

THE EMPLOYMENT AND WAGE SYSTEMS IN POSTWAR JAPAN

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This paper presents an analysis of the systems of employment and wage decisions in, for the most part, large-scale enterprises in Japan, and of changes therein as well as of the controlling factors. Hence particular attention is paid to the systems of temporary and external employees hired by subcontractors, lifetime employment, and seniority wages (by length of service). While there is obviously no doubt that these are characteristically Japanese systems, they can be regarded as reflecting nothing more than the fact that in Japan the operation of some of the various general factors which control the labor market is particularly strong while the operation of other such factors is especially weak. And these systems are being altered, having taken on Japanese forms.

INTRODUCTION: SUBJECT AND METHOD

The economic growth of postwar Japan has produced an expansion in large-scale employment. Or, from the reverse point of view, one could also say that the expansion in large-scale employment made possible Japan's rapid economic growth. To demonstrate this interrelationship is a separate problem of some magnitude. This paper takes the quantitative expansion of employment for granted and will deal rather with the qualitative changes in the employment system. That the qualitative changes in employment have been no less important than the quantitative expansion of employment as a condition for bringing about rapid economic growth will gradually become clear in the course of the paper. An employment system is constituted of the continuing customs and practices widely accepted in a society concerning employment and, whether customary or codified, is the criterion under which one finds employment or under which policies for employment are carried out. Therefore, the objects of the analysis of employment are extensive in the extreme. For example, in such an analysis we would have to take into account even the social welfare and educational systems. However, this paper will limit itself to dealing only with employment institutions directly related to the labor market for large enterprises. Moreover, the analysis here centers around large enterprises because it has been these enterprises in the various industries that have led Japan's postwar economic growth. Still, it goes without saying that both the labor market and the employment system for large enterprises have been able to persist only within the context of the over-all

labor market and employment system of Japan. Hence it will be from time to time necessary for this paper to touch upon the employment system outside large enterprises as well.

In this paper I consider (1) the system of temporary and external employees hired by subcontractors; (2) the lifetime employment system; (3) the seniority wage system; and (4) the changes in each of these as well as the various factors controlling them. The first three topics are important aspects of the employment system of large enterprises and are mutually interrelated. The first constitutes an accurate indicator of the actual state of discriminatory employment in large enterprises. Without a consideration of the temporary and external employment system, no grasp of the characteristics of the regular employment system in large enterprises is possible. It also constitutes a characteristically Japanese entity in which may be seen the class structure of Japan's labor market; analysis of it enables a comparison with the employment system in medium and small enterprises. Second, the lifetime employment system manifests the characteristically Japanese phenomena of long-term employment itself within large enterprises. Analysis of it should lead us to realize how rational this form of employment has been for both labor and management in large enterprises and how irrational it is now becoming. Third, the seniority wage system is peculiar to Japan and characterizes long-term employment in large enterprises with reference to wage decisions. Its analysis should clarify the characteristics of both labor-management relations in Japan's large enterprises as well as of the industrial rationalization that controls those relations. Both the systems of lifetime employment and seniority wages have become major problems calling for contemporary examination.

By proceeding with a consideration of the above three items, logically our understanding should gradually deepen and grow more complex as, at the same time, it becomes systematic. However, because system analysis must occasionally deal with a multiplicity of facts, it is of necessity apt to become wantonly descriptive. And we cannot claim that this paper has been able to avoid this defect. Hence I would like at the outset to state a number of theoretical factors (and their combinations) which this paper has employed. These are all factors that have been established as necessary for a theory of the labor market. (1) The factor of "industrial organization": this refers to the large enterprise in question as acting as an oligopoly. For example, in terms of our concern here, when as a result of the autonomous activities of both labor and management unreasonably high labor conditions have been set, can the large enterprise in question lay the blame for these unreasonably high labor costs on the commodity market which mediates in the fixing of oligopoly prices? Again, in order to maintain the oligopoly price how does the enterprise manipulate production time and in accordance therewith how does it manipulate its employment? Or, in order to maintain or expand its share of the market how necessary is stability in the labor-management relations within the firm and are costs dealt with for the sake of that stability? (2) Factors deriving from technological innovations: Technological innovations

are an extremely strategic factor affecting change in the employment system. When we referred earlier to changes in the employment system, we had in mind the latter half of the 1950's, when technological innovations took place on a large scale and by the end of which time Japan had caught up technologically with Europe and America. How did this technological innovation affect the quality and quantity of the requisite labor force? How did it affect labor management in the large enterprises in question and how did it influence labor-management relations? Further, with increased labor productivity, how did it control any oligopolistic tendency? (3) Labor commodity factors: This, needless to say, is the most important factor in labor market theory. The hypotheses I shall later present concerning occupational type and degree of skill are based on this. Speaking theoretically, labor commodity may be regarded as being both the productivity of and exhibited by the laborers themselves as well as the cost thereof. (4) Factors deriving from the supply and demand relations of the labor force: This is also an indispensable factor in labor market theory and its introduction into this paper should make our consideration both dynamic and realistic. (5) Factors deriving from labor-management relations: We must take these factors into consideration in this paper, in view of the fact that employment in large enterprises, even though it may take characteristically Japanese forms, exists with the consent of labor unions and hence the entire employment system is built upon the policies and actions stemming from the objectives of both labor and management organizations. (6) The existential mode of the laborers. There is not room here to clarify either this factor or factor 5. However, even in regard to only those laborers who appear in this paper, the values they have, the class life style they observe, and the kind of employment behavior they assume will inevitably determine what sort of labor conditions satisfy them, what sort of labor-management relations they choose, and what variety of labor shortage they control.

I. THE SYSTEMS OF TEMPORARY EMPLOYEE AND EXTERNAL EMPLOYEE HIRED BY SUBCONTRACTORS

The existence of temporary and external employees hired by subcontractors is an important feature indicating the class structure of the employment system in postwar Japan. Both temporary and external employees existed before and during the war, but in the postwar era and particularly at the present stage of high level growth they are performing important new functions. Such temporary and external employees can also be found in small and medium enterprises, but from the perspective of discriminatory employment they are particularly important in large enterprise. The regular employee and the internal employee of a large enterprise are guaranteed both contractually and in practice long-term employment without stipulation as to the term of employment, while the so-called temporary employee is employed in the firm for only a short, specific period. And the so-called external employee is employed for various lengths of time by traders who

contract for a certain fixed job, and works in the factory of the large firm along with the internal employees only through the duration of the sub-contract.

The managers of large enterprises have the following interests at stake in the employment of temporary and external employees. First, the temporary employees have the following virtues: (1) they can be easily laid off when the demand for labor has decreased; (2) in most cases, they can be employed at cheaper wages than regular employees; (3) their employment makes it possible to weaken the negotiating power of the regular employee's union. On the other hand, there is the disadvantage for management that each and every time temporary employees are needed, the firm must recruit, hire, and place them. Japan's subcontracting factory system exists as a means for enabling enjoyment of the advantages of utilizing temporary employees while doing away with the disadvantages. In most cases what happens is that the parent factory, the large firm, orders parts or semi-finished products from the subcontractor. What is important is that transactions in the subcontracted items be such that the parent firm has a demand monopoly and hence that the prices be always determined arbitrarily to the advantage of the parent firm. Such a demand monopoly relationship is maintained by the parent factory's constant provision of facilities and equipment and particularly of raw materials, and of technological guidance and capital loans. The merit of such a subcontracting factory system is that it is economical for the parent factory not only in terms of the expenses of labor management, but also insofar as production operations and management are concerned; while in addition parts and semi-finished products can be obtained more cheaply than by producing them in the parent factory itself or by purchasing them elsewhere. On the other hand, however, the parent factory must bear the burden of constantly supplying raw materials, etc., and there are apt to be such drawbacks as inferiority of precision and failure to meet production deadlines. In contrast the use of external employees hired by subcontractors can be regarded as one method for overcoming the above disadvantages, since in addition to having the same merits as the use of subcontracting factories, production operations are performed under the same supervision as that which applies to regular employees.

The existence of such temporary and external employees hired by subcontractors has drawn the following criticism from the standpoint of social injustice. (1) The temporary and external employees' contractually short-term employment periods overlap one after the other so that in fact they are regularly employed. (2) The nature of their work is the same level as that of regular employees. (3) This notwithstanding, they receive lower wages than regular employees and in most ways are given poorer working conditions. Given this situation, why should temporary and external workers or subcontracting factories exist? The reason is that the supply of labor exceeds demand and in consequence there is a large surplus labor force¹ which, although equal

¹ For the purposes of the present analysis we are considering the surplus labor force

as existing in several forms. The horizontal axis in Figures A and B indicates degree of skill; it constitutes a ranking of the efficiency of individual workers in the same occupation. It may also be taken as a ranking of ability. Figure A depicts an occupational group where there are large differences in the degree of skill. The vertical axis indicates the level of labor conditions as represented by wage rates. It takes as its premise that the higher the degree of skill, the higher will be the wage rate. This premise can be regarded as being controlled by a standard of living enjoyed by social strata above a certain point, including the training expenditures of high efficiency and high ability, on the one hand, and simultaneously on the other, by the extent to which the employee is judged to have contributed to the employer in terms of physical exertion, intelligence, training, and mental exertion. Thus the standard promotion slope could be depicted as in line *a*, but where due to some reason or another, individual laborers do not fall on that line, those who fall below it are taken to constitute one sort of surplus labor force. When the size of such a surplus labor force with a single occupation is too large, line *a* can be thought of as shifting downward to become *a'*. Simultaneously, the points below line *a* can be thought of as shifting to the left. This is because these workers have not been able to previously demonstrate their efficiency and ability. Moreover, they may become unable to bring up their children to be their successors. These children will probably try to find employment in more advantageous occupations than those of their parents. If so, such children may become a surplus labor force in a different occupation.

Figure B indicates the wage structure of an occupation in which the level of skill increases only slightly on the basis of some physical exertion and training. In this case, too, we can imagine a surplus labor force within the occupation, existing below line *b*. However, the problem here is that there exist within the occupation laborers who are capable of adapting to more advantageous, higher skilled occupations—such as those at the lower skill level in occupation *a*. These individuals always wait for employment opportunities. They will change jobs whenever they are offered working conditions better than line *b*. Depending on circumstances, they may even be satisfied to be rated as below line *a*. Consequently, this fact also functions to shift line *a* downwards, and it constitutes for occupation *a* a surplus labor force in another occupation.

Figure A. Wage Structure of a Highly-skilled Occupation

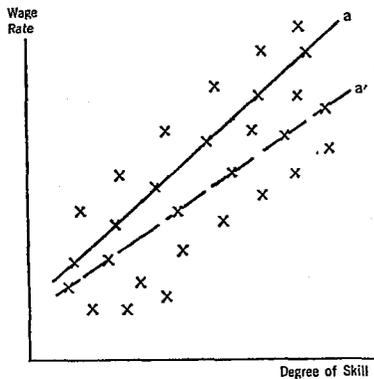
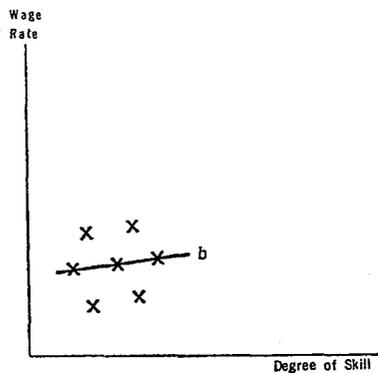


Figure B. Wage Structure of Unskilled Occupation



in quality to regular workers, must endure inferior working conditions.

Granting this, however, the following question may be raised: It should be possible to reduce the labor costs of large enterprises still more by replacing at least some regular employees with temporary and external employees. Why, then, despite this, does the employment of both regular employees and of temporary and external employees exist side by side? Some conceivable answers are as follows. First, unless the employment of regular employees is guaranteed, labor-management relations between the managers and the regular employees may deteriorate, and in some cases anti-layoff disputes may arise causing major economic burdens. In fact, one of the principal demands of postwar Japanese labor unions has involved long and bitter labor disputes over such layoffs. Moreover, in this case, if the large enterprise is enabled through the fixing of oligopolistic prices to lay the excess burden derived from employing regular employees elsewhere, in terms of "market structure," then the above hypothesis about stability in labor-management relations will become increasingly correct. Second, do these temporary and external employees really perform the same work as regular employees? It is possible to formulate the hypothesis of occupational differentiation, to the effect that even though they may work in the same factory, the regular employees engage in different work from the temporary and external employees, and have different job capacities so that, as in the figures in footnote 1, the methods and expenses of training them in skills also differ.

First let us look at the data important for verifying the latter hypothesis. This is found in Table 1, which shows that one, in the electrical machine and automobile industries where technological innovation has led to a relative increase in single-skilled workers (*tannōkō*), there is a high proportion of temporary employees. Most of these are detailed to sections directly involved in production and work alongside regular employees. Second, in the shipbuilding industry where many skilled workers are required, the proportion of external employees hired by subcontractors is high, even though technological innovation is proceeding. Furthermore, most of these external employees are engaged in direct production and work alongside regular employees. Third, in comparison with the foregoing machinery industries, in the case of the primary metals industries and especially the chemical industry, only a small number of supervisory workers are necessary in the direct production sectors due to technological innovation as is the case with the process industry. As Table 1 shows, the proportion of temporary and external employees engaged in direct production here is extremely low, while the proportion of external employees employed in the indirect production and transport sectors is remarkable. Moreover, in contrast to the high proportion of skilled workers among the external employees in the shipbuilding industry, most of the external employees in the process industry are thought to be unskilled. Furthermore, in terms of form of employment, part-time workers (comprised mostly of an increasing number of middle-aged women, and seasonal "*dekasegi*" workers from the rural areas) are temporary employees;

Table 1. Employment Structure of the Manufacturing Industries according to Type of Industry, Form of Employment, and Direct/Indirect Production (%)

Form of Employment Type of Industry	Ordinary Employment		Temporary Employment		External Employment				Total
	Sub-total	Indirect Production and Transportation	Sub-total	Indirect Production and Transportation	Sub-total	Direct Production	Indirect Production and Transportation		
Primary Metals	80.3	3.0	7.3	3.7	12.4	1.2	10.3	100.0	
Chemicals	68.0	2.7	14.3	9.7	17.7	5.3	11.1	100.0	
Electrical Machinery	71.1	3.7	26.3	19.0	2.6	1.1	1.3	100.0	
Automobiles	74.5	4.1	19.0	14.5	6.5	5.3	0.0	100.0	
Shipbuilding	64.9	1.9	13.9	11.1	21.2	19.4	1.7	100.0	

Note: Other forms of employment are not presented.

Source: Ministry of Labor, *Rinriikō ni kansuru jitchi chōsa no kekka gaiyō* (A Synopsis of the Results of a Field Survey relating to Temporary Employment), 1957.

Table 2. Form of Employment and Number of Employees according to Length of Experience (Number of Persons, %)

Form of Employment	Length of Experience Under One Year											More than 30	Total	
	1	2	3	4	5-6	7-9	10-11	12-14	15-19	20-24	25-29			
Regular Employment	25 (3)	53 (5)	35 (4)	6 (6)	43 (4)	126 (13)	124 (13)	111 (11)	105 (11)	180 (18)	93 (9)	39 (4)	45 (5)	985 (100)
Temporary Employment	13 (18)	8 (6)	4 (3)	2 (7)	10 (14)	8 (11)	3 (4)	7 (10)	9 (13)	1 (1)	—	—	1 (1)	71 (100)
External Employment	61 (4)	248 (17)	161 (12)	85 (6)	170 (12)	137 (10)	91 (7)	44 (3)	53 (4)	41 (3)	32 (2)	39 (3)	39 (3)	1,396 (100)
Total	99 (4)	309 (13)	273 (11)	169 (7)	306 (12)	269 (11)	205 (8)	156 (6)	242 (10)	135 (6)	71 (3)	85 (3)	85 (3)	2,452 (100)

Note: This shows examples for 1956 and 1958 of large-scale shipbuilding companies surveyed by the author.

Source: Ken'ichi Kobayashi, *Gendai Nihon no koyō kōzō* (The Structure of Employment in Contemporary Japan), Tokyo, Iwanami-shoten, 1966, p. 63.

but from the standpoint of the nature of their employment, they belong to the same category as unskilled external employees.

We have seen above that the occupations of temporary and external employees are not necessarily in the same category as those of regular employees, and that in certain industrial fields the occupations of the two groups are separated. If this is so it would not be strange if differences in the wages and other conditions were to exist between regular employees and temporary employees, and external employees.² Moreover, even recognizing the trend toward the regular employment of temporary and external employees and even supposing them to have the same jobs as regular employees, it is still sufficiently conceivable that they should be less skilled than regular employees. Table 2 presents the figures for length of experience in present job for workers in a shipbuilding yard where regular employees, temporary employees, and external employees often work in the same manufacturing process. According to these figures, workers with 10 or more years experience occupy nearly 60% of the regular employees, an overwhelmingly higher percentage than is to be found among the temporary and external employees. In contrast, workers with low levels of experience occupy a large portion of both the temporary and external employees groups where those having less than three-year experience number between 40 and 50%. But even granting this to be the case it is impossible to come to a conclusion solely by the hypothesis which distinguishes types of occupations and level of skill.

Below, I shall try to lay out clearly the subject of this analysis and to clarify the essence of and the changes in the system of temporary and external employees hired by subcontractors.

1. The Temporary Employment System

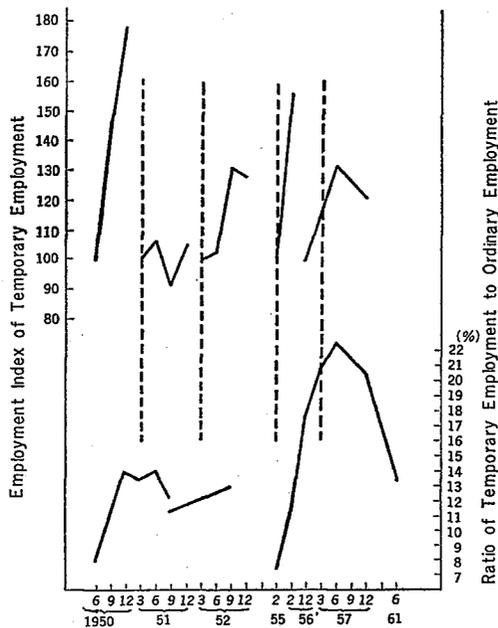
Here I shall undertake an analysis of the temporary employees involved in direct production, who are found largely in the machine industry. In so doing we must consider separately the temporary employees whose number rapidly increased at the time of the Korean War, and those of the time of the even more rapid increase accompanying the period of technological innovation after 1955. This phenomenon was due to the fact that in the process of postwar economic recovery stimulated by the Korean War, idle facilities were brought into operation and older facilities expanded while there was hardly any introduction of new technology, such as that which took place in the period of technological innovation. Consequently among the temporary employees who increased in number in the first half of the 1950's, most were experienced in old techniques, and they were placed in the same jobs and at the same levels as regular employees. Consequently, as Figure 2 shows, there was hardly any perceptible difference in the wages of

² Even so, as will be discussed later, it is impossible to determine easily whether or not the great difference which actually exists is reasonable. What I wish to emphasize is the fact that I will here limit myself to acknowledging that such a differential actually exists to a greater or lesser degree.

the two groups. Moreover differences can be regarded as not having been so great because that was the period of reorganization of managerial paternalism in labor management. In fact, because far from receiving lower wages temporary and external employees sometimes even received higher wages than regular employees, there were a good many regular employees of large enterprises who abandoned their status to become temporary or external employees. Again, with the restoration of production management and factory discipline, elderly and inexperienced workers unable to endure the strengthening of organized labor, such as the drafted workers employed during the war, left the large enterprises. And, conversely, there were also even cases among the temporary employees where inexperienced workers and highly adaptable unskilled workers succeeded in being promoted to regular employee status.

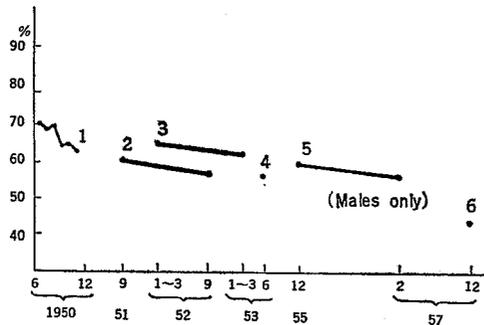
What, then, led management at this point to 1) reorganize a paternalistic

Figure 1. The Employment Index for Temporary Employment and Its Ratio to Regular Employment



Sources: For 1950, Ministry of Labor, *Rinji-kō ni kansuru jitchi chōsa no kekka gaiyō*; for 1951, City of Tokyo, Department of Labor, *Rinji koyōsha no chōsa* (A Survey of Temporary Employees); for 1952, a survey conducted by Ministry of Labor, Employment Survey Section; for 1955-56, Kansai keieisha kyōkai (Kansai Business Management Association), *Rinji jūgyōin no jittai* (Actual Conditions of Temporary Employees); for 1957, *Rinji-kō ni kansuru jitchi chōsa no kekka gaiyō*; for 1961, City of Tokyo, Department of Labor, *Tokyo-to ni okeru rinji-kō no koyō jōkyō* (Conditions Pertaining to Temporary Employment in the City of Tokyo).

Figure 2. Ratio between Wages of Temporary Employees and Regular Employees



Sources: Data for (1) are derived from the Department of Statistical Survey of Labor; for (2), from the Bureau on Tokyo Labor Standards; for (3), from the Economic Planning Agency; for (4), from the Hokkaidō Research Institute on the Labor Sciences; for (5), from the Kansai Business Management Association; and for (6), from the Ministry of Labor, Employment Survey Section.

facts that first, as previously stated, with the demand of the regular employees' labor unions for guaranteed employment, they had to reorganize within limits that did not contravene their own interests. Second, on top of this, they did not calculate on the Korean War boom lasting for a long time. Third, in order to restore managerial order, they wanted to limit the activities of the regular employees' labor unions in addition to creating stable labor-management relations with those unions within the large enterprise. In fact, the instability in labor-management relations in this period of prosperity had a decisive influence on the growth of individual firms. Among the factors contributing to the realization of

this managerial policy of the large enterprises, we must single out first the ample supply of surplus labor force at this stage. Due to this the regular employees increased their actual wages through the intensification of labor as well as the extension of working hours and the increase in incentive pay; but the rise in wage rates was extremely gradual. And in addition even though regular employees' retirement pay increased and welfare facilities in the firms were enlarged, the commodity price rises deriving from the boom absorbed these burdens. Moreover, as competition had not yet become fierce, it was important that the rise in wages be compensated for by fixing oligopolistic prices.

The technological revolution, which spread widely in the latter half of the 1950's, inevitably brought radical changes to the nature of labor and of laborers. In particular it brought the creation of a large number of single-skilled workers in the machine industries with their high employment coefficient. Single-skilled workers are generally categorized as in the b-type occupational classification of Figure B in footnote 1. This interpretation is, of course, possible. However, the technological revolution in the machine industries gave birth to a trend which management economists refer to as "job enlargement" or "job rotation" for the purpose of improving production. This revolution also brought the creation not only of the single-skilled worker, but also

a new type of "multi-skilled" worker (*tanōkō*) differing from the old-type multi-skilled worker. If the new multi-skilled worker derives from the single-skilled worker then it is possible to categorize the former in the a-type occupational classification of Figure A in footnote 1. At this stage, temporary employees were hired as precisely this kind of single-skilled worker. Thus temporary employees may be divided into two similar types which are categorized into occupational classifications a and b. Employed in classification b are female workers hired for a short term and male laborers who cannot adapt to classification a. Concretely speaking, in the large enterprises unskilled laborers are first hired as temporary employees and after a fixed trial period they are tested for adaptability to a-type occupation and for ability to get along with management. Only those who qualify are promoted to regular employee status. Table 3 presents a classification of temporary employees by age in terms of scale of full-time employment for all enterprises. A conspicuous feature is that the larger the enterprise the greater the number of young temporary employees; while the smaller the enterprise the larger the number of middle age temporary employees. Thus, the table shows that it is in the large enterprises that the greatest progress toward use of temporary employees as single-skilled workers has taken place.

Table 3. Composition according to Age of Temporary Employees in the Manufacturing Industries (Males)

Employees	Age Year	19 or Younger							(%)
		19 or Younger	20-24	24-29	30-34	35-39	40-49	50 or Older	
More than 5,000	1962	53.4	29.0	8.0	2.1	1.2	1.0	5.3	
	64	41.3	30.0	14.3	8.8	3.0	0.6	2.0	
1,000-4,999	1962	33.6	31.4	15.0	6.3	3.5	2.5	7.9	
	64	34.6	30.9	13.8	9.0	4.8	3.8	3.1	
100-999	1962	20.7	34.6	16.1	10.5	6.8	7.0	4.1	
	64	13.7	17.8	13.5	25.9	8.0	11.7	9.4	
30-99	1962	37.3	15.8	7.9	7.9	15.3	13.2	2.6	
	64	6.5	22.6	9.7	9.7	29.0	16.0	6.5	

Sources: Economic Planning Agency, *Keiki chōsei-ki no koyō chingin chōsa hōkoku* (Report of the Survey on Wages and Employment in the Period of Business Adjustment) for 1962, and *Rōdōryoku ryūdō to chingin kettei jijō chōsa hōkoku* (Report of the Survey on Mobility of the Labor Force and Circumstances regarding Wage Decisions) for 1964.

Moreover, what we must not lose sight of at this stage is the decline in the number of temporary employees which has come with the labor shortage. As may be seen in Figure 1, temporary employees, who in 1961 comprised more than 10% of regular employment, have declined over the years, and recently have decreased some 5%. This manifests the facts that promotion to regular employment has progressed, and that the surplus labor force, in particular the youthful portion thereof, which tries to find work even in the

unstable status of temporary employment, has more or less gone out of existence. The increase in the age of temporary employees in large enterprises (cf. Table 3) testifies to this fact. Granted this, the labor shortage and the formation of single-skilled workers lead to a marked shrinkage in the stabilizing function of temporary employees. Therefore, we may say that at the present stage the character of temporary employees lies in the fact that they have become a means for stabilizing labor-management relations within enterprises and for rationalization of labor management in terms of the quality and quantity of labor based on the technological revolution.

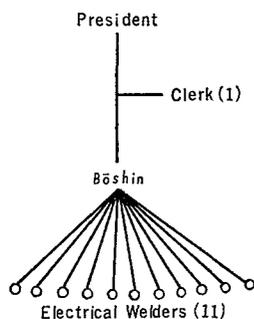
2. The System of External Employee Hired by Subcontractors

There are in fact a variety of existing patterns in the case of external employment, as in the case of temporary employment. Here, however, we shall take as the object of our analysis external employees engaged in areas of direct production, beginning with the shipbuilding industry and moving on to the construction industry, etc. This suggests that there are characteristic occupational fields even for external employees, provided we acknowledge the hypothesis of occupational differentiation. From the facts suggested above, characteristic occupational fields are those in which, as in the subcontracting factories, the burden of labor management is placed on the external enterprises; but in which, unlike the subcontracting factories, laborers work within the parent factory itself. In terms of the quality of labor, many external employees seem to be experienced, especially in old-style crafts. But when one looks at Table 2, how should we interpret the fact that, as with temporary employees, there is a majority of inexperienced laborers? This may be explained as follows. Old-style skilled workers remain in such industries as shipbuilding and construction where at the present stage technological innovation has proceeded at a markedly limping pace. But the demands of labor have decreased not only quantitatively but also qualitatively. This may be seen, for example, in the fact that at the same time as the number of laborers decreased with the introduction of the weld-rivetting technique, there was simplification of operations due to a decline in repairs on rivets. The creation of a surplus labor supply and simplification of labor resulted in a shift of employment from classification **a** to **a'** and subsequently to classification **b**. This means that as the supply of experienced workers declined, the majority of external employees came to be comprised of unskilled workers such as single-skilled workers.

The above is a statement of the actual circumstances of the period of the technological innovation. However, the situation for the previous period is different. With the enforcement of the Employment Security Law, etc. immediately after World War II, the existence of day laborers and external employees hired by employment agencies was not recognized, and in reality external employees and day laborers were lumped together under the name of temporary employees. External employees formed groups, or "*kumi*", of laborers comprised of skilled workers employed by subcontractors. As may

be seen in Figure 3, the smallest subcontracting unit was like the *Zwischenmeister* or piece master who was seen widely in the metal and machine

Figure 3. Organization of N Industrial Co. (April, 1958)



Note: *Bōshin* means a group leader.
 Source: As in Table 2, this is drawn from our survey on large-scale shipbuilding companies.

industries in the West during the latter half of the 19th century and the beginning of the 20th century. Therefore, at the same time that the subcontractor performed one kind of labor management, he also undertook management of production and operations, and even educated apprentices or unskilled workers. Thus he fulfilled the same kind of labor demand as did the regular employee, though for shorter periods. This means that at this stage the external employee did not differ from the temporary employee, but the external employee undertook exclusively group-type labor activities. In this sense, it is conceivable that the system of external employment was, just as in the case of the temporary employment system, an important supplement to the regular employment system, which was in the process of reorganization.

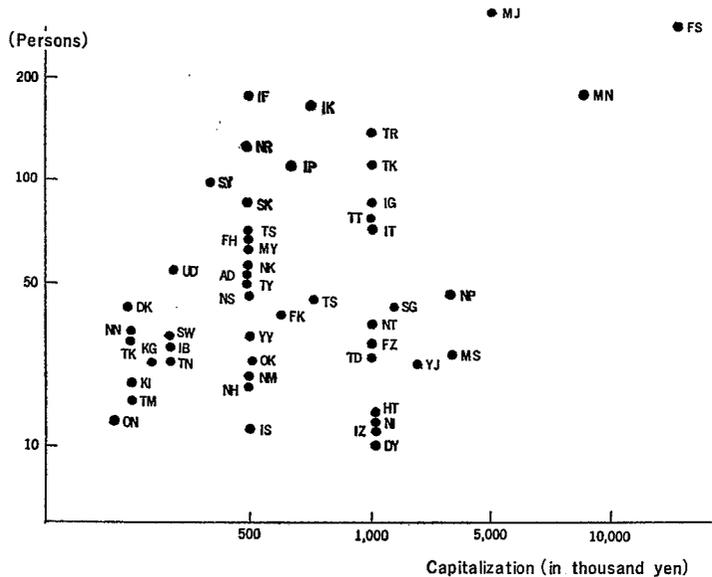
ment to the regular employment system, which was in the process of reorganization.

But when we enter the period of the technological revolution, circumstances changed completely. (1) There was a decrease in the demand for and quality of the old-style skilled worker, as noted above; (2) with the transition to classification a' there was a worsening of wages and other labor conditions, and concomitantly a decline in bargaining power of the subcontractor for wages with his parent factory; (3) with the technological innovation, production administration in the parent factory intensified, and this intensification weakened the production and operations management function of the master. In addition, the labor management function of the master was weakened, and he lost his capacity to educate apprentices. And not only that: in addition, it became impossible to employ even external employees with the requisite level of skill.³ The intensification of the labor shortage played a decisive role in this process. These circumstances signify the destruction of the organization of the "*kumi*" whose precise center was the master, and show the inevitability of replacement of the external employee by the temporary employee and day laborer.

Figure 4 shows the total capitalization and number of ordinary employees of external subcontracting enterprises. According to this figure, it is clear that the majority of external enterprises are comprised of small enterprises capitalized at less than 1 million yen, with usual employment at less than

³ Ken'ichi Kobayashi, *Gendai Nihon no koyō kōzō* (The Structure of Employment in Contemporary Japan), Tokyo, Iwanami-shoten, 1966, pp. 25-44 and 199-257.

Figure 4. Distribution of Number of Regular Employees and Capitalization of External Enterprises



Source: The same as for Figure 3.

100 people. It is also clear that within these external subcontracting enterprises are included labor groups not worthy of being called capitalist enterprises. These are coming to exist in an increasingly fluid and unstable situation. But, what is noteworthy in regard to Figure 4 is the fact that there are the FS and MN companies which are capitalized at around 10 million yen and employ around 200 people. The present administrative organization and disposition of employees in the FS company are shown in Figure 5. What is unmistakable is first, the factory itself is managed by the FS company, and construction work aside from shipbuilding is contracted out. Moreover, shipbuilding is contracted out from the majority of the parent factories. Second, therefore, within the enterprise not only has individual business administration been strengthened, but also the degree of subordination to the parent factory has been weakened; consequently there has been a strengthening of bargaining power regarding wages and manufacturing hours. Third, naturally, this company procures its own raw materials and equipment and facilities; has the capacity to carry out its own planning and technological development; promotes vertical and horizontal integration of its own products mix and production scale and realizes the economy of scale. Therefore, it has the actual capacity of a medium-scale enterprise.

Of course, this type of external subcontracting enterprise is in a minority; at present in Japan as a whole, with the continued growth of medium-scale

tinued shortage of temporary employees, from the parent factory's point of view, the existence of this kind of external employee has come to be more important for the adjustment of employment than even other kinds of sub-contract laborers.

II. THE SYSTEM OF LIFETIME EMPLOYMENT

We have already clarified both the important aspects and the determining factors of the labor and wage systems focusing on Japan's large enterprises. Below, we shall consider concretely other important aspects of employment. Hereafter, our problem will concern the actual circumstances of the "lifetime commitment" and the "lasting commitment of employee and employer"⁴ in the regular employment system of large enterprises, and the factors determining these. Therefore, we shall not treat directly as problems the phenomena of the ideology of paternalistic management held by both management and labor, or of seniority as the standard for salary increases. Rather, we shall analyze the basis of these phenomena.

The lifetime employment system, as reconstructed after World War II, is based upon the policy of democratization of Japan, particularly the formation of labor unions. With the postwar democratization, status differences among staff-members and laborers were mitigated or abolished, and various labor conditions and additional benefits which in the prewar period were applicable only to those in the status of staff-members, in the postwar period came to be applicable to laborers of factory worker status as well. For example, such additional benefits include the payment or augmentation thereof of bonuses and pensions, and the use of public health and welfare facilities, etc., as will be shown later. Following this was managerial recognition of guaranteed regular employment which has been the most important and consistently maintained demand of postwar labor unions. However, what should be noted here is the fact that in actuality guaranteed employment has not been completely realized. Although this problem will be treated later, here I would like to point out the following. That is, guaranteed regular employment has been applied not only to employees formally appointed fresh out of school, and to employees who transfer after holding a previous job, but also to those temporary employees who fall within the definition of the aforementioned system of promotion to regular employee status. However, in the case of temporary employees, this is limited only to those who, as pointed out above, cooperate with management in the given enterprise. In fact, the process of revival of paternalistic labor management in the postwar period in one sense is the process of revival of oligopoly enterprise. Long-term employment is guaranteed only to those regular employees who pledge secretly their "lifelong fidelity" to the individual oligopoly enterprise's managers, and also involves the discharge of laborers aside from

⁴ J. G. Abegglen, *The Japanese Factory: Aspects of its Social Organization*, Illinois, The Free Press, 1958.

these. It cannot be forgotten that the majority of the labor unions which were originally formed "from above" during the postwar period were organized by enterprise, and that within these unions, there are even some which derive from wartime fascist labor groups based on enterprises and establishments. For this reason, there has been a striking weakening of organized capacity for action, particularly capacity for achieving united action and common interests for workers in similar types of production or employment. On account of these factors labor unions for regular employees dissolve readily due to the strengthening of labor-management relations, and end up being reorganized easily into organizations which should be called joint consultation groups rather than labor unions. The system of lifetime employment, thus reorganized, strongly stimulates the efficiency of regular employment rather than strengthening the management of the labor force through rationalization of production, etc. The reason for this lies in the fact noted above that, at the stage in which there is fierce competition within much of the surplus labor force, what most laborers are most afraid of is losing their guaranteed status as regular employees in large enterprises. In this sense, the lifetime employment system can be thought of as fulfilling a "human relations" function.

However, with the coming of the period of technological innovation, the determining factors outlined above underwent great change. First, as indicated above, the nature of labor itself changed due to technological innovation, and there was rationalization of labor management of regular employees which proceeded along with the reorganization of discriminatory employment of temporary and external employees. For this reason, regular employees were theoretically limited to the following two varieties: there were those who were adaptable to the above-outlined new-style skilled labor; and there were those who were unadaptable. Second, long-term employment of unadaptable regular employees is not completely rational for oligopolistic enterprises. At this stage in particular, oligopolistic enterprises were greatly increasing in number with the rapid development of technological innovation, and were competing fiercely among themselves. Therefore, it was all the more irrational. Third, in the stage prior to the slump from 1962 on, the fact that the following factors weakened the extent of this irrationality is important. That is, because of a continued tendency for excessive general demands and because the operation of newly-constructed facilities alone was insufficient, older facilities sustained a relatively high rate of utilization. These factors together account for the fact that the substitution of new-style skilled labor for old-style and, even more, the elimination of old-style skilled labor, was delayed. Each of the oligopolistic enterprises concentrated its efforts on enlarging its share of the market at the sacrifice of profits. Government monetary and fiscal policy supported these methods of capital accumulation. Therefore, the facts that the expansion of employment was marked and that the expansion of production could not continue due to growing instability of labor-management relations within enterprises dealt the most severe blows to

the various oligopolistic enterprises. On this account, long-term employment which from every point of view was irrational, continued to exist virtually unchanged.

Table 4. Number of Laborers according to Form of Employment and Number of Years of Continuous Service (Shipbuilding Industry for 1956 and 1958)

Form of Employment	Length of Continuous Service	Under 1 Year	(Number of Persons, %)									Total
			1	2	3	4	5-9	10-14	15-19	More than 20 Years		
Regular Employment		33 (3)	50 (5)	43 (4)	18 (2)	52 (5)	443 (44)	209 (21)	113 (11)	43 (4)	1,004 (100)	
Temporary Employment		77 (97)	2 (3)	—	—	—	—	—	—	—	79 (100)	
External Employment		321 (35)	189 (21)	166 (18)	101 (11)	35 (4)	85 (9)	20 (2)	4 (0)	—	921 (100)	
Total		431 (22)	241 (12)	209 (10)	119 (6)	87 (4)	528 (26)	229 (11)	117 (6)	43 (2)	2,004 (100)	

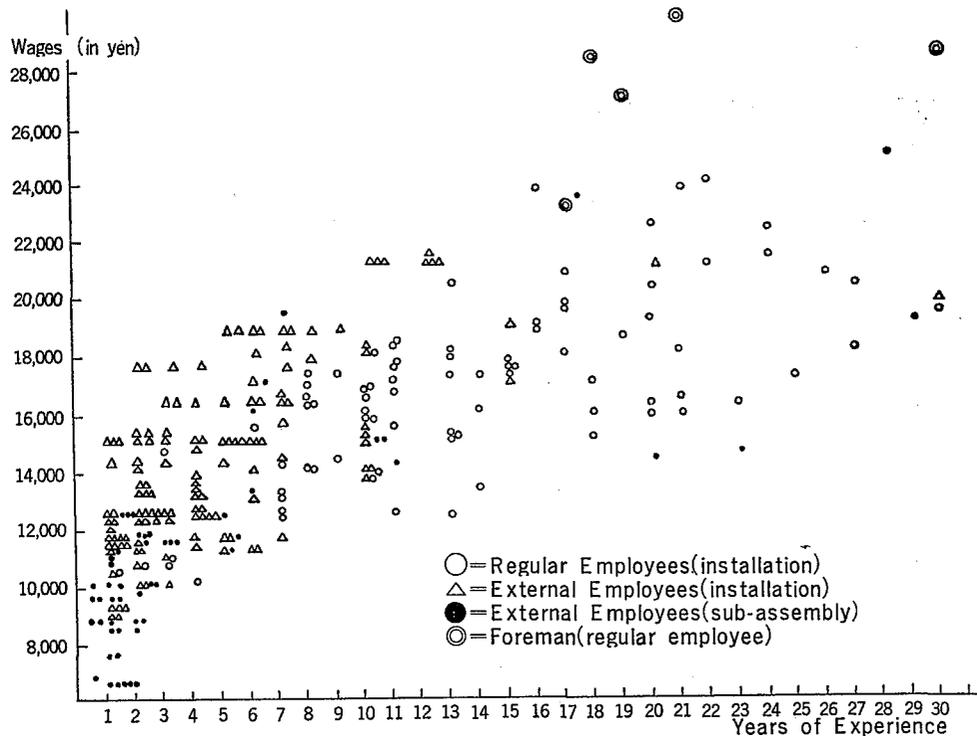
Note: As noted earlier, this is based on our survey of large-scale shipbuilding companies. Figures on external employment are for 1958 only.

Source: Ken'ichi Kobayashi, *op. cit.*, p. 72.

Table 4 shows a breakdown of laborers subject to the above sorts of controlling factors according to number of years of continuous service. According to this table, the extent to which regular employees in oligopolistic enterprises enjoy long-term employment is clear, as compared with external employees including both temporary employees and laborers in small- and medium-scale enterprises. There is not space here to examine in detail the differences in working conditions for each of the employment statuses, but let us at least look at the distribution of wages according to experience and years of service in one occupational classification, as in Figure 6. We may regard this distribution as being roughly proportional to the wage rate. Again, it is conceivable that experience and years of service in this occupational classification indicate the degree of skill, though roughly. The distribution in Figure 6 is widely scattered, but it must be noted that the differential between regular and external employment is negligible. The wages for inexperienced external laborers for sub-assembly work are even lower, but in this job single-skilled laborers are numerous, and as it is the kind of work calling for a minimal degree of skill, regular employees may easily be replaced by unskilled temporary laborers. Again, in terms of highly experienced workers the difference between external employees and regular employee foremen has enlarged noticeably, but this also based on degree of skill—in particular the heavy administrative responsibility of the regular employee foreman.

If examined in this light, the difference in wages based on factory scale

Figure 6. Wage Distribution according to Years of Experience in Installation Operations in the Shipbuilding Industry



Note: Wages for regular employees=base wage+incentive payments; for external employees=daily wage × 25.

Source: The same as for Table 4.

as shown in Table 5 can be explained by the demand-supply relations within the labor force according to degree of skill and type of industry. That is to say, the larger the enterprise the regular employee belongs to, the higher his grade and the more advantageous a highly skilled occupation he can occupy; in the case of workers in smaller-scale enterprises, the situation is the reverse. Moreover, because the larger the scale of the factory the percentage is probably higher among those included in oligopolistic enterprises,⁵ the factors involved in labor-management relations within the aforementioned enterprises have a strong effect. First, this is explicitly shown in Table 5 in the differences in special allowances. In the manufacturing industry, this special allowance consists of the bonus which is granted twice during the regular year, and manifests one particular characteristic of Japanese labor-management

⁵ That is to say, the hypothesis here states that mass-production has been carried out on a larger scale in oligopolistic enterprises than in other enterprises and that the larger part of those factories which have been equipped with such machines has been enabled to realize the economy of scale which pertains to oligopolistic enterprises.

Table 5. Average Monthly Wages according to Scale of Factory and Form of Payment in the Manufacturing Industries

Year	Type of Payment	(In thousand yen)											
		500 or More			100-499			30-99			5-29		
		Gross Monthly Wages	Monthly Wage Pay	Special Allowances	Gross Monthly Wages	Monthly Wage Pay	Special Allowances	Gross Monthly Wages	Monthly Wage Pay	Special Allowances	Gross Monthly Wages	Monthly Wage Pay	Special Allowances
1956		23.3 (100)	19.9 (100)	4.1 (100)	16.8 (72)	16.8 (72)	2.5 (61)	13.1 (56)	11.9 (60)	1.2 (29)	—	—	—
1958 (a)		25.1 (100)	20.1 (100)	5.0 (100)	17.5 (70)	14.8 (74)	2.7 (54)	13.7 (55)	12.4 (62)	1.3 (26)	10.9 (43)	10.3 (51)	0.6 (21)
1961 (b)		30.7 (100)	23.6 (100)	7.1 (100)	22.9 (75)	18.2 (77)	4.7 (66)	19.0 (62)	16.3 (69)	2.7 (38)	15.1 (49)	13.6 (58)	1.5 (21)
1964 (c)		39.2 (100)	30.2 (100)	9.0 (100)	31.0 (79)	24.8 (82)	6.2 (69)	27.3 (70)	23.2 (77)	4.1 (46)	23.7 (60)	20.9 (69)	2.8 (31)
b/a		122	117	142	131	123	174	139	132	208	139	132	142
c/b		128	128	127	136	136	132	144	142	152	157	154	187

Note: A strict comparison is not possible due to the fact that almost every year the survey sample changes slightly.
Source: Ministry of Labor, *Maittsuki kimrō tōkei chōsa* (Monthly Wage and Employment Survey).

Table 6. Change over Time in Monthly per Employee Health and Welfare Expenditures according to Factory Scale in the Manufacturing Industries

Year	Employees of Factory	Gross Cash Wages (A)	Total (B)	Health and Welfare Expenditures							Payment in Kind	(B)/(A) (%)	
				Expenditures not Required by Law									Other
				Expenditures Required by Law	Sub-total	Housing Facilities	Medical Insurance Facilities	Dining Facilities	Cultural and Recreation Facilities	Expenditures in Kind			
1957	500 or More	24,688 (100)	3,071 (100)	1,368 (100)	1,612 (100)	561 (100)	228 (100)	304 (100)	145 (100)	324 (100)	91 (100)	12.4	
	100-499	17,194 (70)	1,764 (57)	959 (70)	732 (45)	181 (32)	58 (25)	158 (52)	153 (106)	182 (49)	73 (80)	10.3	
	30-99	13,644 (55)	1,241 (40)	805 (59)	380 (24)	57 (10)	19 (8)	56 (18)	138 (95)	110 (29)	56 (62)	9.1	
1964	500 or More	36,450 (100)	4,502 (100)	1,898 (100)	2,339 (100)	933 (100)	298 (100)	421 (100)	230 (100)	450 (100)	265 (100)	12.4	
	100-499	28,462 (78)	3,401 (76)	1,538 (81)	1,667 (71)	589 (63)	71 (24)	319 (76)	287 (125)	401 (88)	196 (74)	11.9	
	30-99	24,601 (68)	2,841 (63)	1,374 (72)	1,337 (57)	383 (41)	23 (6)	252 (60)	343 (151)	336 (74)	130 (49)	10.5	

Note: "Expenditures Required by Law" include the proprietor's share of the premium for the health insurance, welfare pension insurance, unemployment insurance and workers' compensation insurance, and the statutory expenditure for accident compensation. "Expenditures not Required by Law" and "Other" include expenditures for hygiene such as baths and barbershops, etc.; present of money in token of congratulations and condolences; commutation expenses; premium for intra-enterprise insurance, etc. It is necessary to note that these do not include pensions, retirement pay, paid holidays, or severance pay, as is generally the case in the West.

Source: Ministry of Labor, *Kigyō chokukai fukuri shisetsu chōsa* (Survey of Welfare Facilities Directly Managed by Enterprises).

relations. The differences in monthly wages diminished dramatically with the severe labor shortage in the latter half of the 1950's; but in contrast, the great differences in special allowances still remain. Second, similar differences are conspicuous in health and welfare expenses which are a characteristically Japanese form of paternalistic labor-management relations. These may be seen in Table 6. There is not sufficient space here to enter into a discussion of the details of change. But despite the facts that from 1957-1964 there was widespread improvement among small- and medium-scale enterprises, and that the gap in ratio of total cash allowances was dramatically reduced, there remained great differences in per capita expenditures, especially welfare expenses not covered by legislation. Third, Table 7 shows that the differences in pensions according to scale of enterprise directly express the characteristics of the system of lifetime employment. While nothing can be shown here about the system of pensions for the small-scale enterprises which are as yet insufficiently developed, there are great differences even in pensions for the group which has a long record of continued service.

In addition there are also recognizable and profound differences relating to type of employment and scale of enterprise. These include such matters as the system of and facts pertaining to working hours, including paid holidays; the degree to which objective criteria and collective bargaining obtain

Table 7. Rate of Payment of Fixed Allowances and Average Retirement Pay according to Scale of Enterprise for the Manufacturing Industries (1963)

	Scale of Enterprise (Persons)	Twenty Years' Service		Thirty Years' Service		Retirement	
		Due to:	Individual Circumstances	Company Circumstances	Individual Circumstances		Company Circumstances
Amount of Money (Thousand yen)	5,000 or More		885 (100)	971 (100)	2,462 (100)	2,578 (100)	3,390 (100)
	1,000-4,999		749 (85)	865 (89)	1,834 (75)	2,037 (79)	2,824 (83)
	500-999		613 (69)	704 (73)	1,494 (60)	1,619 (63)	2,074 (61)
	100-499		506 (57)	631 (65)	1,140 (46)	1,356 (53)	1,785 (53)
Monthly Payment of Fixed Allowances (Months)	5,000 or More		20.6	23.8	40.8	43.4	47.2
	1,000-4,999		18.2	21.5	34.0	37.4	44.0
	500-999		16.2	18.7	29.9	32.6	37.6
	100-499		13.7	16.7	24.0	27.9	31.8

Source: Ministry of Labor, *Chingin seido chōsa* (Survey of the Wage System), 1963.

in the methods of making wage decisions, a problem which will be treated later; and moreover, the degree of stability in employment itself. If for the moment we speak only on the basis of the theory of occupational differentiation and set aside the theory of labor-management relations, it is inevitable that the differences in labor conditions arose from the quantity of the labor force itself. What is noteworthy here, however, is that the factor of occupational differentiation is not sufficient in itself to control the magnitude of the difference. This magnitude in the differences in working conditions is determined by the demand relations of the labor market, including the aforementioned factor of labor-management relations. However, despite the fact that of late the labor market has certainly become tight, the difference is large when examined from an international point of view. Moreover, the majority of the laborers who constitute the majority in small and medium enterprises cannot provide for their families out of their wages for a specified time period, and take on extra jobs for quite long hours; this involves a sacrifice of their leisure time.

From 1962 on, when the economic slump became chronic, even the long-term employment of regular employees in oligopolistic enterprises, which guaranteed the enjoyment of relatively advantageous working conditions of this sort, became visibly unstable. Table 8 shows the change in methods of adjusting employment which came with the slump. But according to this table, in comparison with the latter half of the 1950's, in the 1960's first the reduction of working hours, then the reduction of fixed number of employees by suspending replacement of ordinary employees were dramatic. Moreover for 1962-63, the rate of suspending replacement and the rate of enforcement of re-allocation in terms of scale of industry are high, as may be seen in Table 9, exceeding 40%. This indicates that retrenchment in and discontinuation of operations of inefficient factories and unprofitable activities based on "scrap and build" were progressing; and that at the same time as intensification of the management of the labor force and of working hours brought re-allocation of laborers, there was curtailment of the number of fixed employees with an increase in labor intensity per unit of time. In particular in recent years a number of radical methods have been used, such as asking

Table 8. Proportion of Enterprises Undertaking Employment Adjustment in Mining, Manufacturing and Transportation

Form of Adjustment	(%)			
	1954-55	1957-58	1961-62	1962-63
Adjustment of Working Hours	48	55	20	51
Suspension of Contract Renewals for Temporary Employees	19	30	16	13
Suspension of Replacement	10	12	24	23
Curtailement of External Employment	3	8	15	14
Re-allocation of Ordinary Employees	25	27	30	31
Discharge of Ordinary Employees	17	17	7	8

Source: Economic Planning Agency, *Keiki chōsei-ki no koyō chingin chōsa hōkoku* (1).

Table 9. Proportion of Enterprises Undertaking Employment Adjustment according to Scale of Enterprises in the Manufacturing Industries (%)

Form of Adjustment	Employees 5,000 or More	1,000-4,999	100-999	30-99
Curtailment of Overtime	53.3	55.6	57.3	35.2
Suspension of Contract Renewal for Temporary Employees	9.1	20.0	3.7	2.2
Curtailment of Day Laborer	9.0	2.0	7.6	6.8
Suspension of Replacement	42.6	34.6	16.2	8.0
Re-allocation	43.1	28.5	22.9	3.2
Discharge of Regular Employees	4.5	1.4	10.0	5.4

Source: The same as for Table 8, for 1962-63.

laborers who cannot comply with this kind of intensified management to resign voluntarily for the sake of the rationalization of labor; or discharging laborers to small- and medium-scale businesses; or through mergers which bring even greater numbers of surplus personnel.

The important determining factors here include the following: 1) After the pause following the catch-up in production techniques to European and American countries, there was a fall into a chronic slump. 2) The burden of expenditures for financing became decisively heavy, a factor relating to business administration. 3) For this reason, the trend in the various oligopolistic enterprises turned from being aimed at enlargement of the market share as had been the case hitherto, to being aimed at improvement of the intra-industry capital accumulation rate, and attempted rationalization of regular employment even though this latter brought a degree of instability to labor-management relations within the enterprises. As a result, in fact, in many of the oligopolistic enterprises, "anti-rationalization disputes" occur frequently. However, the managers are careful not to raise useless disputes, and for this reason joint consultation have been strengthened and the activities of labor unions have been limited. 4) It is also necessary to point out the fact that Japan's labor unions, organized by company, are certainly feeble in their ability to protest against this kind of intra-enterprise employment rationalization. However, we must pay sufficient attention to the fact that until the rationalization of this stage is completed and methods for self-financing are established, the various oligopolistic enterprises have to support a relatively high level of operations due to the burden of financing expenditures, as a result of which the capacity to set oligopolistic prices is quite weak internationally. The drive toward adjustment of employment has also become weak to a corresponding degree. Despite this, the change-over from the policy of lifetime employment to the recently acclaimed policy of "personnel management according to ability" has already become clearly evident. For example, this is testified to in the attempt to gradually phase out company health and welfare facilities with the completion of facilities in the local communities. Again, the significant aspect of the recent trend to transform

severance pay into pensions or personal annuities corresponds to the change-over mentioned above. That is to say, the shift from a one-time severance pay to lifetime annuity has dramatically weakened the character of incentives for continued long-term service seen hitherto. Moreover, with the change in pensions to contribution scheme there was a weakening of the character of unilateral and benevolent allowances from the managers, meaning that clear rights were born vis-a-vis contribution of laborers. Aside from this, the rationalization of wages, which shall be treated later, is shaking the foundations of the system of lifetime employment.

III. THE SYSTEM OF SENIORITY WAGES

Finally, we must analyze the methods of and changes in the making of wage decisions insofar as these express both the system of employment observed earlier and the character of change in its appearance. Since our concern here will focus on large enterprises, we must take as our object of analysis the so-called seniority (length of service) wage system. What must first be confirmed are the following facts, which are the basis of the system of seniority wages: First, that wages, which may be viewed as the wage rate of oligopolistic enterprise, and actual wage income calculated on the basis of the former, are decided upon by the individual enterprise. Second, that these wage rates and actual wage incomes (which include the additional benefits and other labor conditions noted earlier) would seem to be decided upon on the basis of the age of the worker and the length of his service; and thus, as has already been seen, they show great disparities. Third, great differentials in age and number of years of experience in the same occupation may be seen in some of the small and medium enterprises, but in the oligopolistic enterprises, the difference is expressed as a wage differential which seems to correspond in particular to number of years of continuous service on account of the standardized long-term employment within the same enterprise. Fourth, there is the fact that in contrast with the prewar seniority wage system, this kind of wage decision is effected on the basis of a system of explicit labor-management negotiations. This also differs from the situation pertaining in the majority of small- and medium-scale enterprises.

Next, the following comments are necessary regarding the facts confirmed above. Judging from the nature of the wage decision method based on collective bargaining, even decisions by individual enterprises are subject to fixed influences exerted by the decisions of other enterprises belonging to the same industry or by enterprises of other industries—especially those which have groups of very large-scale enterprises including state enterprises. What is important in this regard at the present stage is the influence which is exerted by the “unified offensives,” demanding certain labor conditions, based on the spring wage offensive which has occurred annually since the latter half of the 1950’s, and also the biannual fall and winter special allowance and severance pay offensives. The analysis of this situation is a separate

Table 10. Reasons for Wage-increase Decisions according to Scale of Employment in Manufacturing Industries

Reasons for Decision Employees	(%)								
	Industry-wide Wage Rise from Spring Offensive	Regional Wage Rise	To Increase Labor Force	Business Circum- stances and Prospects of the Enterprise	To Avoid Losses Caused by Labor Disputes	To Raise the Living Standard of the Workers	To Raise the Pay of New Employees	Other	Total
5,000 or More	39.4	5.1	11.6	19.3	12.5	3.7	4.0	4.0	100.0
1,000-4,999	41.6	0.6	14.3	18.7	7.7	5.5	7.9	7.9	100.0
	26.4	8.9	12.4	21.5	10.4	11.0	7.2	7.2	100.0
	49.1	8.2	13.0	16.5	9.8	6.8	4.1	4.1	100.0
100-999	21.9	14.7	21.8	16.8	5.8	10.3	7.3	7.3	100.0
	25.3	16.7	19.7	17.3	7.6	4.6	8.2	8.2	100.0
39-99	13.7	17.6	23.4	23.9	3.7	12.5	4.5	4.5	100.0
	12.8	12.3	27.7	24.0	2.7	13.6	6.4	6.4	100.0

Note: It should be noted that responses are those of management.

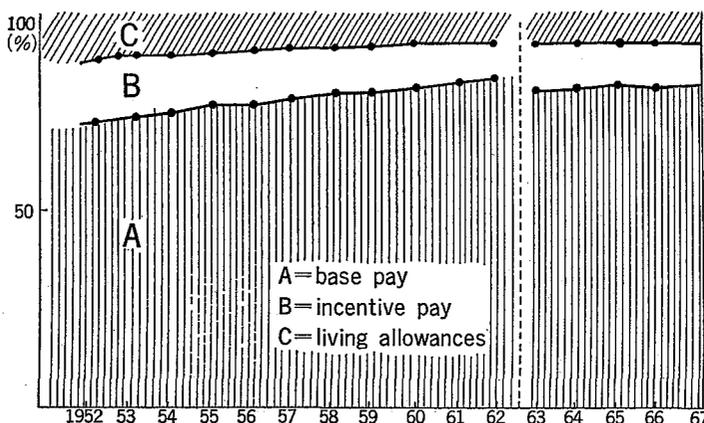
Source: Economic Planning Agency, *Rodōryōku ryūidō to chingin kettai jiyō chōsa hōkoku*, for 1964.

problem of some magnitude, but speaking in line with the problems treated here, the following facts are important. Undoubtedly, the unified offensive plays the role of standardizing both average wage increases and the average wage level itself. This may be seen clearly in Table 10, which shows the characteristics of the methods of wage-decision making in large enterprises where the decisive factor is the "spring offensive—industry-wide wage hike" in which the demand-supply factors on the labor market use as their medium the policies and trends of the chief labor-management components. This is different from the situation in the methods of making wage decisions in small and medium enterprises, which are subject to the direct influence of such demand-supply factors on the labor market as "for the sake of security of the labor force" and "conditions and outlook of business management." However, what is important is the fact that the "unified offensive" falls apart completely within the enterprises themselves, when the stage is reached for deciding how the increment of increase in the average wage of all workers should be apportioned to each individual worker. Of course, there are some situations in which for the purpose of supporting unification as much as possible, minimum standards are set up according to age, and an over-all framework of allocation methods is established—as will be seen later, these methods include wage-decision making in proportion to the base wage rate; the assessment of managers; and the use of the same wage; or a mixture of the three methods, although the weight of each differs. The results of this apportionment vary conspicuously with individual laborers and also with the individual industry due to the aforementioned reasons.

Accordingly, the method of making wage decisions by individual enterprises within the oligopolistic enterprises really becomes a problem. First, what must be noted is the existence of the "base wage" which, as may be seen in Figure 7, has come to occupy more than 80% of the total of Japanese style wages (which, since the latter half of the 1950's, have been calculated on the basis of a complicated variety of allowances.) This is an entity which may be thought of as a Japanese wage rate, being precisely "a base" in the sense that it is the basis on which incentive pay, bonuses and pensions are calculated. Our next problem is the matter of how this base wage is decided. Table 11 shows the number of paid workers according to the kind of wage they receive in the manufacturing industries, divided by the total number of workers. According to this table, the following facts are clear; first, that of late chiefly in large enterprises payment based on merit-rating or ability has come to be used extensive, and second that the larger the enterprise the stronger the control based on objective standards such as age, education, years of continuous service, years of experience, etc., even within the category of "wages based on comprehensive evaluation," which control most severely the base pay. However, the indicators of age, years of continuous service, education, and years of experience are only able to show very indirectly the quality and quantity of the labor force. Moreover, even though within the large enterprises payments on the basis of merit-rating and ability have

been introduced, they are only one form of the base pay at the present moment, and only account for about 25% of total monthly wages even in large enterprises employing 5,000 or more. More than 50% of base pay is accounted for by payments based on unclear comprehensive evaluation.

Figure 7. Changes in the Composition of Wages (Average for the Wages of Whole Workers in the Industry Surveyed)



Note: Because the headings differ markedly for pre-1962 and post-1963, they do not form a continuative series. As for incentive payments these include good or perfect attendance pay in addition to both individual and groups efficiency payments.

Sources: Data for 1952-65 are derived from Ministry of Labor, *Kyūyo kōsei chōsa hōkoku* (Report of the Survey on Wage Structure); that for 1966 on, from Ministry of Labor, *Chingin rōdō jikan seido sōgō chōsa hōkoku* (Report of the Comprehensive Survey on the Systems of Wages and Working Hours).

The problem of this lack of clarity as to the nature of base pay lies in the following matter. First, there is an annual wage hike which takes as its point of departure the clearly objectified starting salary for newly hired employees fresh out of school, and there is a fixed wage increase. But the problem concerns how this wage rise can be applied to individuals. Of course, the methods of increasing wages are fixed objectively, but there are various problems concerned with the criteria for wage rises, such as age, education, years of continuous service, evaluation of personnel files, etc. The problems of age, etc., are as stated above, and there remains latitude permitting subjective assessment of personnel files by supervisors, which invites the possibility of incorrect judgments regarding the quality and quantity of workers. The situation in the case of rises in merit-rating payment is identical to that for apportionment of severance pay. Moreover, there is no assurance at all that this lack of clarity in the making of wage decisions on an enterprise basis in the large enterprises will limit itself to these areas. The system of wages shown in Table 11 is only an averaged picture; the

Table 11. Ratio of Paid Workers by Type of Wage to Whole Workers
(Manufacturing Industry, 1967)

Type of Wage	Total	Scale of Enterprise (Persons)				
		5,000 or More	1,000-4,999	500-999	100-499	30-99
BASE PAY						
Age; Length of Service; Experience; Education	15.2	13.3	18.4	19.0	16.0	12.8
Merit-rating; Ability; Occupation						
Merit-rating	9.1	32.3	8.6	5.0	3.0	1.6
Ability*	13.1	33.8	20.2	13.2	6.4	2.4
Occupation	1.7	1.3	1.9	1.2	1.8	2.1
Pay Based on Comprehensive Evaluation						
Pay Based on Comprehensive Evaluation I**						
Pay Based on Comprehensive Evaluation (1)	27.6	44.3	33.2	32.8	26.7	12.5
Pay Based on Comprehensive Evaluation (2)	7.9	7.5	8.3	8.7	7.1	8.4
Pay Based on Comprehensive Evaluation (3)	32.3	33.9	38.4	35.8	31.3	28.0
Pay Based on Comprehensive Evaluation II***	19.9	2.8	9.6	10.8	23.0	36.6
ACHIEVEMENT PAY						
Individual Efficiency	3.3	1.0	3.0	3.7	4.5	3.6
Group Performance	10.7	24.5	10.6	11.0	7.6	4.6
SERVICE ALLOWANCE						
For Assuming Responsibilities	14.5	7.6	13.2	15.6	17.2	16.5
For Special Jobs	11.1	17.7	12.8	9.5	9.5	7.9
For Technical Skill	2.6	0.7	1.4	2.8	3.5	3.5
LIVING ALLOWANCES						
Family Allowances	30.6	45.0	37.8	32.6	25.1	22.5
Area Allowances	4.5	8.0	9.9	5.0	2.2	1.5
Commutation Allowances	40.8	40.7	44.0	47.1	43.0	34.5
Housing Allowances	10.6	10.0	17.8	11.8	9.7	7.7
Other Supplementary Allowances	16.9	10.5	19.5	20.9	18.7	16.6
INCENTIVE PAY						
(Good/Perfect Attendance Pay)	33.3	4.8	23.3	36.6	45.0	44.3
Other Various Allowances	2.8	1.5	2.4	3.0	3.5	3.3

Notes: * "Ability Pay" is decided on the basis of the evaluation of one's ability to perform his responsibilities utilizing a certain yardstick established within enterprise. (This includes pay based on job evaluation.)

** "Pay based on Comprehensive Evaluation I" is decided: (1) on the basis of personal factors such as age, length of service, education, etc.; (2) on the basis of job-factors such as merit-rating, ability, occupation, etc.; and (3) on the basis of (1) and (2).

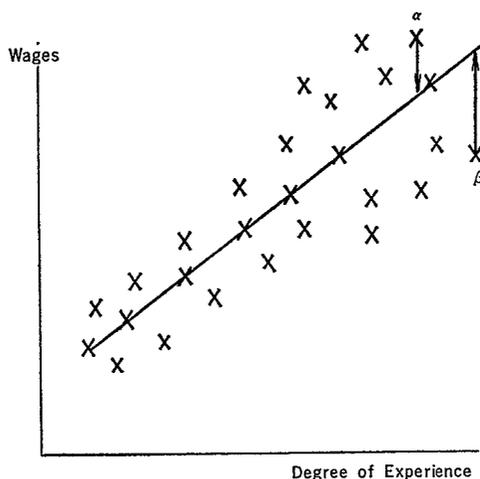
***"Pay based on Comprehensive Evaluation II" is decided on the basis of the evaluation of two or more factors among such factors as age, education, length of service and experience, ability, responsibilities, skill, merit of one's works, degree of diligence, etc., by means of a certain yardstick established within enterprise.

Source: Ministry of Labor, *Chingin rōdō jikan seido sōgō chōsa hōkoku*.

fact is that because this wage system itself differs to a greater or lesser degree in individual enterprises, the degree of lack of clarity spoken of above also differs with each enterprise.

It is not an easy matter to investigate this with an eye to proof. Hence I would here like to deepen our understanding by offering the following hypotheses. As can be imagined from Figure 6, it is conceivable that if we look at composition of seniority wages as representing distribution according to level of skill in one occupation, this distribution appears as in Figure 8-1. That is to say, to the extent that there is an undeniably sizeable deviation in distribution from the standard wage increase and that there is out-and-out competition of the labor force, than α and β in the charts above should be shifted to a position above the line representing standard wage increases. However, due to the lack of clarity in the making of wage decisions as noted above, there has been development of limited competition. This limited competition naturally does not confine itself to a single occupation. Limited competition which influences the decision of seniority wages makes unreasonable the wage differences among occupations and also makes unclear the relationship between the wage and the quality and quantity of the labor force as well as the relationship between the wage and supply-demand situation of labor force.

Figure 8-1. Structure of Seniority Wages



The question of why seniority wages are dominant must be answered through historical and empirical research. However, if we are to reason on the basis of the observations presented up to now, it is possible to state the following. Seniority (long service) indicates the extent of "characteristically Japanese crafts"; where "characteristically Japanese" may be interpreted as meaning that because for a long time rationalization of management and labor was not carried out effectively in Japan, the controlling factor was

Figure 8-2. Readjustment by Merit-rating Wage

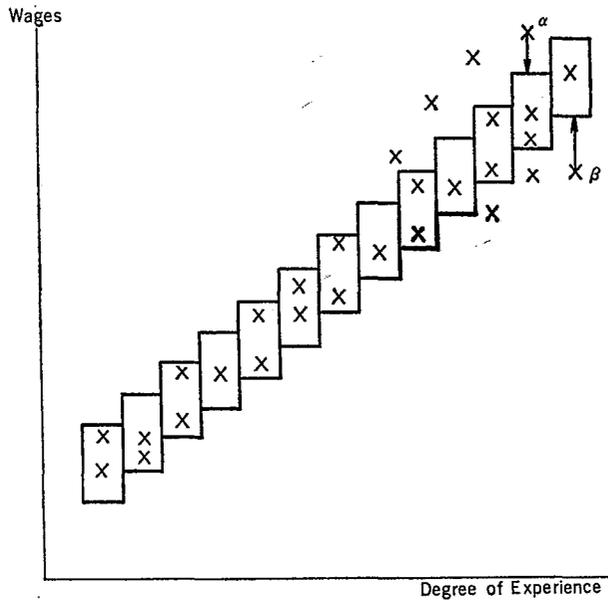
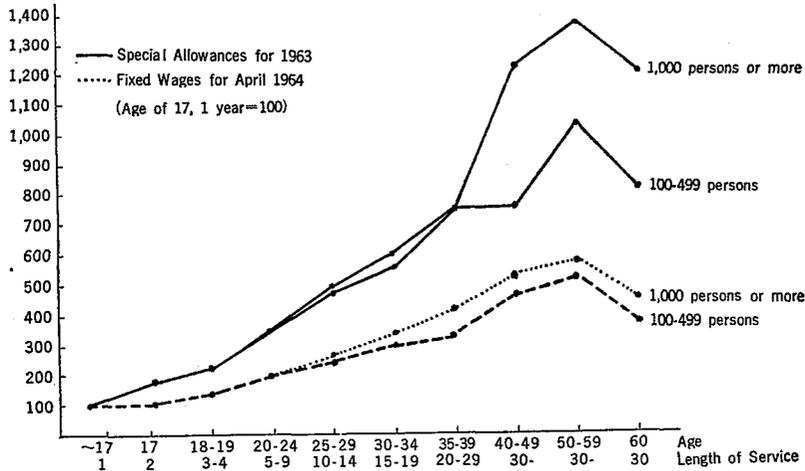


Figure 9. Differentials in Fixed Payments and Special Allowances according to Age and Length of Service among Male Workers in the Manufacturing Industries



Source: Ministry of Labor, *Tokutei jōken chingin chōsa* (Survey on Special Wages), 1963 and *Chingin kōzō kihon tōkei chōsa* (Statistical Survey on Wages), 1964.

subjective experiential management by the piece master or *Zwischenmeister*, as noted above.⁶ The reason for why lifetime employment was still dominant, even at the state when the technological innovation was beginning to occur on a large scale, has already been explained.

In conclusion we may note the following. Given the limitations mentioned above, objective wage decisions according to workers' abilities and their kinds of occupations have weakened at its foundations of the prewar form of the system of seniority wages. Second, the introduction of payment for responsibilities and ability based upon the kind of job evaluation seen in Table 11, continues to play an important role in this sense. However, in many cases, the present so-called Japanese type of payment for responsibilities consists merely of those wages which are decided by neglecting the standard wage rise to a considerable degree, as seen in Figure 8-2.⁷ As in Figure 9 the differential in wages according to scale of enterprise has continued to show a fair decrease of late. But as may be imagined from the fact that the differential is large in special allowance bonuses (which have increased to the extent that they amount to more than 25% of fixed payments), the regular employee labor market for large enterprises may be thought to be strongly subject to the effects of "human relations" based on exclusion of the pressure of the surplus labor force. If this is the case, then we may perhaps judge that for managers, business relations between labor and management are still sufficiently advantageous so that it is not for them necessary to expend a great amount of money for job evaluation. Third, in fact, employment policies of the sort capable of supporting this kind of business relationship are conceivable. However, from now on, the underlying tone of Japan's labor market must be seen as incapable of fundamentally conquering the labor shortage. This is due to the fact that granting that rationalization of production and labor at the present stage completely negates lifetime employment in the oligopolistic enterprises and at the same time readjusts agriculture and inefficient small and medium businesses on a large scale and, through this gives birth to a labor force which is capable of being redistributed in large numbers; then the majority of the labor force is simply a surplus labor force as defined in Figure B and a great amount of public and private

⁶ In Japanese "modern" managerial organizations—almost all of which have been bureaucratic—the responsibilities and competence of organizational each unit have been for a long time based on an unclear, traditional system of bearing responsibilities by the group; this system has made the subject and methods of production and labor management vague, and the competence and responsibilities of administration weak. In most cases, administrative policy of an organization has actually relied, though informally, on "drifting" management at the scene of labor. This system of administration has been modernized through recent rationalization policy.

⁷ Of course, no matter how strictly merit-rating and ability pay are set up, we do not think that these correspond completely to the actual efficiency and ability of the labor force. This is because above and beyond the fact that the setting-up of merit-rating pay takes place within each individual enterprise, the value assigned to this pay is controlled by the priority of labor force demands on the part of the managers.

expenditure is necessary for retraining the labor force so as to make it adaptable to the highly-developed production and labor management of the present. If this is the case, it means that theoretically without a given rise in wages there can be no hope for an increase in the supply of the supplementary labor force. How will the changes in the systems of employment and wages in Japan as presented in this article hereafter resolve their problems? Our interest is concentrated on this point.