

**Key topic****2023 *Shunto*: Highest Wage Hike in 30 Years, Yet Its Sustainability a Challenge**

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**I. Introduction**

Japan's average wage increase hit the highest level in 30 years, at above 3%, in the *Shunto* spring wage negotiations of 2023 that came as social and economic activities were being normalized in the post-COVID world. However, to prevent such a wage hike from ending up as a temporary one and link it to a wider sustainable uptrend, Japan should encourage small- and medium-sized enterprises (SMEs) to raise wages appropriately through the passing on of labor costs to product prices. Likewise, it should take measures such as the continuous improvement of the treatment of non-regular workers to pave the way for increasing wages. Wages in Japan are the lowest among major developed countries in the wake of economic stagnation over the past three decades. Japan now faces a mountain of challenges including how to increase wages. This paper overviews the trend seen in the latest *Shunto* and its future challenges, as it is now playing a great role in the government's economic and monetary policies.

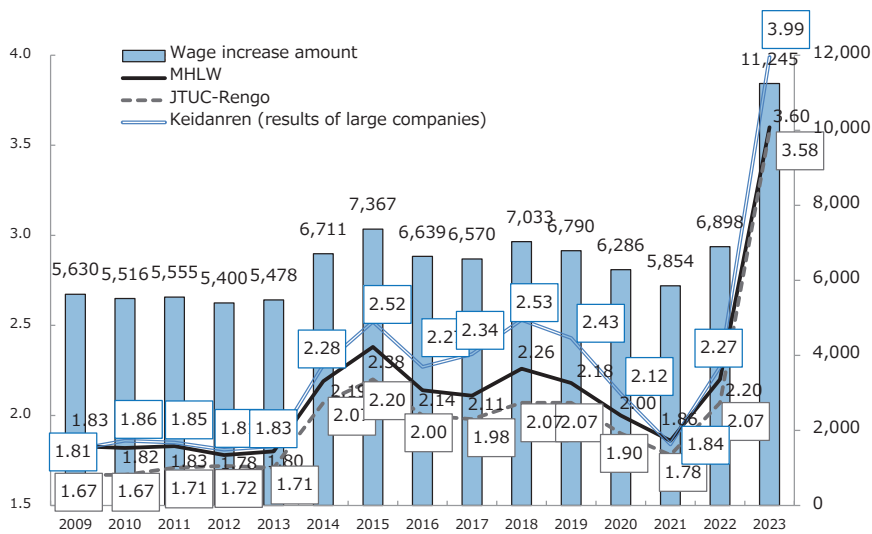
**II. Government, labor, and management data released: Highest wage increase in 30 years, above 3%**

Government, labor, and management data about wage increases through labor-management negotiations in the 2023 *Shunto* were released by August (Figure 1). The data, though differing somewhat due to coverage gaps in company sizes, indicated that wage increases in labor and management data topped 3%, representing the

highest levels in about 30 years. Factors that can be cited behind the wage hike are rising prices and labor shortages emerging amid the economic normalization.

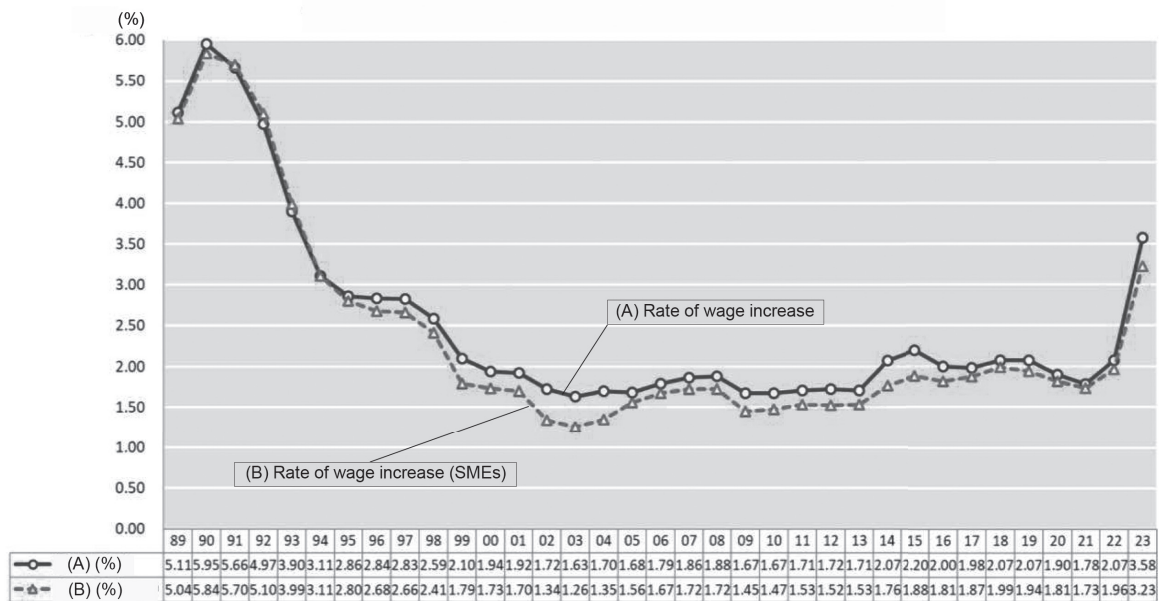
The average wage increase amount and rate in government data far exceeded levels in 2022 and before the COVID-19 outbreak. According to "the Status of wage increase demands and settlements at major private-sector enterprises in 2023" released by the Ministry of Health, Labour and Welfare (MHLW) on August 4, the average monthly wage increase, including portions equivalent to an automatic basic wage hike (for the maintenance of wage curves) and a base pay hike (an across-the-board wage increase, called "base-up" in Japan), came to 11,245 yen at 364 large companies that are capitalized at 1 billion yen or more that have trade unions comprising 1,000 or more employees. The increase was up 4,347 yen from 6,898 yen in 2022, amid COVID-19, and up 4,455 yen from 6,790 yen in 2019, before the pandemic, marking more than a double gain. The rate of wage increase from the level before the negotiations came to 3.60%, up 1.40 percentage points from 2.20% in the previous year, and up 1.42 points from 2.18% in 2019. The rate was the highest in 30 years, since 3.89% in 1993.

The Japan Business Federation (Keidanren; Masakazu Tokura, Chairman), Japan's largest economic organization, also reported *Shunto* results at large companies by industry on August 4. The report covered data made available by 136 companies (with 500 or more employees in principle) in 16 industries among the 241 companies in 21 industries subjected to a survey by the organization, using the weighted average of the union members. The average



Source: MHLW, *Analysis of the Labour Economy 2023*.

Figure 1. Changes in wage amounts and rates increase in *Shunto* (tabulated by the MHLW, JTUC-Rengo, and Keidanren, 2009–2023)



Source: JTUC-Rengo, “Results of spring wage negotiation final responses.”

Note: Data as of the end of June for each year.

Figure 2. Changes in wage increase rate based on the average wage method in *shunto*, 1989–2023 (Since the foundation of JTUC-Rengo)

of wage hikes stood at 13,362 yen, or 3.99%. The increase above 10,000 yen, or over 3.5%, was the first time in 30 years since 10,835 yen, or 3.86%, in 1993, indicating the same trend as the MHLW report.

The 2023 increase was 5,800 yen, or 1.72 points, more than in the previous year, marking the highest in both amount and rate increase since Keidanren adopted the current aggregation method in 1976.

Wage increases at 10,000 yen or more formed a majority, coming in 13 of the 16 industries. The wage hike, of 16 industries, ranged from 4.00% to 4.99% for seven industries, and from 5.00% to 5.99% for two industries, indicating substantial wage hikes in many other industries.

The Japanese Trade Union Confederation (JTUC-Rengo; Tomoko Yoshino, President) published its final 2023 *Shunto* results on July 5 (Figure 2). The average wage increase, combining a base pay hike and an automatic basic wage hike at its 5,272 member unions, came to 3.58%, up 1.51 points from the previous year, surpassing 3% for the first time in 29 years since 3.90% in 1993, while the hike was the second-highest in 30 years since 3.90% in 1993.

Meanwhile, this year's *Shunto* results indicate a widening gap between companies that raised wages substantially and those that increased wages only slightly. According to 2023 *Shunto* results at SMEs released separately by Keidanren on August 14, the weighted average wage increase, including a seniority-based automatic wage hike, at 367 companies with fewer than 500 employees stood at 8,012 yen, or 3.00% (compared with 5,036 yen, or 1.92% in the previous year). The rate of increase was nearly 1 point lower than the 3.99% for large companies (as announced by Keidanren on August 4).

### **III. Process to agreement: Government, labor, and management were positive towards wage increase**

*Shunto* negotiations effectively start at a meeting between top JTUC-Rengo and Keidanren leaders. In the run-up to the latest *Shunto*, however, management made positive statements about wage hikes from around autumn last year. In response, JTUC-Rengo decided on a demand standard for a wage increase of around 5% (including a seniority-based automatic hike), the highest in 28 years, by the end of last year, encouraging member trade unions to take an aggressive attitude at wage negotiations.

On January 17, Keidanren released “the 2023 Report of the Committee on Management and Labor

Policy” as a negotiating guide for management. The report positioned the 2023 *Shunto* negotiations as “a great opportunity to give top priority to the price trend and turn around business behavior for the purpose of a sustainable, structural wage increase.” It also described a wage hike as “companies’ social responsibility,” demonstrating an unprecedentedly positive attitude to pursue a high wage increase. At a meeting of top leaders of JTUC-Rengo and Keidanren on January 23, labor and management agreed on the need to raise wages and shared the recognition of this year as “a turning point” towards higher wages. In response, Prime Minister Kishida encouraged labor and management, both of whom were about to start the negotiation, to “absolutely realize a wage increase higher than inflation.” Thus, the 2023 *Shunto* indicated an unusual development even before full-fledged negotiations began.

As shown by what had happened in the past, management had retained a negative attitude towards a wage increase that it had seen as triggering inflation and hurting the international competitiveness of Japanese companies. Since the inauguration of the second Abe Cabinet in 2012, however, the government has dramatically changed its policy stance to support a wage increase with tax incentives for pay hikes and stable minimum wage growth under a top priority policy goal of “breaking away from deflation.” Nevertheless, the 2023 *Shunto* featured the unprecedented development in which the government, labor, and management jointly demonstrated a positive attitude towards a wage increase even before full-fledged labor-management negotiations. Soon after trade unions of large companies began to submit wage increase demands in mid-February, management teams of these companies fully accepted union demands and quickly settled wage negotiations one after another.

### **IV. A rush of full acceptance responses came on the concentrated response date**

March 15 became the concentrated management response date for major companies for the 2023 *Shunto*. On the day, management responses that fully

accepted union demands came to represent more than 80% of companies covered by the Japan Council of Metalworkers' Union (JCM, two million workers). JCM is a council composed of five industrial unions in the automobile, electric machinery, steel, ship, and other machinery manufacturers, attracting attention as a pattern setter for the annual *Shunto* negotiations. Thus, the day saw a rush of full acceptance responses.

UA ZENSEN (1.86 million workers), which is the largest industrial union covers unions of companies in a wide range of sectors such as retail, food services, textiles, etc., released its *Shunto* results on August 16. According to the results, about 40% of core UA ZENSEN unions received full acceptance or even better responses. For regular employees, the weighted-average overall monthly wage increase, covering an automatic basic wage hike and a base pay hike, came to 13,830 yen, or 4.56%. For part-timers accounting for about 60% of UA ZENSEN union members, the average hourly pay increase (including an automatic basic wage hike) stood at 61.8 yen, or 5.90%. The wage increase rate for part-timers surpassed that for regular employees.

In an earlier *Shunto* negotiation mechanism, the JCM that covers large companies in automobile, electric machinery, and other manufacturing industries had served as a pattern setter, spreading its *Shunto* results to other industries. In the latest *Shunto*, however, UA ZENSEN unions obtained higher wage increases than JCM unions, indicating that UA ZENSEN served as a new pattern setter for both regular employees and part-timers in services industries. The AEON Group, Japan's largest retailer, settled its *Shunto* negotiations with a 5% wage increase for regular employees, and a 7% hike for part-timers in early March, exerting great influence on wage negotiations at other retailers. The traditional trickle-down *Shunto*, in which wage increases in specific industries spilled over to other industries, has run into an impasse, indicating a structural *Shunto* change.

In response to high wage increases seen in management responses at large companies, JTUC-Rengo President Tomoko Yoshino announced a comment on March 16. "The results came as labor

and management tenaciously and sincerely negotiated, not only the impact of rising prices on households of union members but also the effects of wage stagnation on business management, the survival of industry, and Japan's economic growth from medium- to long-term perspectives," she said in the comment, welcoming those management responses as a potential turning point towards an economy in which gross domestic product (GDP), wages, and prices increase stably.

Keidanren Chairman Masakazu Tokura in his comment on March 15 gave a positive rating to management responses, saying, "I would like to frankly welcome the highest basic pay hike in about 30 years, high bonus levels including full acceptance responses, and other positive responses considering price hikes as giving greater strength to the momentum for raising wages." "I am confident that these responses will encourage SMEs and other companies to positively consider wage hikes for their upcoming labor management negotiation climaxes, enhancing the momentum for increasing wages further," he said in a manner to express hopes for future negotiations. Tokura also said that it was most important "to make this year a starting point of positive wage-increasing initiatives and sustain them next year and later to realize structural wage increases."

## **V. Price hikes and labor shortages supported wage increases: A challenge is how to spread wage increases to SMEs and non-regular employees**

A major background factor behind high wage increases at large companies is that employers considered price hikes that have seriously affected workers' livelihoods. In 2022, consumer prices (excluding fresh food prices) posted year-on-year increases between 3% and 5%, indicating the highest inflation in 40 years. A medium- to long-term factor is that labor and management have agreed to give priority to investment in human resources for the economic restart in the post-COVID world. In addition, the improvement of wage levels to recruit

and retain human resources has become indispensable for business strategies at a time when labor shortages are felt in every industry and for every category of employee.

Furthermore, the revision of Japanese wage levels, which are lower than in other major developed countries, has become a business management challenge that no Japanese company can avoid as the race to secure digital and other international human resources intensifies. In consideration of world-class wage levels, Fast Retailing announced in January that it would raise its initial monthly wage from 255,000 yen to 300,000 yen and its annual income by up to 40%.

To prevent the 2023 *Shunto* wage hike trend from ending up as a temporary one and link it to a wider sustainable uptrend, however, Japan should encourage SMEs to raise wages appropriately through the passing on of labor costs to product prices and take measures such as the continuous improvement of the treatment of non-regular employees to pave the way for increasing wages. In this respect, the government attracted public attention by convening a government-labor-management meeting for the first time in eight years since the previous one came under the Abe administration. The meeting took place on the evening of March 15, the concentrated management response date, for the purpose of stimulating wage hike spreads to SMEs and companies without unions, as well as to fixed-term contract workers, part-timers, and temporary employees. Government, labor, and management leaders at the meeting “basically agreed” that it was indispensable to rectify transactions by passing on labor costs to product prices, Prime Minister Kishida said in reporting the meeting. He emphasized that “the government will mobilize all policies to develop an environment” for the rectification. Concerning an increase in the minimum wage, which would lead to wage hikes for non-regular workers, Kishida said, “I would like Minimum Wage Councils to have a good discussion about relevant matters, including the goal of achieving the nationwide weighted-average hourly pay of 1,000 yen.” He thus set forth the specific goal in urging labor and management to raise the minimum wages.

## **VI. Private sector companies’ wage hikes exerted influence on the national government’s employee wages and minimum wages**

Private sector companies’ high wage increases have exerted influence on the public servant wages and minimum wages.

On August 7, the National Personnel Authority recommended that monthly wages for general service national government employees be raised by an average of about 2.7% in the current fiscal year’s wage revision. The authority surveyed the private companies’ payment situation and compared the gap between the wages of the public and private sectors, revealing the former was 3,869 yen (0.96%) less than that of the latter. Adding the model-estimated seniority-based wage deficiency to that difference, which is equivalent to the base pay hike, the authority concluded that an increase for the public servants of about 2.7% in monthly wage was required to fill the gap. The authority also recommended that servants’ bonuses be increased from 4.4 months’ wages to 4.5 months’ and that allowances, etc., be revised. In consequence, annual income was set to increase by about 3.3%. This fiscal year’s base pay hike gap between the public and private sectors was some 10 times as high as the average base pay hike gap of 360 yen for the past five years. The increase amount is the highest in 29 years, and the rate of increase is the highest in 26 years. The pay scale will be raised, with priority given to young workers. The initial monthly wage will be increased by 12,000 yen, or about 8%, for high school graduates and 11,000 yen, or about 6%, for university graduates. The increase will exceed 10,000 yen for both high school and university graduates for the first time in 33 years.

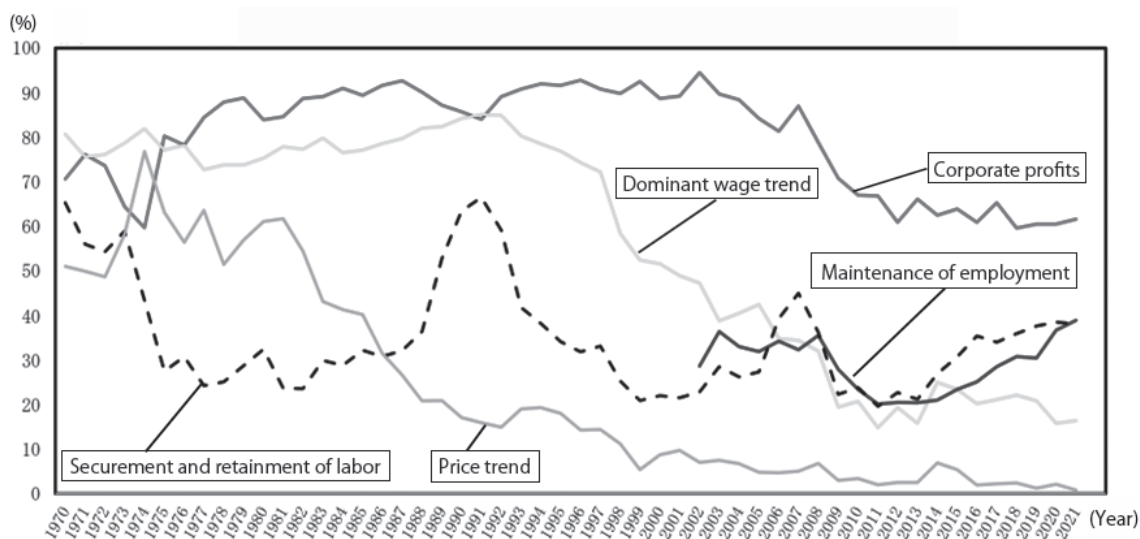
The MHLW on August 18 published minimum hourly wages revised for FY2023 by prefecture. The revised minimum wages in the 47 prefectures rose by 39–47 yen, boosting the nationwide weighted average to 1,004 yen. The average surpassed 1,000 yen for the first time. Its increase of 43 yen, or 4.47%, from 961 yen in the previous year is the highest since the current minimum wage standard system was

launched in FY1978.

In the run-up to the FY2023 minimum wage revision, the Central Minimum Wages Council announced target hikes on July 28. The target hikes included 41 yen for Rank A prefectures, 40 yen for Rank B, and 39 yen for Rank C, indicating the highest ever weighted average increase of 41 yen. Based on these targets, prefectural Minimum Wages Councils considered specific increases. As a result, out of the 47 prefectures, 24 achieved larger increases than their respective targets. The gap between the highest minimum wage at 1,113 yen in Tokyo and the lowest at 893 yen in Iwate came to 220 yen. However, the ratio of the lowest wage to the highest rose from 79.6% in the previous year to 80.2%, improving for the ninth straight year. In response to the revision, Prime Minister Kishida stated that the government would “seek to raise the nationwide weighted average to 1,500 yen by the mid-2030s.”

## VII. Investment in labor-saving technology and human resources is required to improve productivity

In labor-management wage negotiations under the fastest inflation in 40 years, companies indicated their consideration of and response to rising prices in their wage policies. However, somewhat different reactions to high inflation by current companies than by those in the past have been observed. Figure 3 shows factors to which companies gave priority in making wage decisions, based on the MHLW Survey on Wage Increase, in which respondents are allowed to cite multiple factors. In a survey in the early 1970s, which included a turning point towards higher wages in *Shunto* history, the “dominant wage trend,” rather than the “price trend,” was cited most frequently. The “securement and retainment of labor” was also cited frequently. In recent years, companies have tended to



Source: MHLW, “Survey on Wage Increase.”

Notes: 1. Data are about companies that have implemented or plan to implement wage revisions.

2. The percentage of the most frequently selected factor is the composition ratio when the number of companies in the aggregate is 100.

3. The total number of multiple answers was the total number of respondents citing each factor divided by the total number of respondents in the survey. Respondents were allowed to select up to three factors: the most important criteria and two additions.

4. In addition to the specified factors, given options in the survey included “stable labor-management relations (wage revision trends at parent or group companies);” “revisions in the previous year;” “others;” “no factor was given priority,” and “unknown.” These options are omitted in the figure as percentages for them are not necessarily large.

5. Data in and before 2008 are the percentage of companies with the most important factor filled in as 100.0.

Figure 3. Factors to which companies gave priority in making wage decisions (multiple answers allowed) (1970–2021)

give priority to “corporate profits.” However, past trends indicate that various factors were combined for wage decisions.

As labor shortages are increasingly felt in the post-COVID world, a dominant wage trend within an industry or a region gains higher potential to exert great influence on wage decisions. In the 2023 *Shunto*, for instance, companies in some industries (including heavy machinery, food, banking, etc.) made responses similar to those of the first responders. In the Nagoya region covering Shizuoka and Aichi Prefectures, large companies’ wage hikes influenced a locally dominant wage trend.

The 2023 *Shunto* results inevitably impose great pressure on SMEs that have little capacity to raise wages. Unless they increase wages to meet a dominant trend, however, they may fail to recruit or retain desirable human resources. Productivity growth is indispensable for raising wages. The COVID-19 disaster exposed Japan’s lag in digitalization. Investment in digital transformation holds the key for Japan to make up for the delay. A JILPT case study on companies that have continuously raised wages indicates that aggressive investment in digital technologies has been combined with

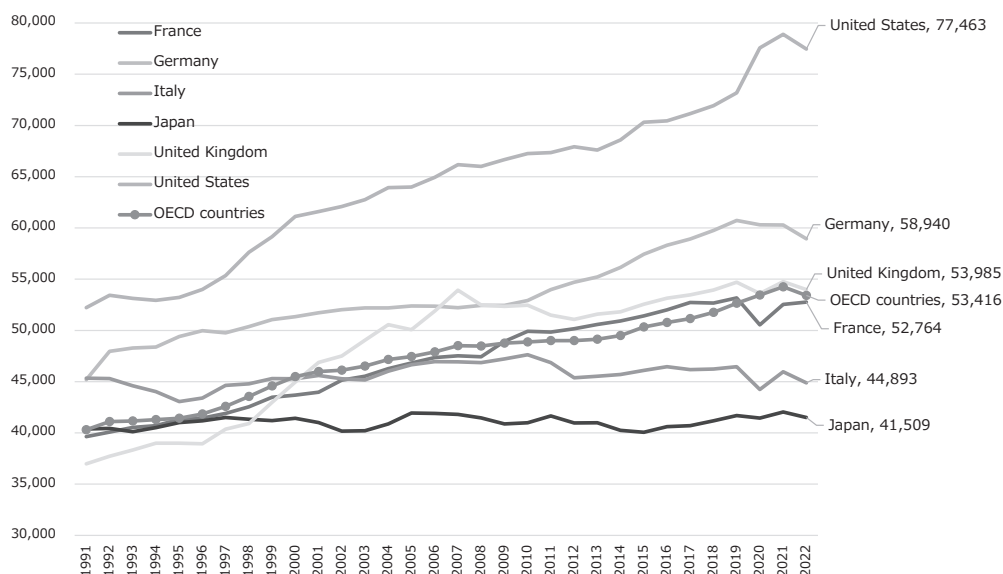
investment in human resources, resulting in an increase in productivity. In the face of labor shortages that are growing more serious due to the declining birthrate and aging population, companies are required to increase productivity through investment in labor-saving technology and human capital.

The 2023 *Shunto* wage hikes alone cannot lead Japan to catch up with other major developed countries in wage levels (Figure 4). Companies must increase wages continuously in consideration of the industry-wise average wage not only in Japan but also in other major developed countries.

### VIII. Hopes growing within the government for continuous wage hikes and a breakaway from deflation

Employers face a realistic challenge of how to absorb wage hikes’ upward pressure on labor costs. The government and the Bank of Japan place great hopes on the next *Shunto*, believing that continuous wage increases hold the key to a macroeconomic turnaround.

Given the 2023 *Shunto* results, Prime Minister Kishida said, “An economy in which wage increases



Source: Prepared by the author from OECD. Stat “Average annual wages” (in 2021 constant prices at 2021 USD PPPs).

Figure 4. Average annual wage trends

are natural, as well as investment promotion, is the key to achieving economic growth led by domestic demand even amid energy and food price spikes.” His government has thus adopted the expansion of a virtuous cycle of growth and distribution through wage hikes and investment as its economic policy pillar. Specifically, it seeks for enterprises to realize structural wage increases by achieving (1) wage hikes through the promotion of labor mobility and (2) productivity improvement for economic growth through the promotion of investment and research and development. To this end, the government will enhance initiatives to pass labor costs on to product prices appropriately towards stable increases in wages and the minimum wage. It will also expand policies to leverage investment in equipment and research centered on development for digital and green transformation.

Monetary policy authorities also place great hopes on continuous wage hikes. The Bank of Japan has carried out unprecedented monetary easing to strongly push down interest rates and provide a

massive money supply. As a condition for normalizing the unprecedented monetary easing, the continuation of a wage uptrend has attracted interest.

In order to eliminate a deflationary mindset that has taken root in Japan through prolonged economic stagnation, Japan must reverse a belief that prices or wages will never rise. In the FY2023 Annual Report on the Japanese Economy and Public Finance released on August 29, the Cabinet Office concluded prices and wages are beginning to move, emphasizing that Japan should sustain high wage increases in the next fiscal year to realize the virtuous cycle of wages and prices and establish a breakaway from deflation.

Another challenge Japan faces is that inflation-adjusted real wages have declined year on year since 2022, meaning that real wages have remained below year-before levels for more than one year. Real wages are likely to begin to score year-on-year growth in the second half of 2023 as the 2023 *Shunto* results are actually reflected in wages. However, whether Japan can sustain year-on-year real wage growth will depend on the 2024 *Shunto* negotiations.

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