

Wages in Japan

Part I: Why Does Japanese Wage Curve Have a Strong Seniority Element?

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I. Wage curve with a strong seniority element

Differences in wage levels depending on the length of service (years of continuous work for a given employer) among manufacturing employees in various countries are shown in Figure 1. In all countries, wage levels rise in correlation with length of service to some extent, but this tendency is conspicuous among Japanese employees. The wages of employees with 30 or more years of service are approximately 120% or 130% of those of employees hired for 1 year or more and less than 5 years in the UK, France, and Italy, but in Japan, they are approximately 180%. In particular, the rate of increase after 10 years of service in Japan is relatively high, and rate of increase rises even more quickly thereafter. Germany also shows similar increases to Japan after “6 to 9 years” and “10 to 14 years” of service respectively, but the rate of increase slows thereafter.

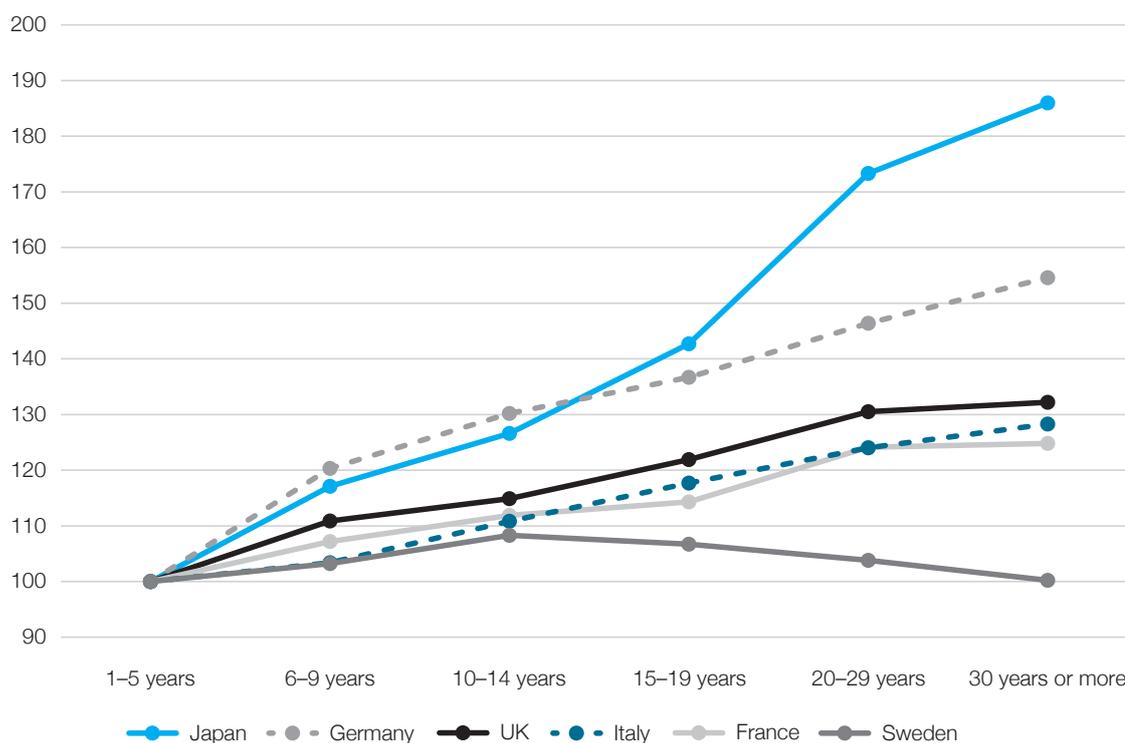
II. Why does a wage curve have a strong seniority element?

Several factors appear to lie behind Japanese seniority-based nature of wages, which as we have seen is notable compared to other countries. One of them is that the degree to which job title determines wages is smaller compared to other countries. The “job-based pay” concept, i.e. wages determined according to the *content* of job duties handled, is weak. Instead, there is a strong tendency to set wage levels according to the perceived level of *ability* required to carry out a wide range of duties assigned

by the employer. This “ability” is assumed to grow as employees gain experience over the years of continuous work at the company. For this reason, wages are significantly higher for longer term employees. This tendency to emphasize the ability that is possessed by the individual employee, rather than currently exhibited skills or performance. With this wage determination method that emphasizes employees’ ability in terms of long-term potential, wages do not go up and down according to the degree of difficulty of current duties, and are likely to be sustained at the level once they reach.

Another factor is that, there is at Japanese enterprises a deep-rooted view of wages not only “as remuneration for labor” with employees’ abilities or services rendered, but also as a crucial resource for securing and stabilizing the livelihoods of employees. The traditional paradigm of the male employee as a primary breadwinner responsible for supporting his wife and children remains strong. Companies’ concept of security of employees’ livelihood often encompasses not only the economic security of the individual employee, but also that of their family members. In general, older employees tend to incur higher household expenses for childcare and education. If the company seeks to guarantee coverage of household costs for employees and their families, higher wages will naturally be paid to those with more years of service, who are generally synonymous with a higher age group.

Then, what system has made Japanese wage curve strongly based on seniority? Two systems support (monthly) wage increases. One is annual wage increment (*teiki shokyu*), (referred to herein as



Sources: Japan: Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure* (Feb. 2017). Other countries: Eurostat, *Structure of Earnings Survey 2014* (Oct. 2017).

Notes: 1. Data derived from private-sector enterprises with 10 or more employees. Calculated based on scheduled cash earnings in Japan and average monthly earnings in Europe.

2. In Japan, “1–5 years” means at least 1 year but less than 5 years, while “6–9 years” means at least 5 years but less than 10 years.

Figure 1. Length of service and wages: Comparison of full-time male employees of Japan and European countries (100 = monthly wages for employees with 1–5 years of service)

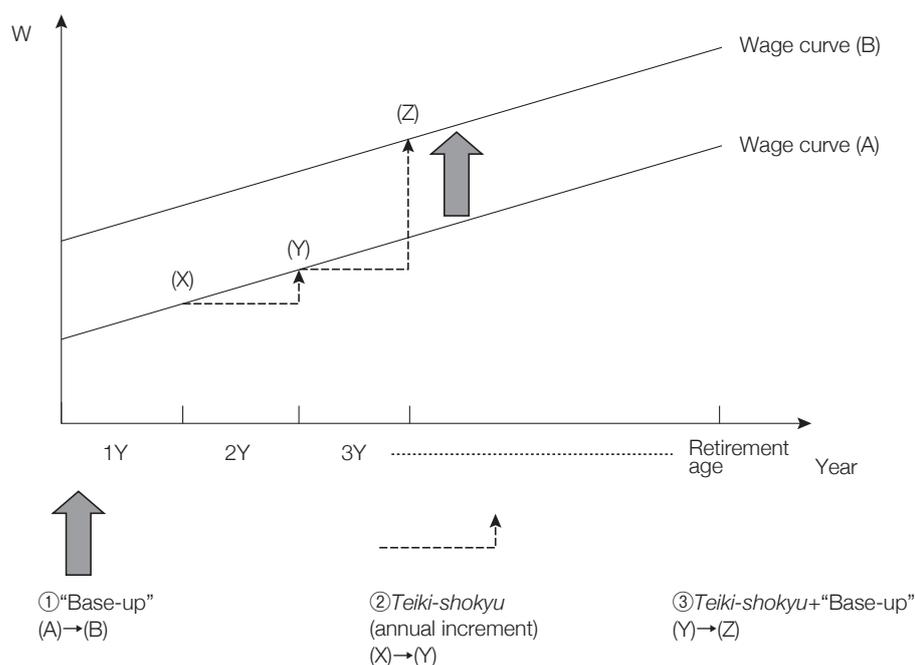
an “annual increment”) for the individual employee. The other is known as “base-up,” across-the-board pay raises, which raise the basic wages themselves, and are often determined through spring wage negotiations called *Shunto*. Figure 2 shows the relationship between annual wage increments and “base-up.”

1. The annual wage increment system

Annual increment refers to regular pay increases based on the enterprise’s wage system. For example, in the case of a wage system where the amount of wage increase is set according to scores on employee evaluations, such as 1,500 yen for an A score and 1,000 yen for a B score, pay raises based on this system are implemented every year. In Figure 2, the change from X to Y indicated by the broken lines is the annual increment.

In the “Survey on Wage Increase”¹ of the Ministry of Health, Labour and Welfare (MHLW) defines an annual increment as “an increase in wage implemented in a given period every year in line with the enterprise’s implementation of wage hikes in accordance with systems established in advance through collective agreements, work rules, and so forth. In addition to automatic increases based on age or length of service, appraisal increases based on ability and performance in a given period are also included.” This definition shows the feature of this system, that is, while there is a regular increase each year, the scope of increase is determined by ability and performance evaluations.

Although there are various views, this annual increment system is said to have been established around the mid-1950s.² In terms of postwar trends, annual increment is said to have been introduced by



Source: Prepared by the author based on Imano and Sato (2009, 199).

Figure 2. Annual wage increment and "base-up" systems

management. Table 1 clearly shows how this system is widely applied to the wage structures of Japanese enterprises.

This annual increment is one of the systemic foundations of the seniority-based wage curve.³ However, this does not necessarily mean that wages in Japan are strictly seniority-based and disregard employees' performance and achievements. Wages tend to rise with length of service, but not all employees receive equal increases in wages. Employees' wage increases are determined by personnel reviews of work performance in half-year or full-year, thus their performance and competence are taken into account when determining wages. Japanese wages are sometimes referred to as seniority-based, but in fact, it differs. Whether blue-collar or white-collar, employees' wage increases vary depending on their performance.

2. "Base-up"

The second type of wage increase, "base-up," refers to increases brought about by across-the-board revisions of an enterprise's wage table. Supposing that on the wage table where an A evaluation brought

a wage increase of 1,500 yen, the increase in wages can be caused by rewriting the wage table itself, that is, for example, by revising this amount to 2,000 yen. This is a "base-up." "Base-up" is shown in Figure 2 as a rise from the wage curve A based on the previous wage table to the wage curve B based on the new wage table.

The "base-up" is determined through labor-management negotiations. Although there has been a trend toward implementing "base-up" since 2014, there was a tendency not to do so from the late 1990s onward (Ogura 2017). Also, as shown in Table 2, even among enterprises that have implemented wage revisions, not many have implemented "base-up."⁴ Even among large enterprises with 5,000 or more employees, the implemented percentage of "base-up" is less than half. The smaller the enterprise, the smaller the percentage becomes. Thus "base-up" is a type of wage increase primarily at large-scale enterprises, in contrast to the annual increment system in widespread use regardless of the size of enterprise.

Table 1. Status of annual wage increment system by size of enterprise and employees' position (fiscal 2019) (%)

Size of enterprise (Number of employees)	Total of enterprises implementing or planning to implement wage revisions, and those not implementing wage revisions	Managerial position					
		Have annual wage increment system	Implementation status of annual wage increment			No annual wage increment system	Unknown
			Currently implementing or planning to implement	Have not implemented or will not implement	Postponed		
Total	100.0	77.5	71.2	6.2	0.2	21.8	0.7
5,000 or more employees	100.0	70.6	67.5	3.1	—	28.1	1.3
1,000–4,999 employees	100.0	78.6	76.0	2.5	0.1	21.3	0.1
300–999 employees	100.0	77.3	72.9	4.4	—	22.6	0.1
100–299 employees	100.0	77.6	70.3	7.1	0.3	21.5	0.9

Size of enterprise (Number of employees)	Total of enterprises implementing or planning to implement wage revisions, and those not implementing wage revisions	Non-managerial position					
		Have annual wage increment system	Implementation status of annual wage increment			No annual wage increment system	Unknown
			Currently implementing or planning to implement	Have not implemented or will not implement	Postponed		
Total	100.0	83.5	80.4	3.0	0.0	15.8	0.7
5,000 or more employees	100.0	91.1	89.1	2.0	—	8.9	—
1,000–4,999 employees	100.0	91.5	90.0	1.4	0.1	8.3	0.1
300–999 employees	100.0	84.6	81.9	2.7	—	15.3	0.1
100–299 employees	100.0	82.3	79.0	3.3	—	16.7	1.0

Source: MHLW's "Survey on Wage Increase," 2019.

III. Importance of the annual increment system

Annual increments systemically support the formation of Japan's seniority-based wage curves, while "base-up" increases have contributed to maintaining and improving wage levels. Both are important mechanisms that have underpinned wage curves and wage levels. Annual increments are implemented in accordance with the wage

system, while "base-up" is the outcome of labor-management negotiations. A characteristic of Japanese management practices is this clear separation between wage increases through operation of established annual increment systems, and those resulting from labor-management negotiations. In this way, employees' wages may rise every year even if labor unions do not demand for wage increases. This phenomenon is the result of the annual increment system.

Table 2. Percentage that instituted “base-up” (for non-managerial employees) among enterprises that implemented wage revisions (%)

Size of enterprise (Number of employees)	Non-managerial position						Unknown
	Enterprises with annual wage increment (regular wage increase) system	Differentiation between annual wage increment and “base-up,” etc.	Status of implementation of “base-up,” etc.			No differentiation between annual wage increment and “base-up”	
			Have implemented or will implement “base-up”	Have not implemented or will not implement “base-up”	Have implemented or will implement “base down”		
Total	100.0	66.2	31.7	34.3	0.1	33.3	0.6
5,000 or more employees	100.0	83.5	45.5	38.0	—	16.0	0.5
1,000–4,999 employees	100.0	79.3	38.1	41.0	0.2	20.3	0.4
300–999 employees	100.0	78.2	35.7	42.6	—	20.9	0.8
100–299 employees	100.0	60.6	29.6	30.9	0.2	38.9	0.5

Source: MHLW’s “Survey on Wage Increase,” 2019.

In many countries, labor and management is thought to aim to balance wages as an incentive to work, and wages as a means of ensuring standards of living. In Japan, this balance is largely attained through the annual increment system. The annual increment system is central to any explanation of the characteristics of Japanese wages.

1. MHLW, “Survey on Wage Increase,” 2019. <https://www.mhlw.go.jp/toukei/itiran/roudou/chingin/jittai/19/dl/03.pdf>.
2. Nitta dates the establishment of the annual wage increment system to the mid-1950s, and argues that the concept of seniority-based wages emerged from this (Nitta 2003). However, there are various views regarding the time of establishment of the annual wage increment system. For example, Magota (1972) believes that it was established in the 1920s before the war.
3. See Nitta (2003) for an example.
4. “Wage revision” is a frequently used term encompassing both annual increments and “base-up.” As Table 2 shows, there are enterprises that in practice do not strictly differentiate between these two. If any wage increase including either or both of these two is implemented, the enterprise in question is considered to

have implemented a wage revision.

References

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This is a series of three articles on the topic of Japanese wages. Part II (July issue, vol. 4, no. 24) will discuss wages in relation to size of enterprises.

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