**Japanese-style employment and wages**

Reviewing prevalent Japanese-style employment practices such as the seniority-based wage system and lifetime (or at least long-term) employment — as proposed by the Keidanren business lobby for this year’s wage negotiations — is indeed a pressing challenge as Japanese firms seek to survive global competition in a rapidly changing business environment. But that is one thing, and to bump up pay — whose sluggish growth continues to restrain consumer spending — is another.

Many Japanese businesses that compete globally need highly qualified workers with expertise in such advanced technology fields as artificial intelligence — and they face tightening competition with overseas rivals in either recruiting or retaining such talent in the globalizing market. They will face clear disadvantages in this competition if they remain bound by the lifetime employment system, in which employees are hired en masse upon graduation from school, receive on-the-job training and get seniority-based wages and promotions under the assumption they will stay with the employer until retirement.

The big businesses think that the collective-style annual wage talks — in which negotiations at big companies in each industry proceed under the herd mentality and results at top firms set the sector-wide trend — do not benefit their changing manpower needs, either. In its policy toward this year’s negotiations with labor unions, Keidanren (the Japan Business Federation) is calling for a shift from uniform raises for all employees to distribution of wage hikes proportionate to their tasks and performance. Several major high-tech companies have already begun reviewing their remuneration system to offer higher pay for qualified workers in research and engineering jobs irrespective of their age and career at the firm.

If the conventional employment/wage practices at Japanese companies are hampering their ability to compete globally, individual companies should review and change them as necessary through talks with their employees, and showcase it as a new policy to attract the manpower they need. At the same time, this should not be an excuse for the firms to deflect calls for more substantial wage hikes.

As Keidanren Chairman Hiroaki Nakanishi acknowledged in his talks with labor leaders, the wage levels of Japanese workers remain low among the world’s major advanced economies. Even as the annual wage negotiations have resulted in base pay scale hikes of at least 2 percent over the past six years amid what is billed as the economy’s longest postwar boom cycle, pay raises have not caught up with price increases. In 10 of the past 12 months, inflation-adjusted net wages declined from a year earlier. The stagnant wage growth is cited as a factor behind the underlying weakness in private consumption, which accounts for 60 percent of Japan’s GDP.

The surge in big companies’ earnings in recent years have not been translated into higher wages for their employees. As listed firms enjoyed record-breaking profits, the labor share of the value added — the ratio of what is spent on employee wages and their welfare expenses out of what companies make — was 66.3 percent in fiscal 2018, nearly flat from the 43-year low marked the previous year and a sharp decline from the peak of 74 percent in 2008. The retained earnings of Japanese companies combined hit a record ¥463 trillion last year. Corporate earnings — which remain near record levels despite the setbacks of the past two years — have clearly not been invested enough in manpower. The businesses need to think again whether that contributes to domestic demand-driven economic growth.

In the initial round of its talks with Keidanren, the Japanese Trade Union Confederation (Rengo) charged that the Japanese-style employment practices were not established in the first place among small and medium-size companies, which employ most of the nation’s labor force, or for the growing ranks of workers with irregular statuses such as part-timers and term-contract workers.

In the protracted economic doldrums following collapse of the bubble boom in the early ’90s, many businesses cut back on new hires and turned to irregular workers as a low-cost expendable workforce. Such employees have come to account for nearly 40 percent of the nation’s workers, and even as job market conditions have improved in recent years, they still earn only about 60 percent of what their regular full-time counterparts make. Many members of the “employment ice age generation” — who graduated from school in the post-bubble decade — have been stuck in such low-paying jobs. The large number of this generation earning low incomes is now deemed to pose a future threat to the social security system.

As part of the government’s “work-style reform” drive, large companies will from April be required to follow the “same work, same pay” principle: they must offer the same wages for workers who engage in the same tasks and have the same skills and output, irrespective of their job status. Employers will be pressed to explain the reason for any gaps between what the irregular workers and their regular employees make.

Many of the irregular workers remain left out of the annual wage negotiations, and whether the same work, same pay principle is applied to them will depend greatly on the employers’ behavior. It’s their duty to address the problem.