

KEY TOPIC

The 2018 *Shunto*, 2% Pay Hike for five Consecutive Years; Regional Minimum Wages, 3% Rise for three Consecutive Years

The outcomes of 2018 *Shunto* announced by the government and labor and management groups

The Ministry of Health, Labour and Welfare (MHLW), a national center of trade unions, and an employers' association each announced the final tally of the 2018 spring wage offensive (*Shunto*). In Japan, the outcomes of this annual wage negotiations act upon the deliberation of minimum wages for the fiscal year.

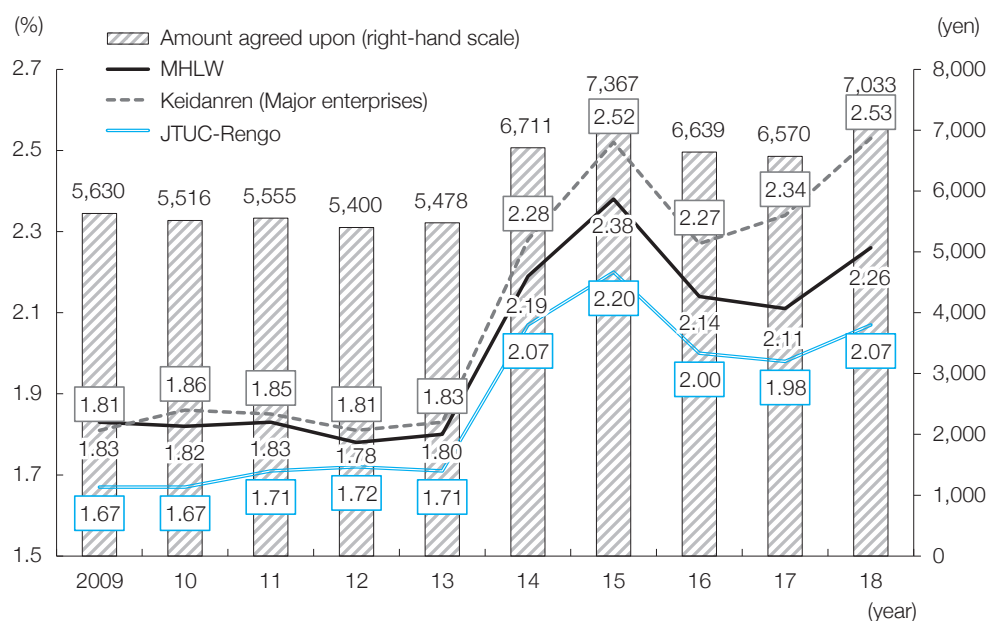
According to MHLW's "Status of wage increase demands and settlements at major private corporations in FY2018" released on August 3, the average wage increase that labor and management agreed upon at the surveyed companies was 7,033 yen (approx. US\$62.34), a 463 yen increase over last year's figure of 6,570 yen. Average wage increase refers to the monthly increase including across-the-board pay raises (called "base-up" in Japanese) and amounts equivalent to regular wage increases due to automatic increases based on age, years worked, and other factors. The rate of increase for average wages before the negotiations stood at 2.26% (a 0.15-point increase over the previous year), which marked the first rise for *Shunto* in three years. This survey subjected a total 334 companies (with labor unions) comprising those with capital of at least one billion yen, companies employed 1,000 workers or more, and whose data for agreed-upon raises including regular pay raises was available.¹

Prior to this, on July 10, Keidanren (Japan Business Federation), the leading organization of employers, released its final tally entitled "Results

of 2018 spring offensive wage settlements at major enterprises by sector (weighted average)." The average increase across 17 sectors among 116 companies (with 500 employees or more) listed in the first section of the Tokyo Stock Exchange, for which wage increase data was available, reached 8,539 yen, resulting in a rate of increase of 2.53%. Compared to last year's data (from 123 companies), wages increased by 784 yen and the rate of increase rose by 0.19 points. According to Keidanren's "Results of wage settlements at small and medium-sized enterprises (weighted average)" released on August 7, the average wage increase at 412 companies with fewer than 500 employees was 4,804 yen, making for an increase rate of 1.89%. Compared to last year's final figures, this is an increase of 218 yen (0.08 points), making the fourth straight year of increases in excess of 4,500 yen.

Meanwhile, JTUC-Rengo (Japanese Trade Union Confederation), a trade union national center with 6.75 million members, announced its final tally of the results of responses to the 2018 *Shunto* on July 6. According to this data compiled from 290 million members of 5,575 unions, the increase in monthly wages including across-the-board pay raises and regular wage increases reached 5,934 yen, making for an increase rate of 2.07%. Compared to the previous year, this is an increase of 222 yen (0.09 points). JTUC-Rengo viewed the situation positively by stating that "the upward trend of wages remains strong" pointing out that 710 unions more than last year had secured wage increases.

1. "Status of wage increase demands and settlements at major private corporations" (MHLW) tabulates amounts agreed upon as a result of spring joint labor negotiations, so the figures listed are the average wage increases and increase rates primarily for regularly enrolled workers (i.e., permanent employees and labor union members). The increases include regular pay raises if applicable.



Sources: Ministry of Health, Labour and Welfare (MHLW), “Status of wage increase demands and settlements at major private corporations”; Keidanren, “Results of spring offensive wage settlements at major enterprises by sector (weighted average)”; JTUC-Rengo, “Results of spring offensive final responses.”

Notes: 1. Agreed upon amounts are based on MHLW surveys. In principle, the companies subject to “Status of wage increase demands and settlements at major private corporations” are those with capital of at least one billion yen and labor unions with at least 1,000 members. (Figures are weighted averages.)

2. The JTUC-Rengo figure is an aggregate of all unions surveyed and includes small and medium-sized unions with fewer than 300 members.

3. In principle, the subject of the Keidanren survey of major enterprises are companies listed in the first section of the Tokyo Stock Exchange that have at least 500 employees.

Figure 1. Trends in wage increases at spring wage offensive (MHLW, JTUC-Rengo, Keidanren)

Major enterprises invest over 3% in funds in wage increases including bonuses

Aiming to escape deflation, the Abe administration, which came into power at the end of 2012, has been proactively requesting Keidanren and other business groups to increase wages. Responding to this demand, companies started increasing actual wages, including wage improvements² and across-the-board pay raises, with the 2014 *Shunto*, and the rate of increase has topped 2% for five consecutive years (Figure 1).

Because Prime Minister Abe presented the corporate sector with a specific target of 3% when he called for wage increases ahead of the 2018 *Shunto*, attention was focused on how things would play out. Keidanren’s aforementioned rate of average wage increase for major enterprises for 2018 *Shunto* was 2.53%, so it did not meet the 3% target. However, when you look at Keidanren’s “Results of 2018 spring offensive summer bonus settlements at major enterprises by sector (weighted average)” released on August 1, the amounts are the highest on record. The average bonus at 146 companies (with 500

2. Wage improvement is a term coined by labor unions during the 2006 *Shunto* as a replacement for “base-up” (across-the-board pay raises). Across-the-board pay raises mean raises for every employee in a company that take into account inflation and increased corporate performance. They have been used as a means to prevent real wage loss due to rising prices. Until recently, management indicated a strong resistance to across-the-board pay raises due to falling prices and poor corporate performance and labor unions were not able to issue forceful demands for such raises. As the economy began to recover in around 2005, labor unions came to demand that more resources be devoted to paying raises. Since then, management has been providing pay raises to specific groups of workers, such as young workers or middle-aged workers, or to workers in certain positions. This is referred to collectively as wage improvement.

employees or more) increased 8.62% over last year's tally (of 150 companies) to 953,905 yen (an increase of 75,733 yen).

Overall, major enterprises are enjoying a recovery in performance and reflecting increased profits in their bonuses. If this is added to the equation, one can state that companies are indeed giving more than 3% back to their employees compared to the previous year.

Wage increase at SMEs and for non-regular workers

There is no significant difference in the rates of increase between unions at major enterprises and those at SMEs. According to the aforementioned JTUC-Rengo final tally, the rate of average wage increase was 2.07% at labor unions who said they had used a method of average wage-based revisions,³ and 1.99% (4,840 yen) at labor unions of SMEs with fewer than 300 union members (4,073 unions: approx. 380,000 respondents). Furthermore, when you compare the figures at labor unions of SMEs to last year, the rate of increase rose 0.12 points (a 350 yen increase). The rate grew more than the total weighted figure (0.09 points up year-on-year).

JTUC-Rengo views these outcomes positively. It sees that the action for structural change of SMEs' wage increase in the *Shunto* "has firmly established and is making progress from their long-continued stance of catching up to wage increase at major enterprises or using it as a standard to a posture negotiating more on their initiative." "Things are moving in a positive direction toward narrowing the gap in wage level scales between enterprises of different sizes," Rengo says. According to its calculations, annual bonuses now stand at 4.92 months' worth of salary (weighted average based on the number of members of 2,599 labor unions), or 0.11 months more than the previous year.

The hourly wage increase for non-regular workers (part-time workers and contract workers) was 24.70 yen, up 3.41 yen year-on-year (resulting in an average hourly wage of 970.62 yen) according to

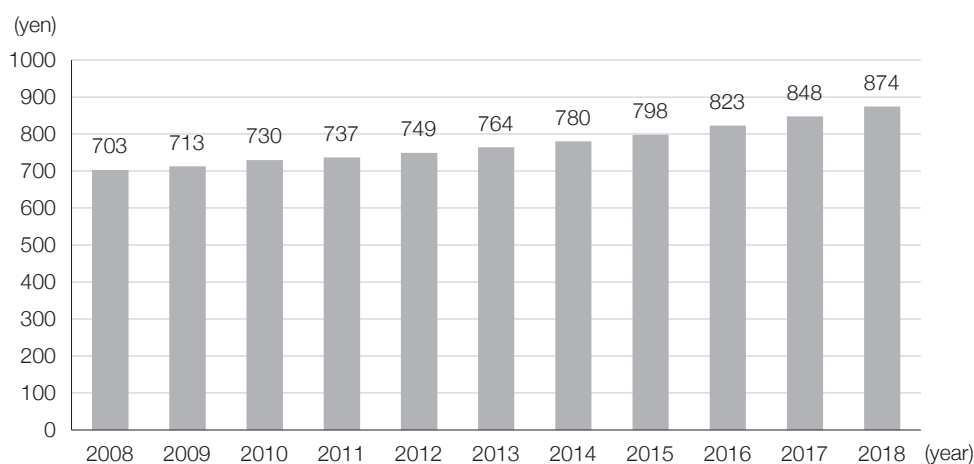
responses from 358 labor unions (weighted average of approx. 760,000 union members). Monthly wages for contract workers increased by 4,146 yen (a 640 yen increase year-on-year) according to responses from 145 labor unions (weighted average of approx. 36,000 union members). JTUC-Rengo considered the results as an increased recognition among both labor and management that it is needed to improve conditions for all workers regardless of the forms of employment in order to boost workplace productivity. "We must continue demanding more robust labor-management negotiations at the individual level in an effort to further boost wages for non-regular workers," it concluded. What appears to be underpinning these year-on-year increases in wages for both workers at SMEs and non-regular workers at 2018 *Shunto* is the impact of labor shortages.

Revised regional minimum wage reaches 874 yen

In a reflection of trends in increasing wages at private enterprises in *Shunto*, regional minimum wage hikes were up over the previous year. Revised regional minimum wage in national weighted average is to be increased 26 yen year-on-year to 874 yen (Figure 2).

On July 26, the tripartite Central Minimum Wage Council (MHLW) issued its suggested regional minimum wage revisions for fiscal 2018. Suggested hikes exceeded 20 yen in all prefectures, translating to a rate of increase of 3.1% (compared to 3.0% last fiscal year). Each prefecture receives a rank of A, B, C, or D for their suggested wage hikes based on their respective economic situations. For each rank, the suggested wage hikes are 1 yen more than last year. Six prefectures (including Tokyo) received an A ranking for suggested hikes of 27 yen. This was followed by 11 prefectures (including Kyoto) that received a B ranking with suggested hikes of 26 yen, 14 prefectures (including Hokkaido) that received a C ranking with suggested hikes of 25 yen, and 16 prefectures (including Aomori) that received a D

3. Average wage-based revisions refer to a wage revision method in which wages for all workers are determined based on decisions made about the average (standard) wage increase request of each worker.



Source: MHLW data.

Figure 2. Trends in regional minimum wages in national weighted average

ranking with suggested hikes of 23 yen.

The Regional Minimum Wage Councils in each prefecture deliberated minimum wage for their regions based on the suggestions from the Central Minimum Wage Council and reported their revised minimum wage amounts by August 10. Minimum wage hikes ranged from a high of 27 yen to a low of 24 yen. According to their reports, revised minimum wage in Tokyo is 985 yen accounting for the highest amount and that in Kagoshima was 761 yen, the lowest among 47 prefectures in Japan. With the ratio of the lowest to the highest minimum wage standing at 77.3% (0.4 points up year-on-year), wage disparity declined for the fourth consecutive year. Last year, 32 prefectures had minimum wages in the 700–799 yen range, but with this year’s revised amounts, this figure fell to 19 prefectures. This means that more than half of the prefectures now have minimum wages in the 800–899 yen range. These revised amounts in their reports are to be go into effect successively by mid-October.

Prior to the Central Minimum Wage Council’s deliberations, the government’s policy was presented in “Basic Policies for Economic and Fiscal Management and Reform 2018” and “Future Investment Strategy 2018,” both of which were approved by the Cabinet Office on June 15. Regarding minimum wages, the government expressed the policy objectives to achieve a national

weighted average of 1,000 yen by raising minimum wages at an annual rate of approximately 3% while giving consideration to the nominal GDP growth rate. These numerical targets are the same as the last two years.

Labor side stresses the need to reach a minimum wage of 1,000 yen by 2020

At a meeting of the Central Minimum Wage Council on June 26, MHLW Minister Katsunobu Kato proposed to establish a subcommittee on suggested hikes for regional minimum wage. The subcommittee met four times and released the “Report on the central minimum wage council’s suggested hikes” on July 24.

According to this report, during the discussions in the subcommittee labor representatives pointed out that “given the continuing low standard of minimum wages and significant disparity among regions, suggested hikes should be discussed based on the amount to be targeted in the interim,” and that “urgent action is needed to eliminate regional minimum wages under 800 yen.” Then they stressed that rank A regions should aim for a minimum wage of 1,000 yen, and this should be achieved by 2020.

Employers request “suggested hikes based on clear evidence”

Meanwhile, employer representatives of the

subcommittee stressed that owners of SMEs are “being forced to raise wages more than they are able to afford in order to combat a severe shortage of workers” amid a declining ability to pay wages due to the difficult situation that SMEs face such as increasing management costs including the rising prices of oil or other resources and increased personnel costs due to a shortage of workers. Furthermore, employer representatives claimed that discussions should give a consideration to the impact that these significant hikes in recent years have had on corporate management. “Employers who pay less than the minimum wage face penalties. These hikes differ from normal pay raises. The government’s various support measures are not having a sufficient impact yet.” They then insisted that “suggested hikes of an agreeable level should be presented based on clear evidence in light of the three principles stipulated in Article 9⁴ of the Minimum Wage Act—namely, the living expenses of workers, wages of workers, and ordinary enterprises’ ability to pay wages.”

Public interest members call for consideration to the Work Style Reform

With this significant gap in opinion between labor and management in the subcommittee, the Central Minimum Wage Council announced on July 24, before reporting its suggested regional minimum wage hike amounts, the opinion of its public interest members calling for full consideration to the circumstances the government faces, especially in light of the Work Style Reform Bill, which was enacted as a comprehensive legal package on June 29. They pointed out that overall wage increase rate at 2018 *Shunto* was higher than the previous year; the increase of consumer price index began to rise

and was likely to continue; and the nominal GDP growth rate did not reach 3% but increased over fiscal 2017 levels. They adverted to the impact of minimum wage hikes on the employment situation saying that “the minimum wage hikes cannot be considered significant although the “minimum wage impact factor” (i.e., the percentage of workers whose wage would fall below the revised minimum wage) indicated an upward trend.” As the grounds for that view, they listed the evidence such as the jobs-to-applicants ratio now exceeding 1.0 in all prefectures; the increasing number of employed persons; and decline in both the unemployment rate and the number of bankruptcies. They emphasized that they had assessed comprehensively and considered a wide range of factors including the need to continue improving the ratio of the lowest regional minimum wage to reach the highest regional minimum wage. Now that the Work Style Reform Bill has passed, they stressed the importance of “a particular attention to ongoing societal demands for improving treatment for non-regular workers, that is, one important goal of the Reform.

Regarding the impact of minimum wage hikes, the public members requested a careful deliberation while keeping an eye on the minimum wage impact factor, the number of employed persons, and other indicators. Since the beginning of the second Abe administration in 2012, minimum wages have increased by more than 100 yen cumulatively and its impact factor has also risen. In a survey of small-scale enterprises (i.e., general enterprises with fewer than 30 employees or manufacturers with fewer than 100 employees), the impact factor reached 11.0% in fiscal 2016, topping 10% for the first time, and increased to 11.8% in fiscal 2017.

4. Article 9, Paragraph (2): Regional minimum wages shall be set in consideration of the living expenses of workers, wages of workers and the ordinary enterprises’ ability to pay the wages in the region.