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Robert A. Hart and Seiichi Kawasaki  
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## WORK AND PAY IN JAPAN

Provides a comprehensive overview of Japanese labour market institutions and practices with respect to employment issues and labour payments. It contains extensive discussion of the effects of industrial relations, small business activity, business cycles and schooling on work and pay. An early chapter is devoted to presenting, in an accessible manner, essential labour market ideas and concepts that recur throughout the text.

Important topics covered include unions and wage determination, the breakdown of total labour costs, the Japanese bonus system, the employment life-cycle, small businesses and subcontracting, and pay and productivity over the business cycle.

A key feature is that subject areas and themes are examined within a comparative United States/European framework. This allows assessments of whether or not the structure and performance of the Japanese labour market have differed from experience elsewhere.

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To our children Jennifer, Linsey, Nobuya,  
Rosalind and Tetsuya

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## Preface

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Work and pay in Japan have been subjects of considerable interest among students of comparative international labour markets. There are two main interrelated explanations of this. First, important aspects of the Japanese labour market appear to differ significantly from experience elsewhere. Examples include the structure of the union system, the size and coverage of bonus payments, lengths of wage and employment contracts, the age of official retirement and the importance of subcontracting. Secondly, the Japanese labour market has appeared to perform somewhat differently from those of its main competitor economies during the post-war period. Among other features, it has generally experienced more employment stability, lower unemployment and greater wage flexibility.

We have attempted in this book to provide a more comprehensive coverage of these and related issues than has hitherto been available under a single cover. Further, for most topics, we provide considerably more depth of empirical and analytical coverage than can be found in existing texts. Not only do we examine the main features of employment and payment systems in Japan but, throughout the book, we also provide background details of related European and United States evidence and experience. Moreover, we extend the definition of ‘pay’ to include non-wage labour costs that do not constitute direct remuneration but, nevertheless, are necessarily incurred by the employment of labour.

We have purposely written the book in a non-technical way so as to appeal to a readership whose interests stretch well beyond the confines of labour market economics. Inevitably, some of the issues and problems we discuss have been examined by researchers who have adopted labour market models and concepts that are not immediately familiar to non-specialists. Rather than ignore a vital body of work, we go to some lengths to explain conceptual details in an accessible way.

In chapter 1, we set the scene by introducing the key areas of interest. Issues directly relating to work and pay are merely highlighted at this stage before being dealt with in

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far greater depth at later stages. However, less direct topics – involving job tenure, worker participation and unemployment – are covered in more detail. Chapter 2 is also introductory in nature in that it is designed to explain, in a non-technical way, a number of important labour market theoretical and empirical models that are referred to at various later stages. Particularly strong emphasis is given to human capital models and the use of wage–experience profiles.

The industrial relations context of work and pay decisions forms the subject area of chapter 3. Inevitably, the enterprise union system and its relationships to wage determination and human capital formation make up the main thrust of analysis in this chapter. Comparisons are also made with industrial relations structures in Europe and the United States. Special attention is given to union density, the ‘spring offensive’, industrial wage equalisation, joint consultation, quality control circles and comparative international assessment.

Wage and non-wage labour costs are concentrated on in chapters 4 and 5. In chapter 4, we provide a complete breakdown of direct and indirect labour costs not only in Japan but also in a comparative international setting. Important differences in cost structures between Japan and elsewhere are established. Chief among the latter is the unique importance of bonuses in Japan, and chapter 5 is completely devoted to a discussion of such payments. We provide a full analysis of the main competing hypotheses advanced to explain the relative importance of bonus payments in Japan and a critical appraisal of the available empirical evidence.

Chapter 6 deals with the main phases of employment over the working life-cycle – that is from recruitment to retirement via training and promotion. Our evidence on recruitment expenditures by firms is based on detailed data that are uniquely available in Japan. In an international comparative setting, we provide empirical evidence on promotion systems and on the changing age structure of retirement. Only in the case of training expenditures do we find that, as in all other countries, a complete evaluation is prevented by the very partial coverage of related cost statistics.

The issues of human capital formation in particular and employment and wage systems in general, have strong implications for the expected reactions of employment, labour productivity and labour costs over the business cycle. Such concerns are analysed in chapter 7. Most of the empirical studies discussed present international comparative evidence and so provide very useful yardsticks on which to base judgements of differences and similarities in Japanese cyclical labour market performance.

Chapters 8 and 9 deal with two special topics of work and pay in Japan that have been given particular Japan-related attention in the labour market and industrial literature. After establishing the quantitative importance of its subject matter, chapter 8 deals with small business aspects of work and pay. Inevitably, the chapter devotes considerable attention to the role and quantitative importance of the Japanese subcontracting system. The link between pre-work education and the subsequent path of wage growth forms the basis of chapter 9.

Finally, in chapter 10, we attempt succinctly to summarise the importance of work and pay in Japan within a broader international setting.