor’s stance and role toward institutional reform from the late 1970s onward. Section III provides an analysis of the public stances adopted by Rengo (the Japan Trade Union Confederation), the organization that has been the dominant national center for the Japanese labor movement since its formation in 1989. It advances the argument that recent changes in labor’s stance toward institutional reform in the political economic arena are being spurred by the perception that the other parties have abandoned the social contract. Finally, the chapter ends with a number of concluding comments on the contingencies under which unions’ preferences are likely to matter in the process of reform.

## The Labor Movement and Institutional Change, 1945-1975

There is a certain systematic relationship between the development of labor movements and institutional change. While there are arguably exceptions, historically labor movements have originated as would be agents of institutional change. They arise because the leadership of the new movement interprets existing institutions to be contrary to the interests of the workers who constitute the actual or would be rank and file of the movement and the movement itself expands by harnessing the sense of alienation that workers possess vis-à-vis the institutional status quo. (A notable exception would be corporatist “movements” created in top-down fashion by authoritarian or totalitarian regimes.) Just how severe and widespread this alienation is depends on the specific social and historical circumstances as does the means espoused by labor movement leaders to overcome this alienation, with the strategies ranging from moderate incremental reformism to wholesale political, economic, and social revolution. (Lipset, 1983) Whether or not institutional change unfolds in accordance with the program of one or another wing of the movement, societies are forced in engage in institutional innovation of some kind in

order to adjust to the reality of politically and/or economically organized workers. Over time, there has often been an interactive interplay between institutional change and attitudinal and behavioral changes in the labor movement. As the institutional changes are implemented that respond to labor movement demands and work to reduce the level of worker alienation, labor movements typically begin to accept the general parameters of the political economic status quo while abandoning goals of revolutionary sociopolitical transformation in favor of incremental, non-systemic change through institutionalized channels. The precise modality through which this adaptation unfolds, in turn, profoundly affects the institutional arrangements that characterize a modern industrial economy.

The historical trajectory of the Japanese labor movement exhibited a pattern that paralleled that of many European movements in the way that it began as a movement with a strong orientation toward institutional change—albeit with a high degree of ideological division internally—with wings ranging from ultranationalists on the right to communists on the left. The strength of the labor movement’s pressure on behalf of highly transformative institutional renovation in both politics and economics was at its zenith during the years between 1945 and 1960 as the labor movement—or more accurately the dominant communist and then left socialist wings of the movement—positioned itself as the core of a broad antiestablishment movement aimed at a wholesale alteration of Japan’s domestic political economic institutions (i.e., varying shades of vaguely defined “socialism”) and of the political and diplomatic apparatus that sustained the status quo (i.e., conservative governance and Japan’s Cold War alliance with the United States). Over the ensuing years, however, this radicalism abated as institutional innovation accommodated labor’s interests within the context of Japan’s democratic polity and capitalist economy. By the early 1980s, analysts were pointing to a “neocorporatist” incorporation of the Japanese labor movement. Where earlier it had been directed its energies toward a major alteration of the status quo of the Japanese industrial relations system—a “countervailing force” (*gegenmacht*) to use the German terminology—the labor movement was now acting as a “force of order” (*ordnungsfaktor*) defending the established institutional apparatus of the now well-entrenched institutionalized order surrounding the Japanese employment system.

There is a considerable literature that details how this occurred. Although conceptualizations and details vary, the essence of the process described in the literature can be captured, as Garon and Mochizuki (1993) have done, through the lens of the social contract model. A *contract* defines the basic

parameters of the relationship between the contracting parties by stipulating expected and prohibited behavior. These parameters, in turn, are intended as a means by which to realize a mutually beneficial exchange of some kind and the foreseen benefits provide the basis for each party's willingness to abide by the contract's stipulations. A simple example that illustrates these attributes is a contract in which a seller agrees to deliver to a buyer a given amount of a specified product by a certain date in exchange for an amount of money to be transferred by the buyer to the seller upon delivery. Such examples are, of course, basic to the functioning of a market and are quite familiar. *Social contracts* are more complicated and more difficult to grasp for several reasons. One reason is that social contracts are abstract constructs developed by analysts. While the codification of a social contract can occur, the parties involved are not necessarily conscious of the existence of the contract even though it might pattern their behavior and infuse the way they think about and discuss the relationship involved. A second reason is that the "parties" are, more often than not, multiple large organizations that are characterized by a complex internal dynamic of their own. Fixing "responsibility" for the fulfillment of a social contract's terms can therefore be a challenging intellectual and practical task. Third, the benefits that are "exchanged" in a social contract are far broader and more abstract (social order, sustained economic growth, etc.) than in a typical market contract, making social contracts that much more amorphous. Fourth, they are implemented through complex social institutions, thereby raising the complexity of social contracts yet another notch. Finally, and this is perhaps more a product of engrained intellectual habit than of social contracts *per se*, social contracts typically link behaviors and involve an exchange of benefits that span across what are habitually conceived of as the independent arenas of the "civil society," "market," and "state," thus making them less readily capturable through conventional disciplinary and subdisciplinary tools. Such analytical border crossing is particularly well entrenched in social contracts involving labor movement organizations because unions and their affiliated organizations are by nature simultaneously market players and political entities.

The "parties" to what we shall term the Japanese employment social contract are: 1) the core segment of the Japanese labor movement rooted in regular employees in the large corporate sector and whose interests are articulated by the leadership of the currently hegemonic national labor center, Rengo, 2) the segment of the business community whose interests have traditionally been represented in Nikkeiren (which very recently merged with the industry peak association Keidanren), and 3) the

politicians and state bureaucrats in the mainstream of Japan's conservative-dominated political establishment who are most actively involved in the labor policy decisions and their implementation. With respect to the scope of its coverage, the contract establishes behavioral parameters in intrafirm industrial relations practices, state labor policymaking, macroeconomic policy, and social movement mobilization. The primary interests served by the social contract can be described as follows. For the labor movement, it is the way in which the social contract addresses its concerns in the areas of maintaining employment security, sustaining and raising worker income levels and in assuring socioeconomic equity among and for workers. For management, it is the flexible and cost-effective allocation of labor and a stable macroeconomic business environment. And for state bureaucrats and the politicians, it is social and political stability.

Historically, Japan's employment social contract arises from a process of long-term evolution that dates back to the mid-1950s. At this time executives in Japan's large manufacturing firms were confronted with the need to revamp their industrial relations systems in order to accommodate new industrial technologies and production administration methods that they were importing from the US and other advanced industrialized countries. This need, furthermore, was occurring in a context where labor unions had become firmly implanted in the Japanese political economy thanks to Occupation period labor reforms. It was necessary under the circumstances to engineer the consent of the workforce vis-a-vis these changes and to do so through unions. (Gordon, 1993, 1998) A boilerplate of a mechanism for working through this generic problem was put forward by a tripartite organization, the Japan Productivity Center (Nihon Seisansei Honbu), that was established in 1955 and modeled after similar institutions established in Western Europe during the late 1940s and early 1950s. The Center's was a twofold prescription. On the one hand, it put forward what it called "the three principles of productivity," the essence of which can be paraphrased as follows: 1) industrial innovations that increased labor productivity are in the long run in the economic interest of both workers and economy and society more generally; 2) in the process of implementing labor productivity-increasing innovations worker dismissals should be avoided as much as possible through the use of ameliorative measures like job transfers that preserve the employment of affected workers; and 3) that workers are entitled to a "share" of the increased returns made possible by productivity-enhancing innovations. The second aspect of the Productivity Center's prescription was the use of labor-management consultation committees (*keiei kyogikai*) as organs for inputting union concerns

into the process of industrial innovation and for gaining labor union acquiescence or, better yet, active cooperation. (Nihon Seisensei Honbu 1985, Tsutsui 1998) In essence, what the JPC championed was a “social contract” in which employment security and a limited voice in the process of industrial innovation were exchanged for labor union cooperation in industrial upgrading.

The fact that the organizational unit for implementing industrial innovation was the firm and that the firm-level enterprise union had emerged as the dominant organizational form for Japanese unions meant that the firm was the logical site for the conclusion of such “productivity bargains.” In line with this, labor-management consultation committees and industrial relations practices reflecting the JPC’s productivity principles spread rapidly in steel, petrochemicals, and other industries where technological innovation was unfolding on a large scale. More often than not, the unions in these firms proved willing to enter into such bargains since they were viewed by the more moderate elements therein as a reasonable mechanism by which to assure employment for the members of the union and to expand the size of the net corporate revenue “pie” from which wage increase slices would be cut. Nevertheless, in a significant number of instances existing unions resisted and following defeat in a major labor-management confrontation were replaced by more cooperative “second unions” willing to accept the terms of a productivity bargain being put forward by management. Though rarely codified, firm-level “social contracts” of this type became a prevailing practice in Japan’s leading industries by the mid-1960s and provided a set of norms that provided a microeconomic foundation for the long-term viability for lifetime employment, seniority wages and other elements of the Japanese employment system in this class of firms.

While firm-level productivity bargains of this sort promised sizable gains to unions in those sectors where massive, labor productivity-enhancing investments were under way, they were by nature less attractive to unions outside of these sectors. This was because, pressed to their logical conclusion they implied toleration of large gaps in wage levels between industries where significant labor productivity increases were possible and those where they were not. This cut against the grain of labor movement principles of wage equity across industries. It is within this context that we can see the significance of another critical institutional innovation in Japanese industrial relations that emerged in the mid-1950’s, the Shunto or Spring Struggle. (Takanashi 2002, Sako1997) Shunto refers to the annual rounds of coordinated company-level bargaining campaigns around which collective bargaining in Japan

is built. Under the Shunto system unions in an industry establish identical wage demands, coordinate strikes and other dispute actions tactics, and bargain simultaneously with their respective managements. There were two basic purposes behind these “scheduled struggles.” One was to increase the bargaining power of labor by consolidating the strength of individual enterprise unions and incorporating their actions into a common campaign. The other was to induce a wage-leveling effect by coordinating bargaining across industries. Industries where the highest wage gains were anticipated were designated to be the “top batters” in the hope that large wage gains won early in these industries would lift up level of wage increases won in subsequent bargaining. Shunto thus embodied a quest for social equity via its intended wage leveling effect. In the event, Shunto proved to be a great success. This was indicated by the ever-expanding roster of Shunto participants. Assisted by the rapid economic growth and a tightened labor market of Japan’s “economic miracle,” by the end of its first dozen years Shunto as a semi-formalized institution spread well beyond the Sohyo-affiliated unions in large, private sector manufacturing firms to encompass public sector workers (whose wage increases were officially tied to the results of private sector Shunto wage hikes beginning in 1964), the unions of its more moderate rival Domei and even to workers in the largely unorganized small and medium-sized enterprise sector. As a consequence of Shunto, despite a *labor* market truncated by lifetime employment practices and a decentralized collective bargaining system in which formal wage negotiations are conducted independently by enterprise unions and their respective firms, a highly integrated *wage* market emerged that effectively tied wages in lagging sectors to the wage gains attained in the most advanced high productivity sectors. The leveling effect that is apparent in the shrinking variance indexes of annual Shunto settlements. (See Takanashi 2002; 5, 75-79.) In this way, Shunto provided a sociopolitical corrective to the inegalitarian tendencies that were built into the firm-level productivity bargains. The simultaneous spread of firm-level productivity bargains and Shunto wage bargaining practices—the former a consensually-arrived at social contract at the firm level and the latter constituting regularized and ritualized labor-management conflict at the macro-level—established an institutionalized framework in which class conflict was channeled and defused in a way that was consistent with the economic growth policies being pursued by the Japanese state. The sociopolitical utility of this stabilization of class conflict was acknowledged by the ruling conservatives. Where the LDP leadership tended earlier to take a stand hostile to Shunto, by the mid-1960s its attitude turned favorable. The “labor-management harmony”



found in the Japanese employment system, in particular, was singled out as uniquely superior products of the Japanese social milieu. When we look at the development of this process from the standpoint of the labor movement's relationship toward institutional change in the Japanese political economy, what we see is a process of institutional innovation focused on intrafirm industrial relations institutions and collective bargaining institutions that served to win labor movement acceptance of post-World War II Japanese capitalism.

### The Neo-Corporatist Social Contract and Institutional Change, 1975-1990

While this initial firm-level implementation of the productivity bargain, together with Shunto, allowed Japanese firms in leading industrial sectors to effectively implement the massive capital investment programs that they had mapped out, set in motion a growth-stimulating ripple effect across the economy, brought stability to Japanese industrial relations generally, and contributed to enhanced macroeconomic growth, political stability and social order, there was a latent macroeconomic problem built into the system that grew increasingly apparent over the course of the 1960s. In particular, the problematic character of the expanding Shunto system, with its encouragement of a leveling up of all wages relative to those being won in the most productive industries, began to be felt in the early 1970's as signs of wage push inflation began to be seen. The contradictions inherent in the system came to a head as both labor and management were forced to come to terms with the additional adverse consequences of the First Oil Crisis.

What emerged from the explosive wage hikes and inflation of 1974-75 was an alteration in the principles governing Shunto that in effect established a de facto incomes policy through the application of the productivity principles on a national scale. (Kume 1988) Specifically, rather than tying wage hikes to the rate of productivity increases in industries where productivity gains were the greatest, Shunto wage bargaining was now to be implicitly tied to the rate of labor productivity in the national economy as a whole. In exchange for moderation in wage demands business through the protection of regular employee jobs, agreed to in effect sustain lifetime employment and other attributes of the Japanese employment system. In addition, in exchange for the moderation of union wage demands, the government agreed to

implement a number of programs designed to sustain the employment of unionized employees under conditions where adverse economic conditions were pushing to the point where informal mechanisms of adjustment were no longer enough for employers to retain workers. A number of special measures, which are described in Ono and Moriguchi's chapter, were adopted which were adopted to protect workers from loss of employment in industries undergoing structural decline. The state, in short, was given the added function of using specific labor policy measures to sustain the Japanese employment system.

These Oil Crisis-induced adjustments were accompanied by an alteration of the programmatic agenda of the unions, the stage for which was set during the 1960s by a shift in the balance of power inside the labor movement away from more radical unionists based in the public sector to more moderate, productivity-oriented unionists in the private sector. Still, prior to the mid-1970s, the more radical, left socialist wing under the national center Sohyo remained a formidable force within the labor movement while the moderate elements associated with Sohyo's rival, Domei, were nominally committed to a social democratic line that implied substantial alterations in the political economic institutions that had been established under the ruling conservatives. It was not until the early 1980's that one can meaningfully speak of a coming to terms on the part of the labor movement with the existing institutions of the Japanese political economy. (See Carlile 1994; Shinoda 1997; Kume 1998) The two key indicators of the Japanese labor movement's "corporatization" were the de facto declarations of support by moderate labor leaders for a neo-liberal institutional reform agenda promoted by Prime Minister Yasuhiro Nakasone in the early 1980's and the rise to hegemony in the labor movement by these moderate elements by the mid-1980's. The acceptance of the neoliberal reform agenda was preceded, in the wake of the Oil Crisis in the mid-1970's, by the adoption of a new approach to wage demands on the part of unions who were concerned about what they perceived to be the wage-push inflationary approach to Shunto as it had been pursued up to that point. Under conditions where inflation fears made it inadvisable to continue to demand large wage hikes, these unions came to embrace a strategy in which they pressed for tax cuts on the reasoning that doing so would raise the net income of workers without putting pressure on corporate balance sheets. The core concept of this new approach to the pursuit of worker welfare was that of the "welfare society" (as opposed to a welfare state) wherein an employee's welfare was to be attained as much as possible from social institutions like the employment system with as little reliance as possible on the state. This gradually led to their embrace of the high profile movement for administrative reform

movement promoted by Rincho (the Second Extraordinary Commission on Administrative Reform) in the early 1980s that pursued a variety of mechanisms to reduce the size of government including the privatization of the state-run railways and the state-owned national telephone monopoly. Not surprisingly, this put the moderate unionists on a collision course with the more radical public sector unions. With the help of changing government policies that forcibly reduced the power and influence of public sector unions, the moderate private sector unions who were supportive of the Rincho agenda gradually gained control of the Japanese movement. Moderate hegemony was already apparent in the early 1980s when a movement to unify the labor movement under private sector union principles began to gather steam. It was unmistakable by 1989 when the remaining public sector unions merged with the private sector unions to form the currently dominant national center, Rengo. (Carlile 2003)

There has been considerable debate in the field of Japanese labor politics over whether it is appropriate to consider the labor movement an "included" social partner in a "neo-corporatist" regimes in the sense that the term has been used to describe the situation of the labor movement in a number of West European policies. Until the mid-1980s, the prevailing assessment was that put forward by Pempel and Tsunekawa in a classic article (1979). They maintained that there was a system of neo-corporatist consultation in Japan but it was one from which the labor movement had been largely "excluded." From the mid-1980's onward, however, students of Japanese labor politics have argued that a kind of neo-corporatism that included the labor movement did indeed emerge during the latter half of the 1970's (notably, Kume 1998).

The differences between the two sides in this debate have perhaps been exaggerated as a result of a failure to appropriately contextualize and delimit the claims being made. The labor movement has, in a sense, been an "included" interest group in labor policymaking since the inclusion of union representatives on a variety of dispute settlement and advisory commissions in the labor policy field as a result the Occupation period labor reforms. Until the mid-1960s, however, the prevailing tendency was for governments of the ruling LDP to either ignore labor's viewpoint or to adopt an outright confrontational stance toward labor on major labor policy issues. The stance of LDP governments began to change somewhat following the 1964 "summit" meeting between Prime Minister Ikeda Hayato and Sohyo's Ota Kaoru in which the government promised to automatically link public sector wage increases to those obtained by the private sector during the annual rounds of Shunto wage negotiations. By the

latter half of the 1970's and during the 1980's in particular elements of a "neo-corporatist" arrangements could be seen in the way that the LDP government and the administrative bureaucracy began to include labor representatives on a wider range of governmental commissions and, more informally, to regularly consult the labor movement in a wider range of policymaking arenas. Nevertheless, even at the height of the "Japanese-style neo-corporatism" of the 1980's one would have a difficult time arguing that the labor movement's role in the policymaking process was full-fledged "social partner." At best, full social partnership in Japan was present in the labor policy arena. In other policy areas, labor's voice was never loud enough or institutionalized firmly enough to sustain the comparison. (Notably, Knoke, Pappi, Broadbent, and Tsujinaka, 1996)

The problem rested in the particular configuration of interest group-government relations that characterized LDP rule in the 1970s and 1980s. This configuration in turn molded the labor movement's stance and role in the process of institutional change. To place the issue in the framework of the social welfare society model that the mainstream of the labor movement has been promoting since the mid-1970s, one could say that the labor movement has been unable to obtain the needed relative influence in a sufficiently broad range of policy making arenas to fully realize the welfare society model. While support for the neo-liberal administrative reform movement put labor on the side of big business, agricultural policy, small business policy, and public works budgeting were all captured by groups whose interests more often than not were directly counter to the proverbial salary man that the labor movement claims to represent. (Carlile, 1998) In other areas like social welfare, fiscal policy and industrial policy, despite inroads, labor's voice has simply not been listened to sufficiently for even the more conservative elements in the mainstream labor movement to consider themselves firmly ensconced in a social partner position. It is for this reason that the labor movement has consistently supported parties like the Japan Social Democratic Party, the Democratic Socialist Party, and the Democratic party that have championed major alterations of the status quo. But this, in turn, sustained a certain distance and mistrust between the ruling conservatives and the labor movement mainstream that prevented the two sides from cementing a fully secure and fully stabilized political relationship. (Carlile 1994)

The product of this not-fully-integrated neo-corporatism was the emergence of a distinctive modality for pressing for institutional change to which the labor movement has attached the label of "policy and institutional struggle" (*seisaku seido toso*). (Shinoda 1997) A list of "policy and institutional

demands”—priority legal, regulatory and policy innovations that the labor movements would like the government to implement—is compiled annually (currently triannually). The list covers a broad range of policy areas extending from employment regulations and labor policies narrowly defined to such matters as fiscal and financial policy, industrial policy, educational policy and environmental policy. The resulting document, which includes extensive commentary justifying its proposals, is typically over 150 pages in length and in light of its bulk is often referred to as the “telephone book.” The national center then lobbies the government, political parties, and sympathetic interest groups in an effort to get these proposals realized. Through this process, the movement’s demands for extra-firm institutional and policy changes are in effect melded into the regularized channels and procedures of policymaking associated with long-term LDP rule. As one of many competing interest groups—and not necessarily a particularly powerful one in relative terms—the labor movement’s ability to effect major changes is limited and any institutional changes won are typically delimited by compromise and marginal in character. But with the core concerns of its primary rank-and-file membership perceived to be secured by the institutions of the Japanese employment system, this arrangement, though frustrating at times, was perceived to be reasonably satisfactory from mainstream labor’s view.

### **From Business As Usual To A New Paradigm? Adjusting to the Post-Bubble Recession, 1991-2003**

Japan’s overheated Bubble Economy burst in 1991. Confronted with a financial system in disarray, a stagnant economy, and with the yen rapidly appreciating, by the mid-1990’s Japanese firms were under great pressure to cut costs in order to remain solvent. These same years coincided with the appearance of renewed political momentum on the part of the neoliberal reform movement originally associated with Rincho. (La Croix and Mak, 2001; Carlile 1998) Deregulation and administrative reform were propelled to the forefront of the public agenda amid strong international pressures and a seemingly unceasing flood of corruption scandals involving government bureaucrats. Several concrete proposals for a drastic overhaul of Japan’s economic regulatory structure were released that portended even more intense cost pressures. In the meantime, unemployment had risen to unprecedented levels, primarily as a consequence of cutbacks in the secondary work force and drastic cuts in new hiring. With the

conventional means of adjusting corporate workforces during downturns exhausted, a number of prominent business spokespersons began during the mid-1990's to talk openly about the need for even more "flexibility" in their use of the labor force. The deteriorating economic circumstances and the political and administrative instability induced Rengo to assess the implications of these circumstances and to consider what an appropriate response on its part might be. A number of major public statements and policy documents were released during the 1994-96 period in which the national center presented its reading of the situation and outlined what it saw as the appropriate short-term, medium-term and long-term directions for the Japanese labor movement in light of these developments.

Among the most immediately useful for the purpose of gauging the impact of this rethinking on Rengo's attitude toward the social contract on employment is a November 1994 report entitled "The Direction of Employment and Labor Countermeasures During the Period of Transition." (Weekly Rengo 1994) The discussion therein is premised on the assumption that the strains faced by large corporations were not merely cyclical but rather the symptoms of a major structural problem. The report sets out medium- and long-term strategies by which to manage the required structural adjustments. In doing so the report clearly reveals a desire to work within the parameters stipulated in the employment social contract. It points out that although "lifetime employment" applies to only the 20 to 30 percent of the workforce employed in large corporations and the government and public sector, it also serves as a model for labor-management relations in small and medium-sized enterprises. The report argues that lifetime employment contributes to effective corporate operations by encouraging employee identification with the firm and associates it with a heightened work incentive. Given this, it asserts the importance of maintaining the employment system and argues that therefore the labor movement's responses should center on promoting *employment* policies geared toward preventing increases in unemployment that might destabilize that system. At the same time, the document also makes it clear that preserving employment does not mean resisting structural changes. On the contrary, structural change is presented as the vehicle for solving employment problems. This logic echoes the JPC's classic three principles of productivity. After observing that "'deregulation' is bringing about an alteration of the industrial structure," it asserts that "the loosening of economic regulations contains within it the prospect of working as a positive force for future economic growth and the expansion of employment opportunities through improved service, declining price levels, and the appearance of new industries." It admits that deregulation can give rise to

the negative side effect of employment loss, but it need not do so if addressed properly. If appropriate pro-competitive “social regulations” are instituted in a balanced way in tandem with deregulation, then unemployment should not be a concern. Rengo then makes it clear that primary responsibility for such “social regulation” rests with the firm:

Changes in industrial structure are accompanied over the medium-term by the movement of labor from business segments that are shrinking to business segments that are growing. . . . For this reason, the first thing that needs to be done is to shift currently employed workers to new jobs. In the event that a reduction in the firm’s size is unavoidable, it is the *firm’s* responsibility to arrange a job to transfer to and to guarantee opportunities to obtain appropriate job training. (italics added)

Rengo conceded, however, that the magnitude of the required structural transformation was such that conventional adjustments within the confines of the firm-level effort alone were unlikely to be sufficient in absorbing the excess labor that the transition would generate. The upshot of this was the delineation of a massive “employment creation plan” that provided a unified solution to the tasks of securing new jobs for currently employed workers, of creating new jobs for the unemployed and of raising real living standards for Japanese workers. Under this plan, tripartite industry- and national-level state-labor-management consultation committees would facilitate investment in new technologies and business fields. Five specific sectors were targeted: telecommunications, housing and transportation infrastructure, cultural industries (including leisure and education), health care, and the environmental/energy sectors. The choice of these particular sectors was deliberate, in that they were all viewed as sectors that would contribute to improvements in the living standards of Japanese workers. The development of housing and transportation industries was billed as a way to improve Japanese lifestyles by outfitting workers with more convenient and comfortable housing and means of travel. The expansion and upgrading of the health care industry was presented as a way to simultaneously increase employment and deal with the rapidly increasing need for health care services growing out of the ongoing rapid rise in the proportion of the elderly in Japan’s population. Investment in the culture, education and leisure industries was presented as a way to enrich the lives of workers in parallel with reductions in work hours. A similar slant was projected onto the discussion of the environmental and information-telecommunication sectors. (Rengo 1995) In this sense, the proposals were very much in line with the

post-1975 modus operandus of the mainstream labor movement that utilized policy innovations as mechanisms for raising the real workers' incomes without burdening corporate balance sheets.

Actual policy developments in fact closely followed the scenario outlined in Rengo's 1994 employment policy report. In 1995 Rengo and Nikkeiren (the Japan Federation of Employers Associations) held a series of seminars to discuss policies that could be adopted to encourage expansion of these targeted industrial sectors and jointly lobbied the government on behalf of relevant policies. Although somewhat pro forma, the government did establish an employment creation headquarters and packaged various policy initiatives that could be argued to be in the spirit of the employment creation plan into a government initiative.

As detailed in the preceding section, another key aspect of the early 1980s social contract was the labor movement's support, in alliance with business, of the neoliberal economic reform agenda championed since the heyday of Rincho. During the mid-1990s, Rengo continued to back this line on institutional change as is illustrated by Rengo's 200-page compilation of policy and institutional demands for the 1994-95 period. (Rengo 1994) In this report, Rengo declared its commitment to the goal of establishing a "free, fair and transparent system in which the market mechanism will function in a positive way." Increased competition was characterized as being in the worker's interest because it would lower consumer prices and thereby raise worker incomes in real terms. In keeping with earlier reports, tax cuts were pushed as a means for increasing worker incomes and as a way for stimulating the consumer spending needed to lift the economy out of recession. It was also presented as a way to correct the longstanding overemphasis in Japan on investments in firm capital over investments in public and private assets used to support private and public consumption.

The way in which these various tendencies fit together into an overall strategy is exemplified in the annual Shunto strategy report for 1996. (Rengo 1995, 10-11) Rengo once again presents economic growth as the solution to economic decline. It establishes a 3 percent growth rate as a target to be attained through coordinated labor-state-management efforts ("Government, labor and management will strive for economic recovery and improvements and living standards and must move real growth to a 3 percent not accompanied by employment insecurity.") (p. 10) In the division of labor that it outlines government is assigned the task of implementing a "bold" fiscal stimulus package, policies to stabilize the exchange rate, and policies to facilitate a "reform of the economic and industrial structure." Labor and management, in



the meantime, are to work together in the development of new industries that would help to “create employment” while improving working conditions. Neoliberal market reforms, to be pressed for through Rengo’s institutional and policy struggles for the fiscal year, are presented as a means of eliminating employment pressures. (“Structural countermeasures are absolutely necessary if high unemployment and expanding [income] differentials are to be eliminated. We will advance reforms that lead in the direction of a fair and vital society like deregulation that stimulates [economic] vitality and improved living standards, corrections of price differential that show consideration for consumers, and welfare measures that will lead to an old age society without worries.”) (p. 10)

Despite the substantial weight given to these institutional and policy demands, however, pushing up wages was clearly the central concern in the 1996 Shunto strategy. Rengo called on its constituent units to “engage in efforts to raise the [Shunto] market” and negotiate industry-level wage hikes that would “increase their synergetic effect” using the conventional mechanisms for conducting Shunto campaigns over the preceding four decades. The methodology put forward for formulating wage demands was very much in keeping with the incremental, social contract-oriented practices adopted since 1975. Wage demands were to consist of three components: a regular wage hike component, a component tied to inflation, and a living standards improvement component. The first component corresponded to the regular seniority- and merit-based salary increases that corporations had presumably already incorporated into their labor costs and would not therefore have a major impact on the overall corporate bottom line. The inflation component, of course, was consistent with the principle of calibrating wage hikes to larger macroeconomic trends. The remaining living standards improvement component, too, was ultimately justified as being consistent with trends in the overall economy. Rengo argued that an increase was necessary to compensate for declining interest income caused by dropping interest rates and, of course, as a means of generating the consumer demand needed to get the economy growing again. That the spirit of 1975 was very much alive was perhaps nowhere better exemplified than in the following longwinded headline of an article in a special section of Rengo’s official monthly devoted to the 1996 Shunto: “It is important to get back on a re-expansion track by aiming for an increase in consumption through aggressive wage hikes without extinguishing the fire in the engine of plant and equipment investment.” (Suzuki 1996).

Thus, the key documents produced by Rengo during the mid-1990s support the conclusion that the mainstream of the Japanese labor movement sought solutions to the challenges of the period within the parameters of the post-1980 social contract. This strategy positioned the labor movement in a stance supportive of the neoliberal institutional reform agenda that was being promoted—albeit ultimately with mixed success—by a coalition of big business and reformist elements in government and politics. It did so because it continued to conceive of the labor movement's interests as being served by the Japanese employment system and because it considered Japanese management to be willing to abide by the terms of the social contract and to work with the labor movement in promoting solutions that were in the mutual interest of both parties.

During the latter part of the decade, and in particular after 1997, it became increasingly apparent that the terms of the debate over employment and structural reform in Japan were changing rapidly. Despite massive fiscal stimulus packages aimed at jumpstarting a recovery, Japan experienced negative economic growth rates of -0.4 in 1997 and -1.9 percent in 1998. (An increase in the consumption tax and the Asian Financial Crisis were contributed to these negative growth rates.) The steady rise in the number of unemployed, which had continued unabated since the burst of the bubble, picked up steam and eventually broke through the psychologically significant rate of 5 percent in 1999. The new hiring of permanent employees appeared to be a dying practice, while corporate restructurings accompanied by major work force reductions were occurring with alarming frequency. Some of Japan's largest corporations were included in this group. Perhaps the most symbolically significant of these was that which was occurring at the automaker Nissan, a company that had a reputation for having a powerful enterprise union. In 1999 the company announced a plan to reduce its work force by 14 percent or some 21,000 employees and the number of suppliers that it dealt with by half. The latter action sounded the probable death knell for the small and medium-sized manufacturers involved and the jobs of their workers. What made the Nissan case all the more jarring, however, was that all of this was occurring under the watch of Carlos Ghosn, a Frenchman. What this seemed to imply was that "Western"-style labor force reduction had now gained a firm foothold in Japan.

The effect of the economic deterioration was to pull the rug out from under the increasingly strained consensus on employment and neoliberal reform that had provided the foundation for the accommodation between the state, business community and the labor movement. To proponents of

neoliberal economic reform and for many Japanese corporate executives, the employment-preserving practices of the Japanese employment system were no longer sustainable and a new approach to employment was required. During 1999, it became clear that the earlier taboo on open discussion of abandoning the Japanese employment system could no longer be enforced. (Shukan rodo nyusu, 1999) In February the prestigious and influential Economic Strategy Council called for the creation of “a healthy and creative competitive society.” In conjunction with this proposal it recommended that employment policy move away from its existing approach of encouraging firms to retain employees to one that stressed raising the employability of individual workers in the external labor market. In July another prestigious government council articulated a similar vision in which it recommended employment policies focused on actively encouraging labor mobility. And finally the government’s 1999 Economic White paper cited employment along with capacity and debt as one of the “three excesses” that Japan needed to trim and, for the first time in the 45-year history of such white papers, carried an estimate of the total excess employees in the country. In October 1999 Keidanren weighed in with a militant-sounding policy statement of its own in which it asserted that “there is a need to correct the problem of labor policies decided in commissions becoming compromises between labor and management.” Like the earlier governmental commissions, it called for employment policies that, rather than encouraging long-term employment, would instead facilitate labor mobility. What these various statements implied was that there was an increasing willingness in the Japanese policymaking establishment to abandon the Japanese employment system based on the notion of long term employment favor of a highly individualized, highly fluid, “flexible” model of employment.

The willingness on the part of prominent management and government spokespersons to state publicly that they were willing to abandon the employment social contract prompted Rengo officials to reconsider their position. One of the earliest indications that a major rethinking was under way was made evident at Rengo’s biennial convention held in October of 1999. (Shukan rodo nyusu 1999b). There, “employers who were not making an effort to live up to their social responsibility” were roundly chastised. The Economic Security Council’s “leave-everything-to-the-market thesis” was also raised as a specific target of severe criticism. Strong objections were voiced against the notion that Japanese corporations had an “excess” of employees. The situation was instead characterized as one in which cutbacks in hiring and the reduction in the number of secondary workers were forcing regular employees

to work an excessive number of hours. The practice of “service overtime” (unpaid overtime work) was singled out for criticism. In the ensuing months, a number of ideas and concepts—some of them new and others presented earlier but not emphasized—were pushed to the forefront of Rengo’s public discourse. Perhaps the broadest, and for that reason most fundamental, was the idea of a “labor-centered welfare society.” As the discussion in preceding sections indicates, the “welfare society” concept was not a new one and was in fact central to the post-1980 employment social contract. However, during 1999-2000 its content underwent a metamorphosis. Where earlier Rengo had thought in terms of workers realizing their welfare needs collectively through the firm via a more or less autonomously administered employment system, it now downgraded the role played by the firm in favor of an approach in which the workers as individuals would seek to maintain their welfare through “society.” Though somewhat lengthy, the following elaboration of the “labor-centered welfare society” in Rengo’s official journal provides a succinct explication of what was involved:

What we hold as our ideal is a society in which an individual’s independence and freedom are guaranteed on the base of a secure and stable foundation in which one can have confidence about what is ahead. What we put forward as the ingredient is the vision of a “labor-centered welfare society.” The challenge taken up in the EU and social democracy in Europe can be considered to be one such effort.

A secure and stable foundation for a working person is first and foremost stability of employment. If an individual is to sustain an independent lifestyle and if there is to be an expansion of the range of choices available in choosing one’s modality of work there must be a foundation of stable, long-term employment. The long-term employment practices that have been established in Japan must be considered a social safety net whose significance extends beyond a firm’s internal employment policy. In addition, with the decrease in the number of work hours, increases in holidays, and a lengthening of life spans, the time available outside of work hours and one’s productive years will expand and increase in importance. From now on, we must focus on the local community and seek a welfare society system whose boundaries extend beyond the firm as we move in the direction of shifting from enterprise-centered welfare to social welfare, and at the same time labor unions themselves must become the primary overseer of the welfare society. (Rengo 2000a, 8)

The conceptual shift away from the firm as the primary vehicle for attaining worker welfare opened the way for considering new modalities for managing an employee's relationship with the firm. In place of the informal guarantees of employment that were the hallmark of the Japanese employment system, Rengo proposed a "labor contract law" and a "law for the protection of workers on the occasion of enterprise reorganization" that would legally codify the terms under which dismissals can occur and make worker rights explicit. Rengo also began to champion the concept of "work sharing," a key component of which was the elimination of unpaid overtime ("service overtime") for the sake of expanding employment opportunities. An outside study estimated that doing so would create work for 900,000 employees. If paid overtime were eliminated as well this figure would increase to 2.3 million. (Shukan Rodo Nyusu, 1999b)

Outside of the firm, Rengo began to champion an overhaul of Japan's social welfare system. Whereas it had earlier tended to view the role of state-sponsored welfare arrangements as supplemental to firm-sponsored programs, it began to speak of a need for "universality" and "normalization" in state social welfare policy and to argue for a consolidation of Japan's motley collection of social welfare programs that targeted various population groups separately. One must hasten to add that even as it called for an expanded state welfare role, Rengo distinguished what it sought from a classic welfare state. It did this by insisting that the expanded state social welfare role be paralleled by an expansion of employment opportunities that keep people off social assistance while lightening the pressure on the government's fiscal resources. (Rengo 2000a, 8).

This shift away from the firm to an increased emphasis on state welfare provisions, in turn, precipitated an alteration in its stance toward the neoliberal administrative reform movement. In its "2001-2003 Policy and Institutional Demands Summary," Rengo (2001) stressed that marketization is but a means to an end and not an end in and of itself and pointed to the need for firewalls that would prevent liberal reforms from resulting in a ravaging of employment and work conditions: "At present, with globalization as a motivating factor, the 'market-as-cure-all thesis' and 'market fundamentalism' have taken the day. Policies that attempt to leave everything to the market will expand social inequities and will sap economic vitality over the long run. The market cannot operate effectively in the absence of clear cut rules and safety nets." (p. 6) It insisted that "'administrative reform' should not simply aim for 'small government,' but for 'government that is effective and efficient' and can appropriately respond to

society's needs." The issue is not so much the size of government or even the expansion of the scope of the market mechanism but making the political economy—that is, market and state together—as responsive as possible to the livelihood and welfare needs of workers. Rengo envisioned a fairly radical transformation in order to bring this about: "We believe that the national government should conduct affairs related to the existence of the state in international society and be responsible for measures that are national in scope while local governments engage in a wide range administration that is close to their resident populations, and that government administration should restrict the activities of the private sector as little as possible." (p. 118) It then went on to demand a thoroughgoing devolution of power from the national to local governments on the justification that local governments are much more sensitive and responsive to the needs of the citizenry. This, in turn, encouraged a more solidaristic orientation in the way that Rengo defined its primary constituency. Whereas earlier there was a tendency to focus its efforts on the needs of the regular employees of large corporations that constituted the unionized segment of the Japanese work force, Rengo began to more energetically champion the cause of part-time workers, temporary workers, and female employees. (43-48)

As with our preceding discussion of Rengo's stance in the mid-1990s, the most recent Shunto strategy document (the Rengo "white paper") provides a useful illustration of the way in which these various elements fit together. (Rengo 2002) Where the earlier version saw a coordinated labor-government-management strategy as the solution to Japan's economic woes, the 2003 Shunto white paper conveys a profound loss of faith in labor's ostensible social partners. Rather than providing a solution to the problem, management and government are presented as the cause of the problem. Thus, regarding management, the document noted that "employers have intensified their efforts to secure short-term profits by cutting personnel expenditures, by suppressing wage increases and making employment adjustments [i.e., dismissing employees]. This business behavior had generated a vicious macro spiral: workers' anxiety about jobs and living suppresses private consumption, which reduces demand and makes the market sluggish, in turn undermining corporate performance." Its assessment of government is equally harsh: "The Government has not even made efforts to take effective policies to dispel workers' anxieties about jobs, such as proper unemployment countermeasure[s] or an expansion of safety nets. On the contrary, the government is unilaterally imposing the 'pains' of its structural reforms on working people, by shifting onto them the additional unemployment insurance and health insurance burdens . . .

and by carrying out deregulation in a reckless way. Moreover, the government has accelerated the process of bad loan settlement, adding to the already strong deflationary pressure.” (p. 58)

Looked at through the lens of the social contract model, what these statements suggest is that in Rengo’s view both employers and the government are not living up to the terms of the employment contract. Shortly before the release of Rengo’s 2003 white paper, Nippon Keidanren (a new joint employer/business association created from a merger of Keidanren and Nikkeiren), released a report on labor policy. Commenting on what it felt to be the Nippon Keidanren report’s willingness to reduce costs at the expense of worker well being, the Rengo white paper, using moral economy language, stated flatly that “Nippon Keidanren here abandons its responsibility as the most powerful employers’ association and defers real solutions to an indefinite future.” (p. 24). Similar sensibility is expressed when Rengo’s president calls on the government in his preface to the white paper “to play its proper role for the creation of jobs and stability of employment.” (p. 3)

This perceived breakdown in the socio-contractual relationship between the labor movement, on the one hand, and employers and government, on the other, is presented in the Rengo 2003 Shunto white paper as cause for a reorientation of Rengo’s strategy or, to use Rengo’s language, “reconstruction of the Spring Struggle.” Shunto’s reconstruction is characterized as an eminently political task—that of establishing a new “social consensus” behind the goal of establishing a “welfare society centered on work.” Wage increases receive extremely little mention. Instead, policy and institutional demands predominate. And where in the earlier conceived of policy demands and industrial relations concerns as independent arenas, in the 2003 Shunto white paper institutional measures were identified as the lever for precipitating institutional change in the industrial relations arena. And rather than tacitly accepting differential treatment between the unionized labor elite and the non-unionized secondary labor force, the 2003 Shunto places assistance to the bottom of the ladder in a central place.

## Concluding Comments

The current chapter reviewed, in broad strokes, the way in which the Japanese labor movement’s attitude and stance evolved over time as both the movement and the Japanese adjusted to the development of an industrial and post-industrial capitalist political economy, as well as the more recent extended downturn in economic growth. Institutional change was central to this process. It was also maintained that

looking at this process in terms of a “social contract” provides a fruitful means of understanding the distinctive configuration of institutions, attitudes and behavior patterns that surround the so-called Japanese employment system and shape the larger dynamics of the polity and economy in that country. We argued that the labor movement began as a movement that was fundamentally hostile to the institutional status quo and devoted to altering the institutions of the Japanese political economy in a substantial way. The emergence of a “productivity bargain” at the firm level, the institutionalization of the Shunto wage bargaining system, and the employment security provided to the bulk of the unionized work force through the Japanese employment system combined to moderate the stance and then to alter the thrust of the Japanese movement. In the late 1970s, this gave birth to a de facto social contract that brought the mainstream of the Japanese labor movement into the establishment as a “social partner,” albeit one whose position and role therein was characterized by a number of important limitations. This brought the movement to a stance in which it was generally supportive of the institutional status quo in the industrial relations arena. However, outside of the industrial relations arena the labor movement, together with big business, emerged as a force pushing for neoliberal change, albeit through means that were largely intra-systemic. Finally, it was argued that recent developments suggest that the labor movement sees the social contract as having lost its validity due to the actions of the other principals to the contract—business and government. This, in turn, appears to be precipitating a break with business on the neoliberal reform agenda and an attempt to forge an alternative vision of Japanese society that moves away from the firm-centered collectivism of the Japanese employment system to one in which the state intervenes more directly in the assuring the welfare of the individual even as the movement clings to the notion of a welfare *society* rather over that of a welfare *state*.

As to what impact this current rethinking of labor’s interest will have on the future direction of institutional issues in Japan, there are a number of possible directions in which things might go but it is too early to say with any degree of confidence which one it will be. A renewal of the social contract and a reinforcement of current institutional arrangements are not inconceivable, although this would appear to be unlikely unless there is a rapid turnaround in Japan’s economy. (Garon and Mochizuki, 1993; Upham, 1987; Calder 1998) The bigger determining factor would appear to be that of the power and influence of the labor movement’s vision in Japanese politics. On the one hand, it would appear that Rengo’s emerging vision does effectively articulate the general interest of the average salary man and the



employed population that is now the dominant part of the Japanese electorate. On the other, however, the kind of market liberalization that is such an important component of the welfare society vision would fundamentally endanger other “social contracts” governing relations between the state, the dominant LDP, and politically powerful interest groups like farmers and small businessmen. Furthermore, in an archetypal not-in-my-back-yard response individual unions and union industrial federations are also prone to oppose liberalization when their own industries are involved. Rengo has for years been attempting to forge a “new political force” in the form of a new political party that would represent the interests of the employee and which could wrest control of the government from the grip of entrenched interests that now block the path to a neoliberal/social welfarist institutional restructuring. (Carlile 1994) However, here too Rengo has been perennially frustrated. In the absence of an effective political force of this type, Rengo will no doubt continue to press for this vision while confronting opposition from a big business community bent on establishing more “flexibility” in its control over labor as it tries to individualize labor guarantees and entrenched vested interests (including its own member organizations) as it tries to liberalize the market.

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