

Changing Unchanged Inequality: Higher Education, Aging, and the Japanese Employment System*

Ken Yamada[†]

Daiji Kawaguchi[‡]

This version: December, 2011

Abstract

Wage inequality fell in the 1990s and rose after 2000 among male workers in Japan. Narrowing wage inequality during the 1990s can be accounted for by a fall in between-group wage inequality resulting from declining returns to experience and tenure and a stable return to education. Widening wage inequality after 2000 can be accounted for by a rise in within-group wage inequality resulting from a relative increase in educated and experienced workers.

Keywords: wage inequality, heterogeneous return to human capital, composition effects, the Japanese employment system, the bonus system

JEL Classification: I24, J24, J31, M52

*The paper will appear on our websites (<http://www.mysmu.edu/faculty/kenyamada/> and <http://www.econ.hit-u.ac.jp/~kawaguch/>).

[†]School of Economics, Singapore Management University, 90 Stamford Road Singapore 178903; Tel: +65 6828 1914; Fax: +65 6828 0833; E-mail: kenyamada@smu.edu.sg

[‡]Faculty of Economics, Hitotsubashi University, 2-1 Naka, Kunitachi, Tokyo 186-8601, Japan; Tel: +81 42 580 8851; Fax: +81 42 580 8882; E-mail: kawaguch@econ.hit-u.ac.jp