Why Wage Rises Have Been Ineffective

It is believed that through the *shunto* spring wage negotiations in Japan this year, wage increases at large companies were around 2.5% on average, in which case the rate of *shunto* wage increases remained above 2% for the fifth successive year. There has long been talk about the exceptional practice of government engineering of wage rises by requesting the business community to make them, but the objective of this has been to stimulate consumer spending, which accounts for 60% of Japan's gross domestic product, as it should have had the effect of fueling a virtuous economic cycle throughout the country. The reality, however, has been harsh. Since the start of Abenomics in 2013, compensation of employees—the aggregate amount of wages throughout the nation—has risen at a nominal rate of 0–3% annually, but consumer spending has been seesawing repeatedly during the same period, to the extent that even after five years there has been no uptrend.

It is often explained that the reason for this divergence of trends in wage rises and consumption is that real wages have not been rising because prices are on an uptrend due to the Bank of Japan's new phase of monetary easing. That aspect certainly cannot be denied, but given that the figure for compensation of employees has continued to rise to some extent in real terms after taking price fluctuations into consideration, it is difficult to explain the sluggishness of consumer spending simply on the basis of the relationship with prices.

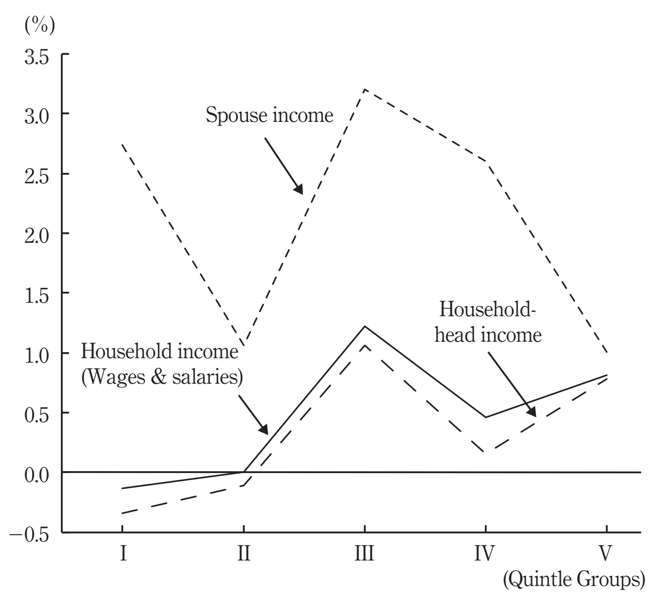
In fact, the increase in compensation of employees is not entirely attributable to wage increases, but also to an increase in the number of people in employment that has resulted from the entry of women and elderly people into the workforce, and this shows that when examining income fluctuations it is essential to give attention not only to individuals but also to trends in household units. If we look at average monthly income per household over the five-year period from 2012—the year before the establishment of the Abe administration—to last year, whereas the income of the heads of household grew by an average of only 0.4% annually, that of their spouses increased by 1.8%. In consequence, household monthly income grew by 0.6%, or around ¥14,000 over the five years. Figure 1 shows this rate of increase in household income over the past five years by income brackets, from which it appears that household income rose in the low-income and moderate-income brackets as a result of spouses entering employment.

With regard to expenditures, however, total consumption spending recorded negative growth averaging 0.1% during the five years, so regrettably the amount of the increase in household income does not appear to have led to the stimulation of consumption. Nevertheless, a detailed examination of the composition of the spending (see Figure 2) reveals that there was an increase in expenditures essential to daily life such as for food and communication, but non-essential and non-urgent spending such as culture and recreation and social expenses generally declined. In addition, it is vital to keep in mind the increase in the burden of taxes and social-insurance premiums, which are classified as non-consumption expenditures. From all of this it is possible to have a glimpse of the state of household finances, in which, because it becomes impossible for the increase in the head of the family's income alone to keep pace with increases in food prices and in taxes and social-insurance premiums, the spouse goes out to work, culture and recreation and social expenses are cut, and thereby households have managed to maintain a balance between income and spending. It is particularly noteworthy that cuts in education expenses differ markedly between different income groups, with the low-income and moderate-income brackets having made considerable cuts in education expenses during the past five years. Given the above, it seems perfectly understandable that even if companies respond to the government's encouragement to raise wages, consumption does not increase.

In order to stimulate consumer spending and achieve a virtuous economic cycle it may be necessary to implement policies that are somewhat more focused. For example, although the reduction of the tax rate for food within the consumption-tax rate hike planned to be implemented in October next year has received widespread criticism, it may be more beneficial than we think for people in the low-income and moderate-income brackets who are the most vulnerable to increases in prices of daily necessities. Furthermore, since it is obvious that the lower people's incomes are, the less room they have for allocating money for education expenses, support in this respect, for example through measures to provide free preschool education and childcare, can be expected to have a positive impact on consumption.

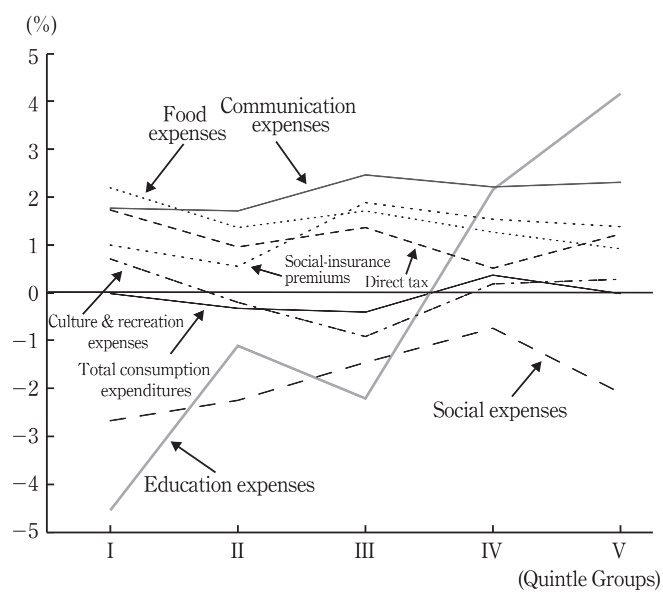
Comprehensive policies that cast a net indiscriminately over broad areas tend to give rise to wasteful measures. Given the limitations on financial resources, it may become particularly important from now on to scrutinize closely the actual conditions in individual social strata and to devise policies that target them with pinpoint accuracy.

Figure 1: Rates of increase in annual income by quintile (Workers' households)



Notes: The average annual rate of increase in average monthly income of workers' households (2012–17) are set out in five income brackets. Wages & salaries (monthly average) in 2017 were ¥258,000 in the first quintile, followed by ¥357,000, ¥461,000, ¥567,000, and ¥826,000.
Source: *Family Income and Expenditure Survey* by Ministry of Internal Affairs and Communications

Figure 2: Rates of increase in annual expenditure by quintile (Workers' households)



Notes: The average rates of increase in major expenditure categories of workers' households are set out in five income brackets.
Source: *Family Income and Expenditure Survey* by Ministry of Internal Affairs and Communications