

GENERAL AGREEMENT ON

TARIFFS AND TRADE

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EMERGENCY ECONOMIC MEASURES

Communication from Japan

The Permanent Mission of Japan has asked that the attached information be circulated to contracting parties.

The Government of Japan decided on a special package of Emergency Measures at the 29 May Ministerial Conference for Economic Measures. This package of measures was made, based on the recognition that policy co-ordination among major industrialized countries is indispensable under the difficult domestic and international economic situations. By these measures, the Government of Japan intends to vigorously expand the economy centering on domestic demand and to rectify its external imbalances and thus to formulate more harmonious external economic relations.

Comments on Emergency Economic Measures

29 May 1987

This eleven-point package of Emergency Economic Measures, a concrete statement of specific government policies and policy measures, is in line with the Liberal Democratic Party's 24 April Outline of Comprehensive Economic Measures and covers the three areas of expanding domestic demand, expanding imports, and contributing to the international community as outlined by Prime Minister Nakasone during his recent visit to the United States as well as at the OECD Ministerial Council. Formulated in consideration of the harsh economic situation, including the persistence of substantial imbalance in our international current-account payments, these measures are intended, while promoting policy co-ordination with the other leading industrialized countries, to provide ambitious stimulation for domestic demand as well as to rectify the external imbalances and to facilitate more harmonious external economic relations.

In so doing, these Emergency Economic Measures are distinguished by the fact that the national Government is taking a strong initiative including drastic fiscal disbursements for the attainment of these objectives.

In order to ensure the necessary budgetary provisions for these Emergency Economic Measures, a Supplementary Budget will be submitted to the Extraordinary Session of the Diet to be convened soon.

The measures include:

1. Expansion of domestic demand

Scale and economic impact

Total project expenses of public works and other works:	¥ 5 trillion (= \$36 billion)
Income and other tax cuts:	¥ 1 trillion (= \$7 billion)
Total	¥ 6 trillion (= \$43 billion; 1.8% of GNP ¹)

¹ Japanese nominal GNP for 1986 was ¥ 330 trillion (= \$2.4 trillion at ¥ 140/\$1).

Main highlights

- (a) Fiscal measures amounting to more than ¥ 6 trillion (\$43 billion) consist of measures by the national Government, local governments and other public entities, and income and other tax cuts. Fiscal measures for fiscal 1987 will be ¥ 5.61 trillion (\$40 billion, 94 per cent of the total).
- (b) Much of this represents measures by the national Government. ¥ 1.76 trillion of general-account measures by the national Government, ¥ 0.8 trillion by public entities, and ¥ 1 trillion tax cuts amount to measures by the national Government of ¥ 3.56 trillion.
- (c) Out of ¥ 5 trillion public works and other works, ¥ 4.61 trillion (92 per cent) will be disbursed during this fiscal year.
- (d) As a part of tax reform, income tax cuts will precede the revision of the tax system.
- (e) The scale of the Supplementary Budget measures for the expansion of domestic demand is the largest ever, and it is being drafted unusually early in the year.

2. Import expansion

Taking the position that "initiative begins at home", the Government has adopted a strong import-promotion measure of its own to further strengthen hitherto government and private-sector import-expansion efforts.

- (a) A special and extraordinary budgetary provision will be made in the Supplementary Budget to realize the additional import of foreign manufactured goods through the government procurement totalling about \$1 billion.
- (b) Government procurement procedures will be improved.
- (c) Interest rates on the Export-Import Bank of Japan's manufactured import loans will be lowered.
- (d) The Action Program for Improved Market Access will be further promoted.

3. Contributing to the International Community

(a) ODA Medium-Term Target

The implementation of the Third Medium-Term Target of doubling ODA in seven years will be advanced by two years, and 1990 ODA disbursements will be more than \$7.6 billion.

(b) Financial recycling to the developing countries (especially the debtor countries)

Japan will recycle more than \$20 billion in new and completely untied public and private funds over the next three years.

While the actual implementation of the recycling will hinge on discussions with multilateral development banks or bilateral requests, the following is envisaged as a rough breakdown:

- government contributions to multilateral development banks together with additional private funds procured by these banks in the Tokyo financial market: about \$8 billion
- co-financing with the World Bank and other multilateral development banks by the Overseas Economic Cooperation Fund, the Export-Import Bank of Japan and private banks and bilateral loans by the Overseas Economic Cooperation Fund to assist developing countries in carrying out their economic policies: over \$9 billion
- direct untied loans by the Export-Import Bank of Japan: about \$3 billion.

(c) Special measures for Sub-Sahara African and other LDCs

Grants will be increased, including about \$500 million non-project aid over the coming three years, and debt relief extended.

Emergency Economic Measures

29 May 1987
Ministerial Conference
for Economic Measures

The current international economic situation is one of lack-lustre growth in the leading countries and continuing large imbalances in international balance of payment, albeit the indication of their rectification. Despite a firm tone of business activities, the domestic economic situation in Japan remains grim in light of the continuing sluggishness, especially in manufacturing, and the difficult employment picture.

Given this grim economic situation, there is an urgent need for Japan, while continuing to pursue policy co-ordination with the other leading countries, to make a strong effort to vigorously expand the economy centering on domestic demand and to work to rectify its external imbalances and to structure its external economic relations more harmoniously.

These efforts will facilitate the shift to an economic structure as outlined in the Economic Council's "Action for Economic Restructuring" policy recommendations and contribute to improving the quality of Japanese life.

Accordingly, the Government intends to implement immediate measures for the expansion of domestic demand, accompanied by fiscal measures amounting to more than ¥ 6 trillion as well as external economic measures including necessary fiscal measures.

These fiscal measures of more than ¥6 trillion include measures by the central and local governments, and public institutions, and reduction of income tax and others.

I. Public works

1. Accelerated implementation of public works

Every effort will be made to accelerate the implementation of public works in an attempt to achieve an unprecedented first-half-year contract figure of more than 80 per cent for public works and other spending in fiscal 1987.

Public works allocation will be conducted as appropriate in consideration of each region's economic situation, the state of local social capital, and other relevant factors.

2. Expansion of public investment, etc.

The necessary Supplementary Budget provisions will be taken to ensure that the scale of public investments, etc., will be totaling ¥ 5 trillion through the following measures.

- (1) ¥ 2,450 billion in additional funding will be provided for ordinary public works by making most effective use of revenues accruing from the sale of Nippon Telegraph and Telephone Corp. stock.

In deciding on this additional public works expenditure, consideration will be given to the state of the local economy, including any impact from the yen's appreciation, and the priority will be given to projects that can be promptly implemented, because they do not require new site acquisition or for other reasons, and will have a wider multiplier effect.

- (2) ¥ 450 billion in additional funding will be provided in an effort to proceed promptly with the implementation of disaster-relief projects.
- (3) ¥ 350 billion in additional funding will be provided in an effort to expand educational, research and development facilities and the like.
- (4) ¥ 250 billion in additional funding will be provided for the work of the Japan Highway Public Corporation.
- (5) Smooth implementation of independent works by local governments is expected, including additional measures amounting ¥ 800 billion, by utilizing local governments' bonds to meet the realities of local situations.

For this purpose, assignment ratio of local government bonds to additional works on roads, rivers, etc., will be increased. Special consideration will be given on the issuance of local government bonds so as to facilitate the revitalization of the economy in depressed areas, etc.

- (6) The Housing Loan Corporation will provide an additional ¥ 700 billion for loan facilities (additional 25,000 units).

II. Tax reductions

Following consultations in the special consultative body on reform of the tax system established within the House of Representatives, we will effect a prompt and fundamental reform of the tax system, including review of the direct/indirect taxation ratio. As a part of this work, we will ensure income-tax and other tax reductions of not less than ¥ 1 trillion in fiscal 1987 before the system is revised.

III. Promotion of housing investment

Along with seeking to ensure the smooth supplies of residential sites, we will work to promote further housing investment including that for rebuilding, and reforms. Accordingly, we will undertake the measures described in Appendix 1, including improving and upgrading of the financing provisions by enhancing the Housing Loan Corporation's loan schemes.

IV. Revitalizing local economies

We will implement the measures described in Appendix 2 in order to cope with the severe local economic situation including employment problems, to promote and strengthen the industries inherent in the areas and to improve the quality of local life.

V. Mobilization of private-sector vitality and others

1. Mobilization of private-sector vitality

We will steadily implement the measures described in Appendix 3 in order to strengthen domestic demand by the most effective use of private-sector vitality and to promote the revitalization of local economies. In particular, in order to promote the various measures' smooth and effective implementation, revenues accruing from the sale of Nippon Telegraph and Telephone Corp. stock will be utilized and institutional provisions will be improved, and due consideration will be given to consolidate the basis for private-sector projects in the implementation of public-works projects.

These projects will be carried out with all due consideration to the stability of land prices.

2. Tax cuts on capital investment

Realizing tax reform, we will make tax reductions for the promotion of capital investment in private-sector research and development activities oriented toward domestic demand.

VI. Small-business policy

In order to support structural reform of small and medium enterprises facing the drastic changes in the domestic and external economic situation including the yen's appreciation, measures for small and medium enterprises will be enhanced as described in Appendix 4, including additional designation of "specified areas" under the Law on Temporary Measures for Small and Medium Enterprises in Specified Areas, lowering interest rates on loans of government-related financial institutions, lengthening the period and expanding the scale of funds of the Special Loan Program for Small and Medium Enterprises in Specified Areas and the Small and Medium Enterprises International Economic Adjustment Special Loan.

With regard to the metal mining industry, the scope of financing eligibility under the Metal Mining Business Stabilization Lending Program will be expanded.

VII. Employment policy

As described in Appendix 5, we will beef up employment policy with the steadfast implementation of the Employment Development Program for 300,000 People, improvements in the various assistance grants, and stronger vocational training programmes, as well as with efforts to shorten working hours by such means as spreading the five-day work week.

VIII. Ensuring that the benefits of the yen appreciation are passed along

Continuing efforts will be made to ensure that the benefits of the yen appreciation are passed along and permeate throughout the economy.

1. In keeping with the basic policy of continuing to press for flexible downward public-utility-rate adjustments wherever possible, and for long-term rate stability and improved service commensurate with the utility's business performance and other considerations where rate schedules cannot be lowered, we will make every effort to ensure that the benefits of the yen appreciation and other benefits are passed along to consumers.

2. In other consumer areas, we will continue our efforts to make relevant information available, including monitoring price trends for the principal imported consumer goods and other products (with the results expected to be available in late June), so that the impact of the yen appreciation works through market mechanisms and is accurately reflected in domestic prices, thereby leading to expanded consumption and imports. We will also continue to work to create a climate enabling consumers to reap the benefits of the yen's appreciation as through holding of import fairs by local commerce associations, conducting surveys on development imports by the leading department stores and supermarkets, and other related activities.

IX. Flexible financial policy management and other related measures

1. We will make every effort for appropriate and flexible financial policy management with all due heed to economic trends at home and overseas and to the international currency situation.

2. The interest rate for money on deposit with the Trust Fund Bureau will be lowered and the interest rates of government-related financial institutions also reduced.

3. Private-sector financial institutions are being called upon to expand their consumer finance lending as described in Appendix 6, including developing and offering new products and new services commensurate with the diversification of consumer requirements.

X. Import expansion, improvement of market access and others

1. A special and extraordinary budgetary provision will be made in the Supplementary Budget to realize the additional import of foreign manufactured goods through the government procurement totalling about \$1 billion.
2. Along with seeking to improve the procedures relating to government procurement of foreign-made manufactured goods (e.g. expanding the scope of applicability and ensuring greater transparency in the procedures for supercomputer procurement), efforts will also be made to ferret out foreign-made manufactured goods that could be eligible for procurement by the institutions covered by the Action Program for Improved Market Access, decided in July 1985, to provide more information and publicity regarding market entry by foreign suppliers, and to have more foreign suppliers qualify as registered vendors.
3. Interest rates are to be lowered and loan periods extended to enhance Export-Import Bank of Japan lending for the import of manufactured goods.
4. Continuing efforts will be made to have the private sector import more manufactured goods, with timely follow-up activities.
5. We will continue to promote the Action Program for Improved Market Access.
6. Ambitiously promoting liberalization of interest rates, the expansion of short-term financial markets, and enhanced access for foreign financial institutions wishing to enter the Japanese market, every effort will be made to promote the liberalization and internationalization of Japan's financial and capital markets.
7. The limit on the value of personal goods that Japanese travelling overseas may bring back with them duty-free (currently ¥ 100,000) will be doubled to ¥ 200,000, effective this 1 July.

XI. Contribution to the international community

In view of the economic difficulties confronting many of the developing countries, including their mounting external debts and the depressed commodity prices, Japan will as a positive contribution to the international community, take the following measures to enhance the flow of capital and technology needed by these countries. The necessary budgetary provisions will be made for these measures.

1. While making the best efforts to move up the targets in the Third Medium-Term ODA Expansion Program, we will at least advance the original seven-year doubling target by two years and make ODA disbursements in 1990 more than \$7.6 billion. We will also seek to strengthen aid management capacities.

2. Seeking to promote financial flows to the developing countries (especially those in debt), Japan will recycle more than \$20 billion in new and completely untied funds over the next three years by way of making contributions to the multilateral development banks and mobilizing the resources of the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund and the private sector. For this purpose, a Special Fund will be established within certain multilateral development banks like the Asian Development Bank, and the Overseas Economic Cooperation Fund will provide concessional bilateral loans for economic policy support as well as promote co-financing with multilateral development banks. The untied loan scheme of the Export-Import Bank of Japan will also be activated.

3. To further promote the transfer of technology from Japan to the developing countries, technical co-operation like dispatching of experts will be enhanced markedly drawing upon private-sector resources as well. International research and development co-operation will be also expanded utilizing research institutions both in Japan and overseas.

4. Recognizing that growing special consideration is needed for Sub-Saharan African and other least-developed countries, positive support measures will be taken such as the expansion of grant assistance including provision of non-project-type grant assistance amounting to approximately \$500 million over the next three years, as well as possible debt relief.

Appendix 1

Promotion of Housing Investment

1. Expansion of the Housing Loan Corporation's loan facilities, etc.

(1) As well as lowering the interest rates on loans, the Housing Loan Corporation is to expand and strengthen the loan programme in the following measures in order to promote new construction, reconstruction and reforms of houses and to contribute to improvements in the living standards:

(a) raising the upper limit of loan (¥ 1.4 to 2.5 million rise for larger housing, etc.);

(b) addition of loan for reconstruction of private housing (¥ 1 million addition);

(c) increasing the special extra loans (¥ 2.5 million increase in loans for houses with lot sub-divided and sold from larger lots);

(d) raising the upper limit on the sales value of eligible houses with lot sub-divided and sold from larger lots (the maximum value set at ¥ 50 million);

(e) raising the upper limit on loans for enlargement of buildings (¥ 1 million rise);

- promotion of unsecured loans related to residential facilities (establishment of a fund for promotion of residential reforms)

- provision of loans for housing reforms to associations for apartment superintendence;

(f) introducing into loans for private-sector rental housing the scheme to progressively increase the amount of each repayment.

(2) A loan system to promote wage earners' property accumulation and their housing acquisition will be improved.

2. Requests to the private financial institutions

The Government will request the private financial institutions to play an active rôle in the matter of housing loans to individuals by lowering the interest rates, ensuring stable supplies of funds for housing loans, providing and publicizing such instruments as the Reform Loans which meet well the needs of the users.

3. Necessary measures for the scheme of taxation on agricultural land in specially designated urbanization promotion areas will be taken, including provision of guidance about the operation of this scheme for local bodies. Such measures will be based on results from research and examination of achievements, in the past five years since the initiation of the current scheme, of the system to defer tax collection on the agricultural lands which in long-term and continuous cultivation.

4. In order to increase housing construction as well as to contribute to stabilization of land prices in such metropolitan areas as Tokyo and Kinki Metropolitan Areas, the Housing and Urban Development Corporation is to increase the supply of residential land.

5. Housing reforms and the use of housing-related machinery and equipment will be promoted by such measures as development of information-providing systems, cultivating talented personnel for home enlargement and reconstruction, and promoting activities to raise public awareness.

6. Promotion of small-scale collective sewage disposal facilities

Standards for the structure of small-scale collective sewage disposal facilities will be set up by the end of the year with a view to promoting prevalence of these facilities in accordance with the current sewage development programme.

7. Promotion of "home elevators"

Introduction of small-size "home elevators" equipped in private residences for use, especially by the aged and the handicapped, will be promoted by putting the guide for their designing into practical use.

Appendix 2

Regional Revitalization Programme

i. Development of regional industrial bases

We will develop regional industrial bases such as facilities for technological development and training, based on "the Industry Relocation Promotion Law".

2. We will additionally designate specific areas to be covered by "the Temporary Measures Law for Facilitating Industrial Structural Adjustment".

3. To revitalize regional economies through the efficient use of land, we will promote further utilization of the land trust system.

4. We will promote the development of village areas based on "the Village Area Development Law", in accordance with the Village Zoning Schemes and the Regional Development Schemes for Village Agriculture Promotion. We anticipate early approval of Basic Policies on Development of Village Areas.

5. We will promote development of public airfields for helicopters and visits to different local areas.

6. Through public investment and investment of a public nature in agriculture, forestry and fishery, we will strengthen these industries and promote revitalization of local economies.

Appendix 3

Utilization of Private-Sector Vitality
and Other Measures

1. Vitalization of regional economies by the utilization of sales gains of NTT shares

We will promote infrastructure development of the economy and society, and vitalize regional economies through the expansion of assistance to enterprises covered by the Private-Sector Vitality Law and others, making use of sales gains of NTT shares.

2. Promotion of urban redevelopment

(1) Promotion of urban redevelopment by the Private-Sector Urban Development Promotion Organization

To promote high-potential projects utilizing private-sector vitality such as urban redevelopment in local cities and redevelopment of ports, supportive measures such as supplying long-term and low-interest-rate funds will be implemented through the Private-Sector Urban Development Promotion Organization based on the Law on Special Measures to Promote Private-Sector Urban Redevelopment.

(2) Relaxation of regulations

An appropriate review will be conducted on designated areas in view of land use, improvement of public facilities and progress in high-potential projects, as well as measures taken to ensure the notification advising improvement of the total floor area/grand area ratios in specially designated areas, and comprehensive urban planning areas, thoroughly known to those concerned.

Efforts will also be made to ensure that the notification on the flexible application of rezoning in local cities is well known.

In accordance with the revision of the Building Standard Law, measures will be taken for the relaxation of various restrictions such as rationalization of restrictions on the total floor area/grand area ratio in view of road width and on height of building in Category 1 Exclusive Residential District as well as on wooden buildings.

(3) Promotion of urban railways construction

Based on the Urban Railways Construction Law, approval for construction projects will be given and by utilizing the Urban Railways Construction Fund System, measures will be taken to promote quadruple tracking railways and large-scale improvement construction of railways in major cities.

3. Promotion of improvements at designated facilities by the Private-Sector Vitality Law

In accordance with the revision of the Law for Provisional Measures Relating to the Promotion of Improvements at Designated Facilities Utilizing the Ability of Private-Sector Operator, basic policies will be formulated immediately on international-information-related local development facilities and international business exchange facilities.

4. Promotion of development of comprehensive resort areas

Based on the Comprehensive Resort Areas Law, basic policies will be formulated immediately to promote actively the development of comprehensive resort areas. At this juncture, effective use of State-owned forests and fields is to be promoted.

5. Promotion of large-scale projects

(1) Promotion of redevelopment of coastal areas in Tokyo

As for redevelopment of coastal areas in Tokyo, basic policies on development of the whole region as well as on the construction of the basic facilities for a wide area will soon be formulated in the Council for the Promotion of Development of Coastal Areas in Tokyo which consists of the relevant ministries and the Tokyo Metropolitan Government and other organizations concerned.

(2) Promotion of construction of the Kansai Cultural and Academic Research City

Based on the Law for Promotion of Construction of the Kansai Cultural and Academic Research City, basic policies will be formulated and approval for the construction plan given immediately to promote actively the construction of the Kansai Cultural and Academic Research City.

(3) Promotion of construction of the Kansai International Airport, etc.

The construction will be steadily promoted of the Kansai International Airport, the Tokyo Bay Bridge and Tunnel and the Akashi Straits Bridge. For the Ise Bay Road, the construction will be commenced as soon as possible.

6. Efficient utilization of national and public land

For the efficient utilization of national and public land through the mobilization of private-sector vitality, steady implementation of measures such as land sales including utilization of the Land Trust System will be promoted. With regard to the sale of JNR land (the land owned by JNR Settlement Corporation), the sale of the land will be promoted considering the opinion of the Assets Dealing Council.

Appendix 4

Policy on Small and Medium Enterprises, etc.

1. Policy in specified areas

- (1) Additional local areas will be designated as "specified areas" under the Temporary Law on Measures for Small and Medium Enterprises in Specified Areas.
- (2) A special loan programme for small and medium enterprises in specified areas will be in effect for an extended period with increased total fund.
- (3) The credit guarantee provided in relation to the specified areas under the Temporary Law on Measures for Small and Medium Enterprises in Specified Areas will be in effect for an extended period with increased total fund.

2. Measures to facilitate business conversion

- (1) The Small and Medium Enterprises International Economic Adjustment Special Loan will be in effect for an extended period with increased total fund.
- (2) The credit guarantee and others, provided in relation to the international economic problems under the Temporary Law on Business Conversion and Adjustment Measures for Small and Medium Enterprises will be in effect for an extended period.

3. General financial measures

- (1) The Trust Fund Bureau depository rate and interest rates of government-related financial institutions will be reduced.
- (2) Measures for reduction of repayment burden on outstanding loans provided by government-related financial institutions for small and medium enterprises ("Emergency Loan Program for Repayment on Outstanding Principal and Interest to Small and Medium Enterprises in Depressed Industries") will be expanded and extended.
- (3) Credit guarantee measures by credit guarantee associations will be further promoted in order to enhance creditworthiness of small and medium enterprises and to facilitate their efforts to raise funds.

4. Measures for subcontracting small and medium enterprises

- (1) To prevent contracting companies from unfairly shifting the burden on small or medium subcontracting enterprises, we will continue to strictly implement the Law to Prevent Subcontractor's Payment Delays.
- (2) To secure business for subcontracting small and medium enterprises, we will promote subcontracting arrangements through the Subcontractors Enterprises Promotion Association with more flexibility and a wider regional scope, by such measures as the inauguration of "The Project to Explore Business Information for 100,000 Enterprises".

5. Measures for the metal-mining industry

Loans under the Metal Mining Management Stabilization Financing Program will be provided to a wider range of enterprises.

Appendix 5

Strengthening of Employment Policy, etc.

1. We will implement the Employment Development Program for 300,000 People in a flexible and steadfast manner. In particular, we will actively promote employment development in local areas through comprehensive regional employment measures based on the Regional Employment Promotion Law. We will aim at smooth reallocation of the labour force without creation of unemployment in industries including those specified as depressed through the utilization of vocational retraining and assistance to the activities of the Industrial Employment Stability Centers.
2. We will designate specified depressed industries and industries to be awarded an Employment Adjustment Grant in a flexible manner. Necessary measures will be taken to improve the Employment Adjustment Grant System, the Designated Job-Seeker Employment Development Grant System, etc. We will pursue policies more vigorously than ever to prevent unemployment, and to secure employment and re-employment opportunities for the aged workers and displaced workers from industries including those specified as depressed.
3. Development of vocational abilities will be promoted in an appropriate and flexible manner. The vocational training system for information-processing-related technicians and other occupations will be improved, and measures will be taken to facilitate smooth labour force movement across distant regions.
4. To shorten work hours, we will pursue greater use of the five-day-work-week system, and early passage of the Bill to amend the Labor Standard Law. Simultaneously, guidance and assistance will be given to facilitate voluntary efforts by labour and management in this direction. A five-day work week for government employees will continue to be actively pursued by such means as smooth transition to the system of six holidays for four weeks and the "closed office" method now under consideration.

Appendix 6

Expansion of Consumer Finance and
Other Related Measures

1. Private-sector financial institutions are being called upon to be more active in consumer finance, including developing and offering new merchandise and new services commensurate with the diversification of consumer requirements and improving the terms of lending. From the same perspective, efforts will be made to enhance usefulness of the banks' cash cards and to improve branch services and locations.
2. In the field of sales credit, efforts will be continued for the promotion of countermeasures against accumulative debtors for the development of the basis of credit industry and a request will be made to the credit business participants to develop new merchandise reflecting recent changes of consumers' needs. Also, efforts will be made to lift the standard condition of instalment sale of air-conditioners.
3. Efforts will be made to contribute to the expansion of personal consumption through raising the welfare level by promoting fund lending of three government-affiliated financial institutions for small and medium enterprises to enterprises used for the welfare of employees.