



Wage, income and consumption inequality in Japan, 1981–2008: From boom to lost decades [☆]



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ABSTRACT

In this paper we document the main features of the distributions of wages, earnings, consumption and wealth in Japan since the early 1980s using four main data sources: the Basic Survey on Wage Structure (BSWS), the Family Income and Expenditure Survey (FIES), the National Survey of Family Income and Expenditure (NSFIE) and the Japanese Panel Survey of Consumers (JPSC). We present an empirical analysis of inequality that specifically considers the path from individual wages and earnings, to household earnings, after-tax income, and finally consumption. We find that household earnings inequality rose substantially over this period. This rise is made up of two distinct episodes: from 1981 to 1996 all incomes rose, but they rose faster at higher percentiles; from 1996 to 2008 incomes above the 50th percentile remained flat but they fell at and below the 50th percentile. Inequality in disposable income and in consumption also rose over this period but to a lesser extent, suggesting taxes and transfers as well as insurance channels available to households helped to insulate household consumption from shocks to wages. We find the same pattern in inequality trends when we look over the life cycle of households as we do over time in the economy. Additionally we find that there are notable differences in the inequality trends for wages and hours between men and women over this period.

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1. Introduction

Japan experienced a period of rapid economic growth and very low unemployment in the 1980s, followed by a severe contraction in the 1990s and continued stagnation throughout the 2000s. This period, widely referred to as Japan's "lost decades", has been of considerable interest to international policy-makers and the focus of macroeconomic research. The

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impact of the lost decades on Japanese households has received less attention. The Japanese experience is an interesting case to study the links between macroeconomic dynamics and individual- and household-level inequality.

This paper examines the evolution of inequality in wages, earnings, disposable income and consumption during the boom years of the 1980s and the subsequent lost decades. We present a unified empirical analysis of inequality in Japan, both to help understand the patterns across these various measures within Japan and as a point of comparison with other advanced industrialized countries. For this latter purpose we present the facts in a manner that is directly comparable to other country studies. Specifically, we provide an analysis of inequality in Japan that is comparable with the analysis in the *Review of Economic Dynamics* special issue on Cross Sectional Facts for Macroeconomists, and summarized in Krueger, Perri, Pistaferri, and Violante (2010, henceforth KPPV).¹ The contribution of this article relative to the existing literature is to present a unified analysis of inequality trends in wages, hours, income, and consumption, documenting both the time series trends and the life cycle aspects of inequality. We examine both individual-level inequality, separately for men and women, as well as household-level inequality, unifying the analysis by means of the household budget constraint, which links individual wages, hours, taxes and transfers to household consumption expenditures.

We begin by summarizing our main findings. Looking first at individual wages during the lost decades, we find that the variance of log hourly wages remained roughly unchanged between 1991 and 2008 when calculated using all employed individuals.² This apparent stability, however, masks very different trends for men and women. Over this period wage inequality for men rose while it fell for women; these trends cancel out in the aggregate when pooling all workers. Interestingly, although there is a decline in wage inequality for women, there is a sharp rise in hours inequality and in the correlation between hours and wages, resulting in an overall rise in earnings inequality for women. Indeed the variance of log earnings for women is higher than for men over this entire period and the increase is larger. Compared to the other countries summarized by KPPV, the gender premium in wages (male over female) is very high at 1.80 in the year 2000, compared to an average premium of 1.32. The college wage premium in Japan is 1.43, below the average of 1.60, while the experience premium is marginally higher than average at 1.34 compared to 1.28. Between 1991 and 2008 the gender premium declined in Japan by 14 log points, which is the same rate as the average of countries summarized by KPPV. In contrast, the college premium in Japan remained flat and the experience premium actually fell, where on average these measures both rose substantially in the comparison countries.

Moving from individuals to households, the rise in earnings inequality for men and women is mirrored by a rise in household earnings inequality. The rise in inequality between 1981 and 2008 is characterized by two distinct episodes. Between 1981 and 1996 real incomes rose for all households, but they rose more quickly at higher than lower percentiles of the distribution, leading to an increase in inequality. From 1996 to 2008, real incomes of households above the 50th percentile were flat, while households at and below the 50th percentile experienced declines in real income. Rising inequality in the early period was associated with rising real incomes across the board, while during the latter period the rise in inequality was the result of stagnant real incomes for households above the median and falling real incomes for households below the median, similar to the experience during the 1970s in the United States. From 1981 to 2008, the rise in household income inequality is mirrored by an equal rise in consumption inequality. This is in striking contrast to the experience of the United States and the United Kingdom, where the rise in consumption inequality is substantially lower than the rise for income inequality. Specifically, the rise in household consumption inequality is roughly of the same order in Japan as in the US and the UK, but Japan did not experience anywhere close to the same rise in income inequality.

We also consider the rise in inequality over the life cycle. Household earnings inequality increases substantially with age, there is a smaller increase in disposable income inequality and even smaller increase when considering consumption expenditures. In contrast to the time trends in inequality, when we look at the life cycle, the increase in consumption inequality is always substantially lower than the increase in income inequality. Furthermore, we document stark differences in life-cycle profiles of wages, hours, and earnings between men and women and between younger and older cohorts. A very stark finding is that while average wage profiles for men in Japan display the usual hump shape in age, rising until about age 50 and then declining, the average wage profiles for women are essentially flat, or slightly declining with age.

The remainder of the paper is organized as follows. Section 2 describes the four data sets used for the analysis. Section 3 sets the analysis in the context of the macroeconomy and compares several aggregates computed from the survey data to those available in the national accounts. In Sections 4 and 5 we consider first the inequality trends over time and next the evolution of inequality over the life cycle. Section 6 presents estimates of the variance of permanent and transitory shocks to wages. Section 7 documents what we can learn about trends in wealth inequality. Section 8 concludes.

2. The data sets

In this section we describe the four micro data sets used. These are the Basic Survey on Wage Structure (BSWS), the Family Income and Expenditure Survey (FIES), the National Survey of Family and Income Expenditure (NSFIE), and the

¹ The special issue includes comparable studies for the United States (Heathcote et al., 2010), Canada (Brzozowski et al., 2010), the United Kingdom (Blundell and Etheridge, 2010), Germany (Fuchs-Schuendeln et al., 2010), Italy (Jappelli and Pistaferri, 2010), Spain (Pijoan-Mas and Sanchez-Marcos, 2010), Sweden (Domeij and Floden, 2010), Russia (Gorodnichenko et al., 2010), and Mexico (Binelli and Attanasio, 2010).

² Data availability limits the analysis of wages and hours to the period 1991–2008.

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