Wages in Japan
Part II: Wages and Size of Company

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Part I identified the formation of seniority-based wage curves as a characteristic of wages in Japan. Seniority-based wage curves are comprised of annual increments and "base-up".[1] Do the wage curves of all employees take the same form? This article presents characteristics of wages with focus on size of company (as measured by the number of employees).

I. Wage curves vary depending on size of company

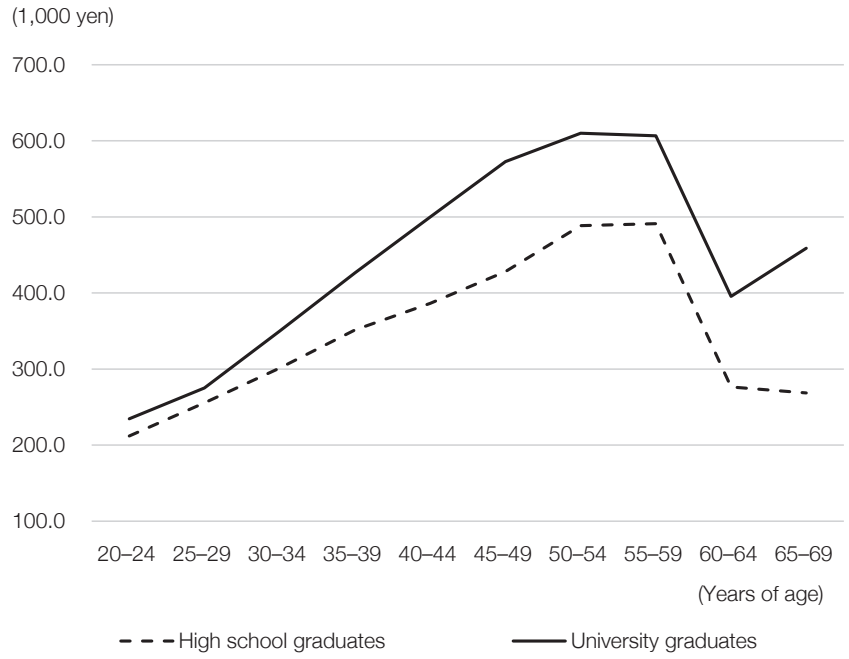
First of all, let us look at the wage curve of employees who were employed immediately after graduation and continued to work at the same company. Using data of the *Basic Survey on Wage Structure*, Figure 1 shows the wage curves of "standard employees (*hyōjun rōdōsha*)"[2] at companies with 1,000 or more employees. Both wages of university graduates and high school graduates show seniority-based curves and rise at roughly the same pace, particularly in their twenties. Although the curve of high school graduates subsequently becomes more gradual compared to that of university graduates, both have similar shapes. Regarding degrees of increase, the peak of the wage for high school graduates is at the 55–59 age group, when the wage amount reach 2.3 times that at the 20–24 age group. The peak for university graduates is at the 50–54 age group, when the wage amount reach 2.6 times that for the 20–24 age group.

Figure 2 shows wage curves for "standard employees" by size of company, looking only at university graduates. It is apparent that while wages show a seniority-based curve for all sizes, the steepness of the curves varies. The larger the size of company is, the more seniority-based the wage curve is.

For all company sizes, wages are lowest for the 20–24 age group and peak at the 50–54 age group. Let us look at degree of increase for each size of company. For companies with 1,000 or more employees, the peak is at the 50–54 age group, with wages being 2.6 times those of the 20–24 age group. For companies with 100–999 employees, the peak is at the 50–54 age group, with wages being 2.3 times those of the 20–24 age group. For companies with 10–99 employees, the peak is at the 50–54 age group, with wages being 2.1 times those of the 20–24 age group. Thus, the steepness of the wage curves varies depending on the size of the company at which employees work. Moreover, looking at the steepness of the wage curve by education background, the peak for high school graduates at companies with 1,000 or more employees is 2.3 times those for the 20–24 age group. Regarding university graduates, the steepness of the wage curve at companies with 100–999 employees is the same as that for high school graduates at companies with 1,000 or more employees, and that at companies with 10–99 employees is more gradual than that for high school graduates at companies with 1,000 or more employees. The above suggests that employees' wages depend on the size of the companies at which they are employed.

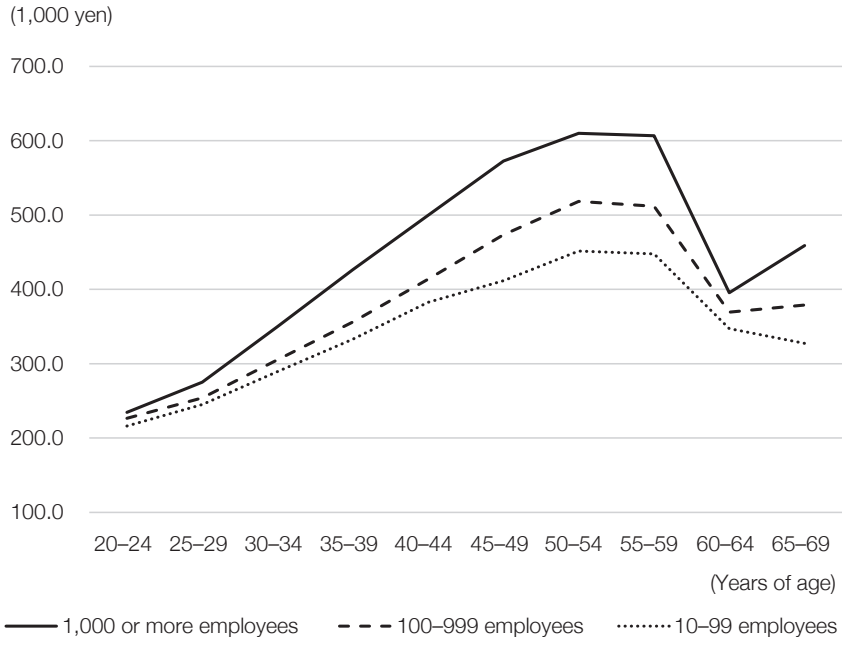
II. To what extent do wage differentials arise depending on size of company?

Then, to what extent do wage differentials arise



Source: MHLW, *Basic Survey on Wage Structure*, 2019.
Note: Calculated based on scheduled cash earnings of male "standard employees (*hyōjun rōdōsha*)."

Figure 1. Wage curves of "standard employees" in companies with 1,000 or more employees (industrial total)



Source: MHLW, *Basic Survey on Wage Structure*, 2019.
Note: Calculated based on scheduled cash earnings of male "standard employees (*hyōjun rōdōsha*)."

Figure 2. Wage curves of "standard employees" by size of company (university graduates)

Table 1. Wage differentials among establishment size categories

(1,000 or more employees=100)

Size of establishment/company	Size total	5–29 employees	30–99 employees	100–499 employees	500–999 employees	1,000 or more employees
Japan[1]	68.8	58.2	67.2	78.5	86.7	100
United States[2]	60.9	48.3	58.4	69.5	84.5	100
United Kingdom[3]	99.0	84.8	111.1	101.8	121.5	100
Germany[3]	68.7	—	71.0	100.9	88.7	100
Italy[3]	92.0	78.6	110.9	102.4	—	100
Netherlands[3]	101.8	102.5	115.4	125.4	124.1	100
Denmark[3]	100.4	95.0	110.5	111.4	116.4	100
Finland[3]	100.3	95.1	104.0	110.6	104.6	100
Spain[3]	91.2	95.1	89.9	103.7	114.4	100

Source: JILPT, *Databook of International Labour Statistics 2017*, https://www.jil.go.jp/kokunai/statistics/databook/2017/05/p186_t5-14_t5-15.pdf.
Notes: 1. 2015 values. By size of establishment. Size total is for establishments with 5 or more employees. For "regular employees (*jōyō rōdōsha*)" of companies in a non-agriculture/forestry/fishery industry. Calculated based on monthly contractual cash earnings.
2. Values for the first quarter of 2015. By size of establishment. Size total is for establishments with 1 or more employees. For private-sector companies in a non-agriculture/forestry/fishery industry. Calculated based on average weekly wage.
3. 2014 values. For companies with 10 or more employees and in a non-agriculture/forestry/fishery industry, excluding those in Public Administration and Defense; Compulsory Social Security. Calculated based on total monthly wages.

with different company sizes? Table 1 summarizes wage differentials by size of company in Japan and other countries, in which the wage level for each size is displayed using establishments and companies with 1,000 or more employees as the basis. It can be seen that in Japan, wage differentials grow larger as company's size decreases. Although it should be noted that calculation methods differ when making comparisons, wage differentials depending on size of company are apparently larger in Japan than in other countries. The United States shows a tendency similar to that of Japan. In European countries (United Kingdom, Italy, Netherlands, Denmark, Finland, and Spain), wages are higher in the 100–499 employee and 500–999 employee categories than the 1,000 or more employee category, and higher in the 30–99 employee category than the 1,000 or more employee category except Spain. Additionally, in Germany, wages in the 100–499 employee category are about the same as those in the 1,000 or more employee category.

III. What causes wage differentials by size of company?

1. Labor-management negotiations

What causes wage differentials by size of company? One factor is that Japan does not have a mechanism for forming cross-company wage rates, such as sectoral bargaining in continental Europe (e.g. Germany or France). For example, labor-management negotiations are conducted at the company level, and there is no system by which wage rate of each job title is decided at the industrial level. Industrial unions encourage their member company unions to call for achieving uniform wage increases by presenting to them minimum standards for wage increases (minimum increase, in Japanese, so-called *hadome*). However, member company unions are allowed to settle for an amount below the minimum standards depending on business conditions of their companies. For this reason, labor and management at each company can set wage levels in accordance with the situation of their company.

2. Job content and wages

Furthermore, Japan's wage system has the characteristic of not promoting the formation of cross-company wage rates. Connections between wage and particular job is not strict in Japan. As in other countries, the elements of a job are not ignored when determining wages in Japan, and the abilities necessary for a job and the content of the job actually performed are considered. However, in the case of jobs in Japan, the scope of duties and the level of

Table 2. Hourly wages of part-time employees

Size of company (Number of employees)	Hourly wage (yen)	Wage differentials with other company sizes (1,000 or more employees=100)
1,000 or more employees	1,146	100.0
100–999 employees	1,226	107.0
10–99 employees	1,212	105.8

Source: MHLW, *Basic Survey on Wage Structure*, 2019.

responsibility change from employee to employee.

Let us examine this point a little more closely. In the basic interaction of the employment relationship—namely, "how much work will an employee do and how much money will he or she get for it"—there is a difference in thinking between the United States/Europe and Japan. In the United States and Europe, regarding at least for non-managerial employees who are not considered to be prospective managers in the future, the "how much work" component of the abovementioned employment relationship is already established to a certain degree prior to their entering the company, and the "how much money" component is determined in a cross-company wage rates that is much stronger than that of Japan. Accordingly, the scope of duties that companies can require their employees to perform as well as the pay for those duties are predetermined to a certain extent and cannot be easily changed by the company. Marsden points out that companies of the United States, United Kingdom, and Germany must utilize human resources under such constraints (Marsden 1999). Japan is a country where companies do not have the constraints faced in the U.S. and Europe.[3] Consequently, it is quite common for the scope of duties and the weight of responsibilities to change each year even for employees assigned to the same position. This unique relationship between job and wage in Japan is thought to be a factor that inhibits the formation of cross-company wage rates based on the sense of "this job is to be paid this amount of money."

A characteristic of this labor-management negotiation framework and wage system is that wages are aligned with the company's ability to pay wages and the state of labor relations in the company. As a result, differences in wage levels and wage curves arise according to the size of company.

IV. Do the wage differentials by size of company apply to all forms of employment?

This article has presented characteristics of wages of "standard employees" with a focus on size of company. Meanwhile, Table 2 shows wage levels by size of company focusing on part-time employees. No major differences in the hourly wages of part-time employees are observed among the company size categories. In other words, part-time employees earn roughly the same wages regardless of company size. Noteworthy is that their wages of companies with 999 or less employees are higher, albeit only slightly, in comparison with those at companies with 1,000 or more employees. Thus, the wages of part-time employees have a characteristic that differs from "standard employees." This suggests the possibility that wages may also differ depending on how employees work. Part III will examine forms of employment and wages.

1. The "base-up" is a wage increase brought about by across-the-board revision of a company's pay scale. It is determined through labor-management negotiations in spring called *Shunto*. As explained in Part I, seniority-based wage curves are comprised of annual increments and "base-up."

2. "Standard employees" refer to *hyōjun rōdōsha*, as used in statistics, that is defined as those employees among employees who were employed by a company immediately after graduation and are deemed to be continuing to work at the same company who meet the following condition according to their educational background. High school graduates: Employees whose age minus their number of years of continuous service is 18. University graduates: Employees whose age minus their number of years of continuous service is 22 or 23.

3. Marsden points out that, unlike the three countries of the United States, United Kingdom, and Germany, in Japan, the scope of assigned tasks and minimum performance standards

of an employee to be hired are not established by any kind of externally-formulated standards prior to the employee's joining the company. He further notes that the building of a trusting relationship between management and the employee is the foundation upon which the employment relationship is established in Japan (Marsden 1999).

Reference

Marsden, David. 1999. A Theory of Employment Systems: Micro Foundations of Societal Diversity. Oxford: Oxford University Press.

This is a series of three articles on the topic of wages in Japan. See Part I (May-June issue, vol. 4, no. 23) at https://www.jil.go.jp/english/jli/documents/2020/023-04.pdf. Part III will be in August-September issue, vol. 4, no. 25.

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