

WAGE ADMINISTRATION IN JAPAN

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I. Introduction

The real wage per man hour of Japanese and German production workers in manufacturing in 1974 was 49 %, and 82 % respectively, that of their colleagues in the U.S. In 1972, the labor cost/sales ratio of Japanese top-ranking firms in given industries was much less than that of the German firms; it was 6.9 % vs. 27.9 % in auto and 12.9 % vs. 22.1 % in steel industry, respectively.

Labor costs per employee, however, were not much different: ¥ 2,235,000 vs. ¥ 2,465,000 and ¥ 1,725,000 vs. ¥ 2,405,000, respectively.

The ratio in large Japanese manufacturing firms (of over ¥ 100 million capital stock) was one half of the ratio in German firms, that is 11 % and 20 % in 1964-73.

The objective of this article is to explain how Japanese wage administration has contributed to the compatibility of the low labor costs/sales with high labor costs per employee, although high capital cost/sales (more than 7 %) and the subcontracting system have partially contributed to this compatibility, too.

The unique characteristic of Japanese wage administration is the intentional ambiguity of the Japanese "seniority" wage system and its administration. It has secured the larger latitude of managers, and the closer team work of the managed.

The unique characteristics of Japan's wage system and its administration can be analyzed as follows.

II. Components of total cash earnings

In Japan, the basic wage is as low as less than 60 % of the total cash earnings, and is not comparable outside the firm, as it depends mainly on the seasonal bonus, being as high as 27 % of the total earnings. Neither basic wage, nor monthly salary is to be understood as a "basic wage rate" in the western sense of a specific time-rate for each job class or each skill level. Either basic wage or monthly salary serves as a base for the calculation of the extensive allowances, including the bonus.

In 1974, the total cash earnings per man month in all the firms surveyed were composed of basic wage 56.5 %, non-statutory allowances 9.9 %, statutory allowances 6.6 %, and seasonal bonus 27.0 %. Other labor costs as per centage of the total cash earnings are not higher than in other advanced economics, despite a variety of fringe benefits and perquisites. Other labor costs were 15.1 % of the total cash earnings in 1972, that is retirement and severance payments were 3.1 % of the total cash earnings and non-cash benefits were in the order of 12.0 %.

III. Monthly salary

The firm's financial liability of the basic wage and non-statutory allowances is discharged in the form of monthly installments which each firm provides in return of its regular employees' permanent service.

1. Payment methods

In 1974, 85.6 % of the employees received a monthly salary, 12.5 % daily or hourly wages, and 1.9 % payments by result. The majority (48.1 %) of these salaried employees (85.6 %) suffered from salary reduction in case of absenteeism. The minority (37.5 %) did not suffer from the reduction, but most of them did from the reduction of paid vacation in case of absenteeism.

2. The starting salary

Contrary to the Western concept of hiring wages, the starting salary in Japan is the monthly salary of those new permanent employees who have entered a firm immediately upon school graduation.

a) Each level of formal schooling corresponds to the class of employment: the middle school graduate becomes a blue-collar worker; the senior high-school graduate a white-collar clerk or technician; and the college graduate starting as office employee or engineer can aspire to a management or a professional staff position.

In the full employment period of the 1960s, however, this situation started to change, as more and more middle-school graduates went to high school, and technological progress made factory work more acceptable to senior high-school graduates. Today, the trend is for hiring high-school graduates as both blue- and white-collar employees.

The starting salary is still determined by the level of formal schooling. While school records play no role. It is rather assumed that the good school and its good school record themselves guarantee the potential ability of each candidate, that is then checked by hiring procedures, like company entrance examination, screening tests and comprehensive family inquiries. However, this assumption has been challenged.

Given the narrow gate for entering permanent employment, competition among firms to attract the new graduates has been increasing year after year. For the firm, the only efficient way to keep down the average age of the workforce, is to hire every year the youngest age group - the new graduates - who on the one hand are also the most adept to meet the skill requirements of technological progress, but who on the other hand are least ready to endure patiently toils and troubles in their workshop.

b) Contrary to the basic wage that is very much peculiar

to each company, the starting wage for each level of schooling is substantially uniform among firms, because of their competitive bidding for new school graduates, their collusions on the amount, and because of the use of the bachelors' standard costs of living at the age 18 as one of its determining factors.

The age factor differentiating the various levels of schooling plays an indirect role in determining the starting salary. A senior high-school graduate receives an amount equal to, or higher than, the monthly salary of the middle-school graduate whose length of service would already be about three years.

IV. The basic wage

1. Coverage

The basic wage is paid to permanent employees from the time they join the company immediately upon school graduation, until the age limit fixed between 55 and 60. At that age, their employment may be continued, or they may be rehired simultaneously as temporary employees in the same firm, but on a selective basis and with 70 % or less of their previous wage; in other words, "permanent" employment and the concomitant basic-wage progression are discontinued.

Except for special consideration granted to the level of formal schooling, the basic wage does not distinguish between white- and blue-collar employees, nor between supervisory and non-supervisory employees.

Distinction in pay is generally made by means of allowances rather than the basic wage itself. Distinction is not even made between lower and middle management, chiefs of section (kachō) and heads of department (buchō). Top management, however, has its own remuneration system without an age limit.

2. Amount

The basic wage is paid once a month as part of the monthly salary, the straight-time monthly earnings. This monthly amount increases at some regular intervals in an almost automatic fashion; this progression follows a roughly similar pattern for each of the three levels of formal schooling.

The actual amounts of the basic wage are given in salary tables incorporated in the company employment rules that, in Japan, take the place of the individual labor contract for permanent employees. There is no general minimum wage level for the key occupation as well as no minimum job rate; each company has its own. As will be seen later, the actual amounts are in fact less important than the wage system for which they stand: the system is the same for all the large firms, though amounts may vary in detail, and often substantially.

To illustrate the point, two typical cases are selected, one in the public sector, the national government basic-salary table for office employees, the other in the private sector. The former is the norm, and the latter is a deviation from the norm.

The public sector has specific tables for each type of employment: office employee, teacher, doctor, technician, etc. In all these tables, grade stands for an increase every twelve months controlled by personnel appraisal.

The classes 1, 2 and 3-4 are roughly determined by job positions: deputy chief of division, chiefs of section and sub-section, respectively. Every employee can belong to class 5, if he is promoted to an assistant sub-section chief. The class 6 is determined by non-supervisory position and the classes 7 and 8 by the status of college and senior high-school graduation, respectively.

If he can be promoted from his present job position of assistant sub-section chief to sub-section chief, his pre-

sent class 5 and grade 19 can be promoted to class 4 and grade 13 (the nearest higher wage level), and his wage can continue to progress every year up to the highest grade 20 in the same class 4.

If he can not be promoted, his wage still progresses informally every two years, after he reaches the upper limit, grade 20. Under the permanent employment system, the employee tends to be status-oriented and promotion can be an effective incentive to his performance.

In the private sector, companies, though adopting a similar "system", have each their own sets of "amounts". A significant case in the private sector would be that of the Jūjō Paper Co. (JPC), which has a workforce of over 6,000 organizable non-supervisory regular employees, all of whom are organized in the JPC enterprise union. They speak of pay by job classification that represents ninety percent of the monthly salary. However, these earnings over the years follow a pattern similar to that of the seniority wage. It should also be noted that, by explicit admission by the management and the labor union, the job classification justifies unequal pay for equal skills, and its administration implicitly matches seniority of permanent employees with standard ability.

V. Functional classifications of the basic-wage systems

In Japan, the seniority wage system is still the norm, and other wage systems are its deviations, though wage by job classification shifted from 27.9 % to 47.9 %, as percentage of all systems surveyed during the period 1970-74, seniority wage from 17.3 % to 11.2 %, and combinations of the two systems mentioned above from 52.7 % to 40.9 %. The following functional reclassification of wage systems proves the dominance of the seniority wage system and its administration.

1. "Model wage" progression curve

The "model wage" progression curve of the various wage

systems is not much different, because the seniority wage system is directly related to following key factors: seniority, ability, merit, through periodical wage progression, but job classification is indirectly related to the factors through periodical promotion based on seniority.

The "model wage" was commonly characterized by the periodical wage progression and standard job promotion of the well-qualified employees between the starting salary and the age limit. It is a social mechanism related to the increasing social needs (living costs) of the regular employees and his household, implicitly to his merit and ability.

2. Deviations from the norm

The basic-wage systems by job classification as percentage (47.9 %) of all the wage systems surveyed in 1974 were classified into three categories: those based on job evaluation (32.9 %), those based on employee's ability (5.8 %) and those without job evaluation and wage table (9.2 %), including those based on occupational skill (1.5 %).

a) The norm. The monthly salary of skilled employees in the paper-making company is supposed to reach the standard costs of living in Tokyo for the household of three or more, not at the age of 21, but at the age of 35-39. Their job promotion up to the age of 35-39 is, therefore, inevitable, regardless of ability and job.

b) The deviation. Company needs come first, (1) to terminate periodical wage progression at a certain age earlier than the age limit of 55-60; and (2) to bridge the gap between the number of supervisory job positions and that of well-qualified employees.

Job classification allows (1) to limit periodical wage progression within each range rates; (2) to disqualify the job promotion of those who have failed in demonstrating their ability to perform supervisory jobs.

Another evidence of the deviation between norm and reality is the coincidence of the increasing number of firms

adopting wages by job classification and that of those adopting non-statutory work allowances. They are not integrated in wages by job classification. The rate of increase of the former was 1.7 times (47.9 %/27.9 %), and that of increase of the latter 1.5 times (33.8 %/22.8 %), during the period 1970-74.

VI. Basic-wage and salary progression

1. Progression up to the age limit

The fundamental consideration regarding the periodic progression of the basic wage is the length of service in the company. The basic-wage increases steadily on a yearly basis. This progression reflects the ambiguous integration of seniority, ability, merit and the living costs.

a) The progression is a growing deterrent from quit and lay-off as "seniority" builds up. It promotes the group-oriented cooperation of Japanese employees with the technological progress of each firm, in order to stabilize their employment, and to guarantee their firms' full return of the total costs of training the work force.

b) The progression matches the "ability" of the employee in the long run who is given by the company the training he needs; thus this work experience increases with his years of service. With the guarantee of permanent employment, considerable mobility within the company and the development of the employee's abilities are expected. Consequently, the progression of wage also implicitly reflects promotion. During the first half of life-long employment, it ideally assumes promotion from unskilled to skilled status; during the second half, say after 40, it assumes promotion from non-supervisory to supervisory position.

c) The progression of wage means the living wage by age, and no wage reduction, due to demotion and transfer. It is a social mechanism related to the increasing social needs of the employee and his household.

2. Salary curve

Although the progression of the basic-wage is continuous, the differentials between the regular increments vary. On the average, the yearly increment is of the order of 1-3 %, that is 3 % at the start of employment, 2 % in the middle, and 1 % or less toward the end of permanent employment. The remuneration is measured not by the contribution to the firm at any given moment in any given type of job or responsibility, but by the long-run personnel appraisal record (see 3).

This point will be made clear by a specific example. In June 1974, the monthly salary of male employees in manufacturing establishment with 10 or more employees was equal to or higher by 1.5 times than the standard cost of living in Tokyo in all age periods.

First period (1.5 times):

Between the age of 18 and 19, the employee in most cases has no family responsibility. His monthly salary starts from ¥ 58,000, whilst his cost of living requires over ¥ 46,277 per month.

Second period (1.2 times):

Between the age of 25 and 29, the employee mostly gets married. The salary is over ¥ 102,810, whereas a household of two requires over ¥ 82,294 for living.

Third period (1.1 times):

Between the age of 30 and 34, the household will have the first child. The employee's salary is ¥ 125,000, and the family now requires over ¥ 109,381 for living.

Fourth period (1.1 times):

Between the age of 35 and 39, the employee will have his second child. The household needs climb to ¥ 127,765 per month, whilst the salary is ¥ 140,300.

Fifth period (1.1 times):

Between the age of 40 and 44, the employee may have a third child. The household needs climb to ¥ 139,560, while the salary is ¥ 146,300.

Sixth period:

The salary of employees at the age of 60 or more is below that of the employees at the age of 20-24, ¥ 79,000 vs. ¥ 81,200.

3. Personnel appraisal

The basic-wage progression, though related to seniority, is also consistently determined by personnel appraisal. The appraisal has little, if anything, to do with job evaluation standards, but has the short-run and long-run implication of punishing free riders in the progression system and rewarding active participants in greater labor productivity.

a) Short-run implications. The rate of progression is in fact a narrow "range" that allows slight variations determined by personnel appraisal. The narrowness of the range is not conducive to an elaborate and explicit appraisal, at any rate almost impossible for lack of job standards and for ambiguous combination of appraisal factors. An excellent performer obtains a moderate premium above the normal performer, and the penalty for the below-normal performer is also moderate.

Actually, the premium may be to jump the next grade and thus receive after, say, six months the amount due only after twelve months; the "penalty" would be to receive the same amount several months later than normal.

Substantial individual deviations based on the results of personnel appraisal however, are avoided, in order not to disturb the team work at every organizational level and the group-orientation expressed by the basic-wage.

b) Long-run implications. Yearly deviations until the age limit may, however, accumulate in such a way that no manager can explain the wage differentials among those with the same seniority and skill level. Such a situation does not appear, however, to create a major problem of morale, as long as the fundamental uniformity of the basic salary is not denied. These deviations as do exist, have much re-

lation to the promotion. Their impact on promotion is far reaching.

VII. Factors affecting Japanese wage systems

Basic factors affecting the wage system are the value of permanent employment, the social custom of escape from assuming one's responsibility, and absence of an effective minimum wage. Supporting factors are the long-run company growth and the early age limit.

Japanese wage administration and its ambiguity have not been really challenged, because it have not been the basic factors, but the supporting factors that have been really challenged by the recent economic stagflation of 1974-75, by international competition, aging labor force, and anti-pollution movements.

1. Permanent employment as a value system

In Japan, permanent employment is preferred to life-time commitment. It is the prevailing value system of both managers and the managed concerning employment, regardless of the size of firm.

a) Contrary to life-time commitment, permanent employment guarantees neither life-long income, nor life-long employment, but in the real sense assumes little freedom of quit and lay-off up to the early age limit of 55-60.

b) Three quarters after the quarter of peak production (the fourth quarter of 1973) in Japan, and the first quarter of 1974 in Germany, employment in Japanese and German manufacturing industries was reduced by 0.11 % and 0.55 %, respectively, per 1 % of production decrease. This Japanese employment elasticity increased from 0.11 to 0.44 and the German one from 0.55 to 1.28, respectively, i.e. the Japanese one was still lower than German one.

c) Permanent employment integrates a firm as an association and an intentional community where each member's work is group oriented and where each employee identifies himself with his group.

2. Escape from assuming one's own responsibility as social custom

The stronger the sense of group conformity, the more willing the employees become to escape from assuming their own responsibility. The intentional ambiguity of the Japanese wage system is the combined result of this type of the managers' escape and labor unions' escape to challenge that ambiguity.

3. Absence of an effective minimum wage system

The absence of an effective national minimum wage for minors and the adults, and the absence of collectively bargained minimum wage agreements for the skilled occupations, allow wider wage differentials by age, and the ambiguous wage system to determine them.

4. Long-run company growth

The long-run company growth supports the Japanese wage system because of the following two reasons:

- a) It reduces the employees' dissatisfactions with the wage system by increasing the real wage, and at the same time, by stabilizing labor costs/sales.
- b) It reduces the gap between the number of higher job positions and that of those who are well qualified for assuming them.

5. The early age limit

From a company's point of view, the early age limit of 55-60 can terminate the increasing gap between the basic wage and labor productivity, due to technological progress and physical decline.

VIII. Extensive allowances in Japanese wage systems

The allowances can be grouped into three types: statutory and non-statutory allowances, and seasonal bonus. All of them have the same basic purposes: to allow the smooth

functioning of the wage system, and to promote group motivation from the viewpoint of the company as well as that of the employee, thus stabilizing labor cost/sales at a low ratio.

For the company, these extra payments are not part of the basic wage and thus the allowances / basic-wage ratio declined during the past decade of rapid basic-wage increase. The allowances introduce a kind of flexibility, that otherwise would disturb the uniformity of the basic wage.

For the employees, the basic-wage is a general norm applying to all, but allowances recognize necessary differences, particular to an individual or to a group of employees. The former requires organized effort to increase its level but the latter does not.

The concept of "fringe benefits" is not appropriate for the Japanese wage system, not only because the extensive allowances constitute such a large proportion (43.5 % in 1974) of the total earnings and yet exclude retirement pay as well as pension, but also because the allowances are partial substitutes for, rather than supplements to, the basic wage.

1. Statutory and non-statutory allowances

The former are normal international practice, including special pay for vacation, overtime and night work. The latter are part of monthly salary, including more than ten allowances connected with work and non-work.

a) The monthly salary per hours plus its prevailing overtime allowance is lower than the monthly salary and the bonus per hour without the allowance. If the former is ¥ 1,000 + ¥ 250, the latter is ¥ 1,000 + ¥ 406.

b) Overtime allowance is essential for increasing the total working hours of a growing firm without increasing its regular workforce, thus increasing labor productivity per employee. Furthermore, the overtime allowance adds to the monthly salary without increasing, however, the basic wage.

The allowance is essential to the stability of both the worker's household and the firm's total labor cost. The average overtime allowance per employee as percentage of the monthly salary in Japan is around 10 % and much higher than any other monthly allowance, though the overtime allowance per man hour is as low as 25 %.

2. Seasonal bonus

a) The amount of the bonus is usually arrived at by multiplying the last basic wage or the monthly salary by the number of 3 or 4 months. The rate of increase in the bonus has real bearing on company-wide productivity, but its individual amount is specifically related to record of absenteeism, the monthly salary, and ambiguously to "personnel appraisal", including individual or group performance during the past six months.

b) During the past decade, the annual growth rate of the bonus was much higher than that of the monthly salary. The former ranged between 1 % and 35 %, the latter between 11 % and 32 % (during 1965-70).

The bonus, being paid in June and December, depends to a great extent, on corporate results. Firms could ask their employees' help for a post-dated check that will be honored few months later, and for employee savings to be deposited in an individual savings account within the firm or being treated as fixed deposits.

As a result, the amount of the bonus per employee in the manufacturing firms (with one billion or more capital assets) was within two thirds of the amount of the profits after tax per employee in the whole manufacturing industry, during the decade 1964-74.

c) The bonus provides group incentives to the employees' stake in the company-wide performance and work environment. As a form of punishing absenteeism, the bonus is reduced for each day of absence from work. This stimulates employee-employer cooperation for greater labor productivity, since

they depend on the salary and labor productivity, respectively.

IX. Conclusion

Japanese wage administration is characterized by its intentional ambiguity and the framework of seniority.

It is a range of sophisticated policies aiming at reducing labor cost and promoting close team work, thus stabilizing the ratio of labor cost/sales.

The framework is based on intentional community, and will continue to exist, till the basic factors affecting the wage system will be seriously challenged.