



The Structure of Wage and Salary Administration in Japan

Katsuhiko Hirasawa¹, & Wenjing Shi²

¹ Principal Author

Email: hirasawa.katsuhiko@nihon-u.ac.jp

Nihon University, Japan

<https://orcid.org/0009-0006-1623-687X>

² Corresponding Author

Email: shiwjing10@gmail.com

Graduate School, Nihon University,
Japan

<https://orcid.org/0009-0008-5472-3681>

Keywords

Base wage, average wage, wage determination, Japanese system of seniority, government labor policy, labor-management, cooperative labor unions

JEL Classification Codes:

J08, J31, J33, J38

Online Access



DOI:

<https://doi.org/10.3126/nccj.v8i1.63740>

How to Cite (APA Style)

Hirasawa, K., & Shi, W. (2023). The Structure of Wage and Salary Administration in Japan. *NCC Journal*, 8(1), 127-133.

Abstract

The purpose of this paper is to reveal the basic structure of wage administration in Japan. Total wages are the subject of labor-management negotiations in Japan. The base wage (average rate) serves as a basis for negotiations. This means that wage negotiations in Japan are conducted between labor and management within the framework of administration.

Negotiations over average wages were proposed by the government immediately after defeat in the war to stabilize prices. Originally, labor unions demanded minimum wages by age group. However, the method of negotiation over average wages has been rooted in the rise of labor-management cooperative labor unions. In this way, a structure has been established in which total wages are determined through negotiations over average wages on the assumption of labor-management cooperative labor unions, and total wages are allocated to individual employees based on seniority. This, along with the centralization of wage negotiations to management and labor union leaders, has led to a decline in employee interest in wages through the backdown of wage negotiations in the workplace.

Introduction

Revealing the contradictions of mass production and the economic structure based on mass production, the 1973 oil crisis seriously affected the Japanese economy, which had been achieving high growth since the end of World War II (WWII). Amidst the stagnation of the Japanese economy, large corporations, especially those focusing on export, thoroughly streamlined their businesses in relation to human, physical, and financial resources and have generated relatively high profits over the years. The 1979 oil crisis severely affected the global economy, leading to global economic stagnation. As large Japanese corporations managed to generate relatively stable profits during this global economic stagnation, the Japanese management system gained global attention as a source of economic growth.

The Japanese system of seniority, lifetime employment, and company-wide labor unions are generally indicated as the main components of Japanese management. Putting aside company-wide labor unions, it is said that the human resource administration systems, such as the Japanese system of seniority and lifetime employment, contributed to the high profitability of large



corporations. The fact that lifetime employment and the Japanese system of seniority strengthened the employees' sense of belonging and effectively functioned as means for stimulating competitiveness among employees cannot be denied. However, if high profitability is the issue, there is a need to focus on wages as a cost.

While wages are means for sustaining their livelihood for working people, for corporations, just as machines and raw materials, wages are means for hiring and utilizing human resources. This is why wage is a key issue of contention between capital and labor. As seen in America and Europe, wage is, indeed, a key issue of contention between capital and labor when wages for each trade are negotiated between capital and labor. However, in Japan's case, the so-called base wage, i.e., the average wage of each establishment or corporation, is negotiated between capital and labor instead of the individual wage.

When discussing the high profitability of Japanese corporations, labor cost, instead of the wage form, should be examined first and foremost. However, discussions on Japanese management have focused on the issue of the wage form instead of the base wage. For example, the study of Haruyama (2005), which examined the historical development of the wage and salary administration in Japan, posed the following questions from the viewpoint that wage is a conflictive point between capital and labor since it is a cost for corporations and the means of livelihood for workers: "what are the characteristics of Japan's wage and salary administration and what are its current issues? (3)" Nevertheless, the subject of this study is wage determination based on the Japanese system of seniority.

The main subject of the study by Miyasaka (1989), which examined the wage and salary administration from the viewpoint of motivation, is also wage determination based on the Japanese system of seniority. If one is to examine the wage and salary administration from the viewpoint of motivation, regardless of the fact that the wage form would be an important subject, as Shirai (1962) points out, the nature of the wages of each trade does not stimulate motivation in Japan as it does in America and Europe since the base wage is negotiated in collective bargaining in Japan. In any case, it can be said that research on wage and salary administration has been focusing on the issue of wage determination based on the Japanese system of seniority.

However, the discussion on the Japanese system of seniority, as indicated by Shimoyama (1968), involves the relationships among workers, i.e., distribution within a corporation; this discussion does not present the characteristics of Japan's wage and salary administration. When examining Japan's wage and salary administration from the viewpoint of questioning the economic performance of Japanese corporations, the issue of base wage should be examined first and foremost because, as pointed out by Yamamoto (1982), when one is examining base wage, one is questioning the economic relationship of capital and labor.

Excellent research has been conducted on wage negotiations in Japan based on the critical theory of labor economics. This study has been stimulated in many ways by research based on the critical theory of labor economics. From the viewpoint of the wage and salary administration theory, it seems that there are still a few issues that must be solved.

Accordingly, the framework of the wage and salary administration in Japan is examined first to clarify where those issues lie.

I. The Framework of the Wage and Salary Administration in Japan

In America, where basic wages are determined by the negotiations between local unions and individual corporations against the backdrop of professional and industrial unions, the wages for each trade are determined based on job evaluations. In Germany, where wage rates for each wage grade are determined by the negotiations between professional/industrial unions and local organizations such as employers' associations, wages are determined by ranking the jobs of each corporation based on wage grades based on collective bargaining agreements. In Europe and America, wages are determined basically through capital-labor negotiations based on jobs.

While wages have been determined by collective bargaining between capital and labor in Japan since the end of WWII, unlike Europe and America, where wages are determined based on trade, the subject of collective bargaining in Japan has been base wage. As base wage refers to the average wage obtained by dividing the total labor cost by the number of employees, negotiating the base wage means negotiating the amount of the

source of wages. Along with the advancement in technological innovations, corporate management began to make rigorous economic calculations concerning, for example, capital investments. Starting around 1960, corporations, especially large corporations, began to implement long-term management plans and administrate the total wage cost from the viewpoint of achieving target profit.

To guarantee the successful implementation of long-term management plans, a stable wage was adopted along with the payment system based on job evaluation. In addition to long-term management plans, stable wages addressed capital-labor cooperation by concluding wage agreements spanning several years. However, as annual wage negotiations between employers and unions known as *shunto* (spring wage offensive) took root and especially after wages were raised substantially in the mid-1970s, it became difficult to achieve target profit. This is when the productivity standard principle was introduced.

The productivity standard principle refers to the principle of wage determination by determining the total wage based on the increase in productivity. Setting the value-added amount generated jointly by the investors, management, and workers as the foundation for distribution, this principle aims at increasing productivity based on the premise that the amount to be distributed to workers, i.e., the labor share, is a certain figure. The productivity standard principle is carried out under the capital-labor cooperative cooperation of the labor union; based on this, the total wage cost of individual corporations is determined with an emphasis on the corporation's ability to pay.

In the wage negotiations in Japan, the amount of the source of wages is determined. This amount is also the contract amount of each corporation or establishment as a group. The total wage is then distributed among the employees. This distribution is based on the wage form and the regular wage-raising system.

Prior to WWII, wages were arbitrarily determined in Japan by the management or on-site supervisors based on the age and service years of the workers. Wages began to be determined based on clear rules since the Japan Electrical Industrial Union (JEIU) Council proposed a wage system, referred to as the JEIU type wage system, in 1946. The significance of this wage system is that it substantially increased wages and determined wages from the viewpoint of guaranteeing the livelihood of the employees and their families. It is generally believed that this system is the prototype of the present payment system based on the Japanese system of seniority (*Nenkou*).

To counter the substantial wage increase and the clarified wage determination criteria, employers' associations put forward the idea of the regular wage-raising system in 1954. In a system in which base pay is increased periodically, the regular wage-raising system is characteristic in that the total labor cost does not change if there is no change in the workforce composition. While the challenge of this system was to stabilize wage costs, it was also described in the system proposal that "[the system] should be applied to each worker, naturally, within the framework of management rights" and that "this regular pay raise system is, in other words, a pay raise system based on employee evaluation." The intention was to determine wages under the authority of corporations. Based on the premise of controlling total wage, it can be said that triggered by mass production, the wage form in Japan was changed by corporations with consideration to employee competence and guaranteeing their livelihood while taking control of the right to administrate wages. As described so far, the key issue of the wage and salary administration in Japan has been total wage, i.e., labor cost administration. Accordingly, the next section describes the historical development of total wage administration.

II. The Establishment of the Base Wage Concept¹

Wage determination in Japan is based on base wage. Base wage is obtained by dividing a corporation's total labor cost by the number of its employees; it is the basis of the annual wage negotiations between employers and unions (*shunto*). The prototype of the idea of base wage was proposed shortly after Japan lost WWII, specifically in February 1946, by the Japanese government as part of its wage control policy. The measure was based on the minimum wage plan proposed by the Central Wage Committee that was convened in November 1945. Based on this plan, the government calculated that the total calories required for a five-person family living in a large city were 1,800 and, based on this figure, set the minimum wage as 500 yen by this measure. Moreover, the measure specified that wages up to 500 yen should be paid by cash and any amount above that should be paid by drafts, checks, etc. For this reason, the wage demands of labor unions began to focus on family allowance.

Against this government's wage control set at 500 yen, Toshiba's labor union proposed a wage demand. In this demand countering the government's 500 yen minimum wage plan, the union demanded a substantial increase with a minimum wage of 600 yen and an average wage of 1,000 yen. Although this demand was significant in that it asked for a substantial wage increase, it must be noted that the concept of average wage proposed by the government was also proposed by the union. While the concept of average wage was proposed by the Central Wage Committee in the first place, the proposal of Toshiba's labor union was also significant in that it proactively accepted this concept.

Against the wage demand system proposed by Toshiba's labor union, the JEIU proposed a new wage demand system. The JEIU demanded an average wage of 2,400 yen and succeeded in increasing the average wage to 2,200 yen. While the JEIU-type wage system is significant in that it achieved a substantial wage increase, the fact that the system determined wages from the viewpoint of guaranteeing the livelihood of the employees and their families is even more significant.

The JEIU-type wage was centered on basic wages. Accounting for approx. 70% of the basic wage when combined, the livelihood guarantee pay and the competence-based pay were the two most important components. The livelihood guarantee pay consisted of the employee pay and the family pay. The employee pay was set at 500 yen for those 17 years old and under; the amount was increased by 30 yen annually from age 18 to 30, 20 yen from age 31 to 40, and then there was no annual increase from age 41 and beyond. The family pay was set at 200 yen for the first member and 150 yen was added for each additional member. The competence-based pay was approx. 400 yen per month for each worker. With the JEIU type wage system, the amount of wage earnings was clearly defined based on age and the number of family members.

Against the JEIU-type wage system and the minimum wage demand based on this system that was proposed by the JEIU within the negotiations over this system held in 1946, the corporate management proposed the idea of average wage, i.e., base wage. Against the workers' demand for a wage increase, the corporate management tried to keep the total wage within a certain range, stressing that wage increases would lead to an increase in prices.

Along with base wage, periodic wage raise is a key element for wage determination. Periodic wage raise is a system in which the base pay is annually increased at a certain time in the year. Although each worker's wage is increased, the total wage cost does not change unless there is a change in, for example, the workforce composition since wage is increased within the framework of the wage system. The adoption of the regular wage raising system enabled corporate management to take the initiative in wage determination and the challenge of the system was to eliminate increases in the base pay.

The development of wage negotiations between capital and labor in Japan immediately after WWII has been examined so far to confirm the generation of base wages. The concept of average wage was generated to suppress prices and ensure minimum wage against the backdrop of the price hikes immediately after Japan lost WWII. As seen in the case of Toshiba's negotiations, the concept of average wage was accepted by some workers as well. However, the JEIU's wage demand aimed at guaranteeing an age-based minimum wage to counter the concept of average wage proposed by the government; in other words, the average wage was not readily accepted by workers. In fact, the government and corporations were trying to adopt the system of base wage along with the regular pay raising system against the wage demands modeled after the JEIU-type wage demand.

Even though the form of negotiating total wage, whether it was focusing on average wage or base wage, was accepted by some workers as seen in the case of Toshiba, it was not desirable for the workers immediately after WWII. However, as this form was ultimately accepted by workers and has been the framework of wage negotiations up until today, the reasons for this development must be examined. By doing so, the qualities of the wage and salary administration in Japan should also be elucidated.

III. Base Wage and Labor Unions

Prior to WWII, wages and other working conditions were arbitrarily determined by corporate management in Japan. Wages and other working conditions began to be determined by capital-labor negotiations when union formation became legal after Japan lost WWII. Unions have been rapidly formed since then. The formation of

these unions cannot be understood without understanding the conditions of the working class immediately after WWII.

After Japan lost the war, Japanese corporations had no choice but to stop production and numerous workers were dismissed. Furthermore, the Japanese citizens were facing a survival threat due to the shortage of food and daily necessities that had been continuing since the wartime years. Workers formed labor unions, restarted production on their own, and demanded substantial wage increases. In order to deal with this critical situation, the activities of labor unions were carried out starting at the shop floor.

It must be noted that there were two directions when these labor unions were formed: i.e., the Congress of Industrial Unions of Japan (CIU) organized mainly by the Japanese Communist Party (JCP) and the Japan Federation of Labor Unions (JFLU) mainly organized by the unionists who were active since before the WWII. When the JCP began to be actively involved in forming labor unions following WWII, the CIU, a left-wing organization, played a significant role in the period immediately after Japan lost the war. However, the JFLU began to play a central role when America's occupation policy changed and the organization eventually dictated Japan's labor union movement. In light of this, the responses of unions against wage control are examined in the next section.

1) Criteria for Wage Demands

As previously elucidated, the Japanese government had been implementing wage control since immediately after WWII. This concept was eventually linked to the discussion of the ability of corporations to pay and then developed into the idea of base wage. Base wage refers to the average wage obtained by dividing a corporation's total wage payment by the number of employees. In other words, negotiations on base wages prioritize a corporation's labor cost instead of the livelihood of its employees. Furthermore, this form of negotiation did not direct the workers' attention to individual wages; rather, it strengthened the power of corporate management to determine individual wages. In this sense, the base wage system was not a desirable form of negotiation for labor unions.

In fact, the demand for an age-based minimum wage intensified against the government's wage control after the JEIU proposed its wage demand in 1946. As previously examined, the idea of this wage demand was to determine a wage by calculating the calories, based on age, needed for living and to determine wages that guarantees the livelihood of the worker's family based on the number of family members. This type of wage demand has played a significant role in Japan.

Of course, as seen in the case of Toshiba, there were cases in which the average wage was accepted as a form of negotiation. A member of CIU, Toshiba's labor union took the form of average wage negotiation in order to break through the government's wage control level of 500 yen. The grounds for selecting average wage as a negotiation form must be examined. In his study analyzing the wage negotiations in Japan immediately after WWII in detail, [Koshiro \(1959\)](#) points out that "the average wage negotiation form was not generated simply as a result of wage control. Rather, [it was generated] inevitably from the fact that wage determination based on the seniority system is the basic characteristic of wage in our country." (1959, 194)

As widely known, unlike in Europe and America, there are no socially accepted wage rates based on trade in Japan. Based on age, educational background, service years, etc., wage earnings differ even among workers who are performing the same job. Moreover, wage earnings differ by not only gender but also by the size of the corporation. Koshiro describes that "comparison of per person average wages was the only socially acceptable form of comparison that could have been generated" (1959, 201) in Japan where a diverse range of wage gaps exists. It is true that Japan's low wage structure is characterized by the existence of a diverse range of wage gaps and when it is assumed that this is making it difficult for workers to unite, it can be said that average wage is accepted by labor unions as the grounds for demand.

However, age-based minimum wage became the grounds of demand since the JEIU-type demand was made. Furthermore, if age-based minimum wage demands were being made for wage negotiations at the shop floor even after negotiations on base wage became common, it seems that base wage does not necessarily have

to be the criterion of wage demand. There is a need to elucidate the active grounds for unions to accept the base wage system as a form of negotiation.

2) *Japan Federation of Labor Unions and Base Wage*²

Triggered by the end of WWII, many labor unions were formed in Japan. The direction of labor union formation immediately after WWII was led toward creating a single central organization. However, as labor unions were formed with the shop floor as their foundation, the CIU began to form a nationwide labor union with these spontaneously formed labor unions as its foundation. In contrast to this movement, labor unions were organized through the JFLU by the unionists who had been active since before WWII. While labor unions were organized by the CIU immediately after WWII, the JFLU began to prevail with the change in America's occupation policy. The nature of wage demands changed along with the change in the direction of the labor union movement. The qualities of labor unions sharing the purposes of the JFLU and the nature of their activities that led to accepting the government's idea of base wage are examined in this section.

As previously indicated, the activities of the JFLU were led by competent unionists who had gained experience in the labor union movement prior to WWII and their activities were carried out based on their network. While the CIU targeted the staff members for organizing labor unions, the core members of these labor unions were production workers. Prior to the end of WWII, production workers were incorporated into a paternalistic system of "management" that was centered on the experienced workers on the shop floor. In this sense, labor unions were formed in a top-down manner, so to speak, mainly by those who became the union leaders. Accordingly, the JFLU's activity policies are introduced in the next section.

The JFLU's activity policies are supposed to be expressed in their slogan, healthy trade unionism. In other words, the JFLU defines itself as an economic organization for improving labor conditions. While the foundation of a labor union's bargaining power is defined by the number of its members, due to its conflict with the CIU, the JFLU adopted the union shop system and the challenge was to organize an entire corporation or establishment.

In the period immediately after WWII, the JFLU, as with the CIU, was demanding for wage that guaranteed livelihood and demanded for minimum wage based on age and the number of family members. However, in contrast to the left-wing unions that made wage demands based on a theoretical cost of living, the right-wing unions made demands based on the actual cost of living. The demands of the JFLU were characterized by this pursuit of feasibility.

In fact, the JFLU tried to avoid strikes as much as possible to prevent the unions from weakening or dissolving due to strikes. For this reason, although unions took the stance of opposing dismissal against corporations' plans of workforce reduction, the key points of collective bargaining and other negotiations shifted to conditions, such as a reduction in the number of people to be dismissed, switching from involuntary to voluntary resignation, etc. It is assumed that base wage was accepted as a form of negotiation against the backdrop of the above-described pragmatic approach of the JFLU (Shirai, 1962, 125-132).

At the same time, the foundation of the JFLU consisted of small and medium-sized enterprises. As 70% of the JFLU members in the metal industry of Kanagawa Prefecture at the time were unions of companies with 300 or fewer employees according to Shirai (1962), it can be said that their power was not very strong. However, the power of right-wing unions increased during the process of forming the General Council of Trade Unions in Japan during the 1950s and the negotiation form based on base wage became common.

Conclusion

The purpose of this study was to elucidate the characteristics of the wage and salary administration in Japan.

As examined so far, the wage and salary administration in Japan has been carried out within the framework of determining base wage, i.e., the amount of the source of wages, based on wage negotiations between capital and labor and then distributing this source of wages to every employee based on their educational background, service years, etc. This style of wage and salary administration has flexibly controlled the total labor cost and gave economic stimulation to employees through wage distribution based on the seniority system.

Many studies have been conducted on the wage and salary administration in Japan but most of them focused on the Japanese system of seniority concerning the distribution of the source of wages and it seems that little emphasis has been given to total wage. However, when it is assumed that total wage administration defines the global competitiveness of Japanese corporations and that it is related to the motivation of employees, there is a need to focus on total wage administration.

Total wage administration in Japan has been based on base wage. Although labor unions strongly resisted the government's concept of base wage immediately after WWII, the negotiation form of base wage was eventually accepted with the increase in the influence and power of the JFLU whose activities were based on business unionism. Under the JFLU's policy of business unionism, exclusionary labor practices were formed based on the union shop system. Although the amount of the source of labor is determined by the wage negotiations carried out mainly by the union leaders and the individual wages were determined based on that amount, the influence of labor unions on the shop floor was mostly eliminated. The wage and salary administration in Japan has effectively functioned under such labor-management relations.

Nevertheless, the motivation function based on individual wages has weakened under the wage and salary administration based on base wage and the performance of Japanese corporations is being questioned. Amidst this situation, payment by result has become a significant issue. Further research is to be conducted on the issue.

References

- Haruyama, T. (2005). *Nihon Chingin Kanrishi* (The history of wage and salary administration in Japan), Bunshindou.
- Koshiro, K. (1959). *Dantai Koushou to Nenkou Chingin* (Collective bargaining and wage determination on Japanese type of seniority), in; *Sangyou to Roudoukumiai* (Industry and labor union), ed. by Sumiya, M., Daiamondo sha.
- Miyasaka, J. (1989). *Houshuu Kanri no Nihonteki Tenkai* (The development of compensation administration in Japan), Kouyou Shobou.
- Nishimura and Yoshimura (1960). *Nihon no Chingin Mondai* (Wage problem in Japan), Mineruba Shobou.
- Shimoyama, F. (1968). *Nihonteki Teichingin Gakusetsu Shoushi* (Historical analysis on some theories about low wages in Japan), in *Nihon Shihon Shugi to Chingin* (Japanese capitalism and wage), Aoki Shoten.
- Shirai, T. (1962). *Nihon Roudoukumiaidoumei no Undou* (The activities of Japan federation of labor unions), in *Roudou Undoushi* (The history of labor movement), ed. by Oukouchi, K. and Fujita, I., Koubundou.
- Yamamoto, K. (1982). *Nihon no Chingin, Roudoujikan* (Wage and working hours in Japan), Toukyou Daigaku Shutsupann Kai.

1 The discussion in this section is based on Nishimura and Yoshimura (1960).

2 The description in this section is based on Shirai (1959).