

## **The Japanese employment system is degenerating**

**Junya Hamaaki, Masahiro Hori, Saeko Maeda, and Keiko Murata<sup>†</sup>**

### Abstract

Despite the prolonged recession and sizable environmental changes after the bubble burst, a drastic degeneration has been reported neither in the seniority-based wage nor the lifetime employment practice in Japan. In order to examine the recent developments of these practices for the male regular employees, this paper analyzes the recent 20-years micro data from the *Basic Surveys on Wage Structure*. First, as for the seniority-based wage, we investigate the development of the age-wage profile for the lifetime employees, which are defined as those who hired by a firm immediately after his/her graduation and continued to work in the same firm until survey date. We find that the wage slope gradually flattened in the 1990s, and thereafter it eventually “kinked” around age 40 in 2007-2008. This change is most clearly observed for the university graduates of the non-manufacturing industry. Second, as for the lifetime employment, we examine the developments of the share of the lifetime employees and five-year job retention rate. While we cannot detect a clear trend of the share of the lifetime employees for middle- to old-aged workers, we find an evident downward trend of the share for the university-graduated young workers after the late 1990s. The job retention rate also declined noticeably in 2000s for highly educated younger workers. Those results suggest that the two employment practices have recently deteriorated simultaneously. Owing to the wage reduction in later career, higher portion of educated young workers chose to depart from the tenure-track position. On the other hand, the older workers probably decided to stay in the present job, in exchange for their wage growth, as they cannot easily find alternative job.

*JEL Classification:* J21, J31, J01

*Key words:* Seniority-based wage; Lifetime employment; Japan

---

<sup>†</sup> Hamaaki, Hori, Maeda (Economic and Social Research Institute, Cabinet office, Government of Japan), and Murata (Tokyo Metropolitan University and Cabinet office).