

Does Performance Pay Increase Wage Inequality in Japan?

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Abstract: This paper illustrates the ways in which the introduction of stock option plans increases inequality. Using an original dataset of Japanese corporations, propensity score matching is applied to identify the impact of stock options on log wage differences between executives and regular employees. Evidence shows that the use of stock options contributes to the growth in wage differences. However, the sizes of these effects are relatively modest—they are estimated to increase by a standard deviation of 10–20% in the log wage difference.

Keywords: Wage Inequality, Performance Pay, Japanese Firms

JEL Classification Number: J33, J38, N25

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