

Lifetime Labor Income and the Erosion of Seniority-Based Wages in Japan:
Evidence Based on Administrative Data Records

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This paper examines the impact of the erosion in seniority-based wages on lifetime labor income in Japan. Despite the importance of this issue, studies to date have not been able to address it directly because reliable datasets long enough to cover individuals' entire careers were not available. Taking advantage of administrative data records on individuals' careers, which became available with the introduction of Pension Coverage Regular Notices, Takayama et al. (2012) constructed a panel dataset of career records covering a period of more than 30 years. We use the dataset to derive wage profiles throughout individuals' careers. Moreover, using the estimated wage profiles for individuals with different sets of characteristics, we calculate the lifetime labor income (over a 35-year period) for those individuals to examine the impact of the erosion of Japan's seniority wages on lifetime income. We confirm that the wage-age profile of lifetime employees over their working life has been gradually flattening in recent years. The flattening is particularly prominent among middle-aged and elderly white-collar workers with a college background, and it appears to have decreased their lifetime labor income by about 10 to 30 percent.

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