

The Impact of Japanese Pay Reform in the 1990s

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1990年代の日本的賃金制度改革の影響

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ABSTRACT

This paper has outlined the background and characteristics of the 1990s pay reforms. Pay reform resulted from the need to decrease labour costs. This necessity was caused by economic depression, demographic conditions and intensified world competition. The main characteristic of pay reform was to decrease seniority/age factors and increase merit factors. However, these changes varied by job track and status. The target of the pay reform was focused on managers both because they were not protected by unions and because managers' supply greatly exceeded demand for demographic and economic reasons. Therefore, the pay reform in the 1990s was cosmetic, and not resulted in decisive changes of Japanese pay systems.

要 旨

本論文は1990年代の賃金制度改革の背景と特徴を論述するものである。賃金制度改革は人件費削減の必要性の結果である。これは経済不況、人口構造の状況、国際競争の高まりから生じた。賃金制度改革の主な特徴は年功的要素を減らし、成果の要素を増加させることであった。しかし、これらの変化はジョブ・トラックと職位により異なっていた。賃金制度改革は、組合による保護がなく、人口構成上の理由と経済的理由から供給過多になっていた管理職がターゲットになっていた。したがって限定的な面があり、1990年代の賃金制度改革は日本的賃金制度全体からみると決定的な変化には至らなかった。

I. Introduction

Seniority wages and long-term employment are widely recognised as central elements of the typical Japanese management system, which is sometimes presented in exaggerated form as being based on life-time employment, together with enterprise unionism (see, for example, Hart and Kawasaki, 1999). Typically, wages increase with age in Japan, but a pure seniority wage system is very exceptional. Normally, wages are determined by both merit and seniority. It is, therefore, more accurate to say that Japanese employees have upward sloping age-wage profiles, rather than a seniority wage system. The wage system has been modified in the past, but upward sloping

age-wage profiles have been maintained up to the present for standard employees. Broad and striking changes, however, appeared in Japanese pay systems in the early 1990s, after the bubble economy burst, and the influence of merit in pay and promotion is becoming more important in Japanese firms (Benson and Debroux, 1998; Jacoby, 1995; Morishima, 1995).

It is often stated that the seniority wage system and long-term employment are positively related to systematic skill formation through on-the-job training and the strength of Japanese firms (e.g. Kumazawa, 1997; Shimada, 1994). In addition, it is also argued that the combination of upward sloping age-wage profiles and long-term employment provide incentives to workers (e.g. Becker, 1962; Lazear, 1979). Clearly, any pay reform that substantially modifies long-term

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employment, incentive systems and related internal firm practices could have critical importance for the wider Japanese system of labour management. Abegglen (1958) argued that “the Japanese system is on the whole self-consistent” (Abegglen, 1958, p130). This paper looks at the impact of pay reform for standard employees in the 1990s and shows that it is difficult to discern any fundamental changes to date (see also Lincoln and Nakata, 1997).

II. Background to the Pay Reform of the 1990s

The main aim of the 1990s pay reform was to decrease seniority/age elements (or increase merit factors), resulting in widening wage dispersion. In particular, performance-based pay (*seikashugi chingin*) is a key concept of the 1990s pay reform. After the bubble economy burst, the Japan Federation of Employers' Associations (or Nikkeiren), the leading business association, published a significant book regarding their pay policy, “Japanese Management in the New Era” (*Shinjidai no nihonteki keiei*) (1995). This book argued that Japanese pay principles should be more performance-based (*seikashugi*) in future. In addition, it stated that long-term employment was unnecessary for all standard employees, and that the seniority promotion system should also be modified. The Japan Federation of Employers' Associations explained that pay reform aimed to decrease total labour costs. The policy reflects the fact that traditional pay systems, which make seniority/age factors significant in pay and promotion systems, have become a burden to Japanese firms in a situation of economic depression, intensified world competition, and an ageing workforce.

According to Shimazu (2002), the cost of labour (employees' income as a share of national income) in Japan was lower than that in the US from 1980 to 1993, but exceeded it between 1994 and 2000. Japanese national income decreased due to the economic recession, but labour costs increased because seniority wages automatically increased as the workforce aged. Clearly, relatively high labour costs work negatively against Japanese firms in world competition. It is, therefore, natural that Japanese firms recognise the necessity to decrease labour costs in order to maintain their competitiveness. It was also widely predicted that the traditional pay system, with its substantial proportion of seniority or age factors, would further increase labour costs with the inevitable further ageing of the workforce (for example, Genda, 1999; Koshiro, 2000; Kusuda 1999; Shimazu, 2002;

Tanaka, *et. al.* 2001). I will discuss below the details of the economic depression, demographic conditions and the unions' attitudes towards pay reform.

1. Economic Depression

Japan experienced an economic boom from the mid 1980s until the economic bubble finally burst in 1992. Since then, Japan has suffered severe economic depression. According to the Economic Planning Agency, Japan (1999), real GDP declined by minus 0.4% in 1997 for the first time since the 1974 oil shock. Subsequently, real GDP recovered slightly, but it fell again in 2001 (Cabinet Office, 2002).

The recession is rooted in the failure of macroeconomic policy after the sharp appreciation of the Japanese currency (the yen) in the mid 1980s. In September 1985, the G5 countries (Britain, France, Germany, Japan and the US) intervened in the exchange markets in order to depreciate the US dollar (Plaza Accord). This aimed to help decrease the massive trade deficit of the US. Due to the sudden and dramatic appreciation of the Japanese yen, Japanese manufacturers had difficulty exporting goods. In addition, in response to international pressure against Japan's trade surplus, the government needed to increase domestic demand. Therefore, low interest rates were set by the Bank of Japan in order to moderate the effect of the sudden appreciation of the yen on manufacturers and to stimulate domestic demand. Although there was an option to increase government spending to expand domestic demand, the Japanese government, which was seeking to reduce government debt, relied heavily on its monetary rather than its fiscal policy (Shimada, 1994). As a result, extremely low interest rates continued from the mid 1980s. The bubble economy was created not only by expansionary monetary policy (low interest rates), but also by the newly launched financial liberalisation which resulted partly from foreign pressure for open markets (Blomstrom *et. al.*, 2001). Excess money flow pushed up the prices of stock and land. At the same time, firms were shifting from direct to indirect finance, due to financial liberalisation. Therefore, banks lost stable borrowers and over-lent to risky customers. The money which was lent at low cost was used for speculation on stock and land, and the economic bubble increased dramatically in size. In 1992, the bubble finally burst, associated with a slow down in the world economy.

Subsequently, world competition was intensified further due to the development of the ex-communist countries. In 1997, the Asian economic crisis and the increase in consumer tax damaged the economic recovery. As noted above, this prolonged economic de-

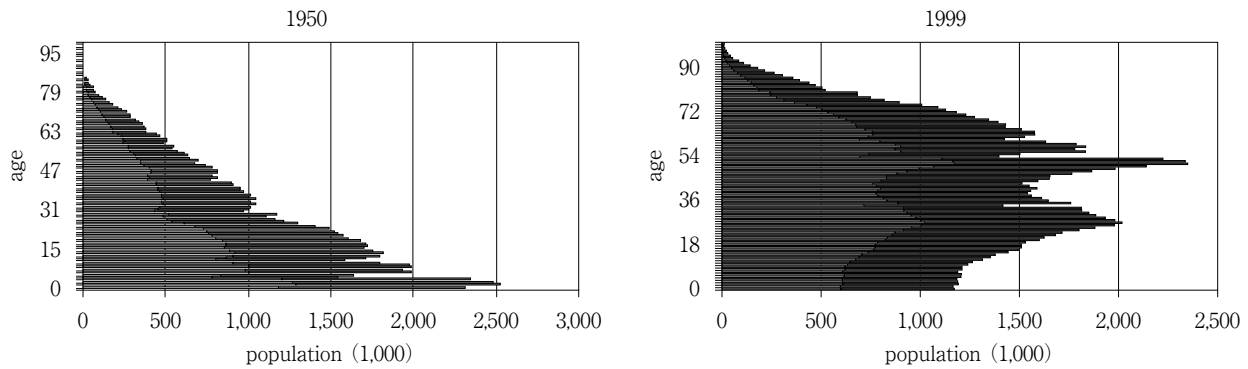


Figure 1 Japanese Population by Age in 1950 and 1999

Source : National Institute of Population and Social Security Research (2002)

Note : In the 1950 data, Okinawa Prefecture is not included.

pression was the worst since the Oil Shock, and also lasted longer. Clearly, it damaged firms' profits significantly. In this situation, firms are prone to cutting any stable costs, including labour costs.

2. Demographic Conditions

Firms also needed to conduct pay reform for demographic reasons. The birth rate peaked during 1947–1949, immediately after the Second World War (Ministry of Health, Labour and Welfare, 2002). Those who were born during this period were termed the “baby boomers”. The second peak occurred during 1971–74, and these are termed the “children of the baby boomers”. These are significantly fewer in number than the original baby boomers. Subsequently, the birth rate significantly and continuously decreased until the present day. By contrast, life expectancy increased due to improvements in health care and hygiene. Accordingly, on average, the Japanese population has been dramatically ageing, and the elderly proportion (65 years old or over) increased considerably from 4.9% in 1950 to 17.5% in 2002 (Ministry of Public Management, Home Affairs, Posts and Telecommunications, 2002).

The Japanese population structure significantly changed between 1950 and 1999, as illustrated in Figure 1. The young substantially outnumbered the old in 1950, and thus the seniority wage system did not create problems for firms. The situation, however, completely changed over the next 50 years. The 1999 figure shows the two peaks of the baby boomers and their children, while the population after the children of the baby boomers decreases sharply.

The Japanese population is not only continuously ageing, but also has a peculiar structure, with the two peaks of the baby boomers and their children. It is noteworthy that the baby boomers received under the traditional seniority wage system in the late 1990s.

When the economic depression started in 1992, they were already 45–47 years old and receiving high salaries. In addition, it is expected that firms will have to pay out large cash lump-sums when the baby boomers retire in the near future. Therefore, it is conceivable that the existence of the baby boomers strengthened the necessity for pay reform.

Moreover, Genda (1999) argued that the problem with baby boomers is not only their huge number, but also their high level of education. In 1965, when the baby boomers were at student age, 294,540 enrolled in higher education institutions (universities, colleges and polytechnics) (Ministry of Education, 2000). This had more than doubled from 131,526 in 1955. The numbers enrolling in higher education have continuously increased ever since, but there has never been another period of such rapid change. Furthermore, when the baby boomers finished their higher education, the Japanese economy was growing rapidly. It was, thus, relatively easy for them to obtain jobs in the managerial track in large enterprises. The Japanese labour market subsequently shrunk due to the 1973 Oil Shock, and Genda (1999) argued that many baby boomers remained with the firms to which they were first recruited. He argued that most baby boomers became managers in the 1980s due to seniority promotion systems, resulting in an excess supply of managers. This issue will be discussed later in association with changes in age-wage profiles.

3. Unions' Attitudes

In the private sector, wage bargaining is conducted at individual enterprises, except for a few occupations. Normally, each firm has its own enterprise union, to which all non-managers belong regardless of their job tracks. The unions have been co-operative with management, especially in the last three decades due to the Oil Shock and the subsequent appreciation

of the yen (e.g. Koshiro, 1998 and Weathers, 1999). As a result of stable union-employer relations, unions were not militant, and the rate of wage increase was determined with careful consideration of the firms' competitiveness in the world market; therefore, the rate of wage increases from 1973 to 1998 has been correlated to the consumer price index, labour demand, exchange rate against the US dollar (the currency of the major trade partner), and the indexes of export and import prices (Koshiro, 1998).

The enterprise unions affiliate to upper-level unions, such as industrial federation and national confederations. Among the three national confederations, the Japanese Trade Union Confederation (or Rengo) is the leading union confederation. Most major firms, and 64% of unionised workers in Japan, are affiliated to it (Ministry of Health, Labour and Welfare, 2001). It is the third largest organisation in the International Confederation of Free Trade Unions, after the American Federation of Labor and Congress of International Organizations in the USA, and the Deutscher Gewerkschaftsbund in Germany (Japanese Trade Union Confederation, 2002). The Japan Trade Union Confederation and the Japan Federation of Employers' Associations are key actors in annual wage bargaining in Japan.

In 1996, the Japanese Trade Union Confederation conducted a survey of over 1,405 unions, including 645 unions of large firms, to which 889 unions, including 456 unions of large firms, responded (Japanese Trade Union Confederation, 1997). The opinion poll investigated the increasing importance of job-related wages (or decreasing proportion of person-related wages with seniority or age factors). 46.6% of unions responded that they accepted it, or would accept it with certain conditions. 5.1% said that they were willing to accept the change unconditionally. 30.6% had not decided their attitudes towards this change. Only 9.6% of unions answered "we cannot accept it because a negative effect is predicted" (8.2% of responses were not applicable.). Similarly, many unions accepted increasing or implementing contingent pay which varies according to the performance of individuals in the short term. 4.8% of unions were willing to accept this, and 31.2% accepted or would accept it with certain conditions. Yet, 11.7% of unions stated "we cannot accept it because a negative effect is predicted". 43.5% had not decided their attitudes towards this change, and this indicated that the increase in the contingent part in wages was a relatively new issue in pay changes.

Therefore, most unions were not opposed to the 1990s pay reform. This is understandable. Due to the

nature of enterprise unions, their survival is aligned with the firms' survival in the market. Hence, especially in large firms, enterprise unions remember that their members' working conditions are significantly better than in small and medium sized firms, and thus their first priority has been the protection of employment (Koshiro, 1998). Wage bargaining is not radical in Japan, because there is a mutual understanding between the two sides and, in most cases, management provides the union with confidential information about the profitability of the firm, and productivity per employee, before the annual wage negotiation (Morishima, 1992).

Thus, the major reason for pay reform was economic depression, and intensified world competition made the situation even more serious. In addition, there were two notable domestic factors encouraging the pay reform. Firstly, economic recession happened at a bad moment with an ageing workforce and aged baby boomers worsening the burden of labour costs. Secondly, unions were generally open to co-operation with management on pay reform issues. How did pay reform develop in these conditions?

III. The 1990s Pay Reform

The influence of merit in pay and promotion is becoming more important in Japanese firms (see for example, Benson and Debroux, 1998 ; Hart and Kawasaki, 1999 ; Jacoby, 1995 ; Morishima, 1995 ; Shibata, H. 2000).

In 1999, the Ministry of Labour, Japan, undertook a survey regarding changes in wage systems in 5,297 firms with 30 standard employees or more, and 93% of firms responded (Nihon keizai shinbun, 2000). According to the survey, 53% of firms had altered their wage systems in the last 3 years, and 39.7% intended to modify their wage systems in the next 3 years. 15.8% of firms had increased the proportion of pay in a salary which is determined by job grade. 15.5% of firms increased the proportion of pay which varies according to the performance of the firm or individuals within it. This was particularly clear in large firms with 1,000 employees or more, and 38.8% of large firms had increased the proportion of pay which varies according to the performance of the firm and/or the individual. In pay reform, there is a clear trend that seniority has decreased in importance while merit has increased.

In addition, some innovative firms have implemented a radical Annual Salary System (*nenpo-sei*) (Ari-ga *et. al.*, 2000). For a long period, Japanese employees were unfamiliar with the concept of an annual

Table 1 Proportion of Employees Who Work for a Single Firm After Graduation from School/University (Large Firms)**Male Standard University Graduates**

Tenure		<17 years	17-21	22-26	27-31
Age group		Age 40-44	Age 45-49	Age 50-54	Age 55-59
≥5,000 employees	1980	82%	66%	66%	29%
	1994	78%	77%	75%	65%
1,000-4,999 employees	1980	73%	63%	50%	13%
	1994	71%	72%	63%	54%

Source : Chuma (1997)

Male Standard High School Leavers

Tenure		<17 years	17-21	22-26	27-31
Age group		Age 40-44	Age 45-49	Age 50-54	Age 55-59
≥5,000 employees	1980	46%	50%	48%	21%
	1994	77%	65%	61%	36%
1,000-4,999 employees	1980	44%	39%	28%	10%
	1994	64%	52%	52%	29%

Source : Chuma (1997)

salary, since their salary basis was monthly in general. *Nenpo* (annual salary) was only known as the pay system for professional baseball players. Therefore, the implementation of an Annual Salary System appears to the Japanese to be extremely merit-oriented. Ariga *et. al.* (2000) defined the Annual Salary System (*nenpo-sei*) as follows: (1) one's annual pay is determined solely by job assignment and performance; (2) pay varies greatly according to the result of personal assessment by supervisors; (3) age-related pay is abandoned. They argued that the Annual Salary System can require fundamental changes in pay and personal appraisals, and eliminates the overlapping of pay ranges between job grades.

As a result of these changes, it has been observed that tenure has risen, while age-wage profiles have flattened. For a long time, long-term employment and upward sloping age-wage profiles were regarded as an inseparable combination. This phenomenon, however, indicates that the protection of employment has a higher priority than 'seniority wage' in Japanese firms. We will map out below the changes in tenure and age-wage profiles.

Length of tenure in Japanese firms has risen steadily among all job tracks in all sizes of firms, despite the economic depression (Chuma, 1997). From 1992 to 1999, the average tenure of all employees increased from 10.9 years to 11.8 years (Ministry of Health, Labour and Welfare, Japan, 2013). Chuma (1997) studied the changes from 1980 to 1994 in so-called 'permanent employment', namely, the proportion of those who worked for a single firm after school/university graduation. For example, since most people leave high school at age 18, high school leavers with 32 years tenure or more at age 50-54 were expected to have worked for the same firm since their high school graduation. University graduates were assumed to enter the job market at 22 or 23 years old, because it is common to re-try entrance examinations at the age of 19 and to graduate at the age of 23. The estimations demonstrated that the tenure of both groups rose between

1980 and 1994 (Table 1). This result indicates that long-term employment gradually intensified over the last four decades, as follows.

The proportion of employees who worked for a single firm after school/university graduation was originally high in firms with 5,000 employees or more and greatly increased between 1980 and 1994. Those aged 55-59 more than doubled from 29% to 65% during the same period in firms with 5,000 employees or more. In 1980, no more than 50% in any age group among high school leavers worked for a single firm. It appears that long-term employment came to be common first among white-collar university graduates in the managerial track, and that it took time for the custom to spread widely to other workers. It is supposed that long-term employment became common also for high school leavers during the 1960s and 1970s. Since the 55-59 years age group in 1980 left high school in the 1940s, they were excluded from the long-term employment custom. Therefore, the younger the employees, the higher the proportions of those who worked for a single firm after their high school graduation, according to the data of 1994. This gradation shows the way that long-term employment steadily increased in popularity over the last 40 years. By 1994, long-term employment had become a common custom for all standard male workers regardless of job track.

Although the study of Chuma (1997) covers the period up to 1994, length of tenure continued to increase after this (Ministry of Health, Labour and Welfare, Japan, 2002). Thus, long-term employment, which is one of the 'three pillars' of the Japanese wage system, has not decreased in the 1990s. On the contrary, it has rather intensified. Firms seem to prefer to modify age-wage profiles, rather than long-term employment, under the constraint of tightened labour costs. This stems from two factors. Firstly, long-term employment and seniority wages are positively related to systematic skills formation through on-the-job training and the strength of Japanese firms (e.g. Kumazawa, 1997 and Shimada, 1994). Upward sloping age-

Table 2 Pay Policy in the Future

	Managers (%)	Non-managers (%)
Solely seniority pay	2.9	14.9
Seniority = job-ability & result-related pay	2.4	16.0
Seniority < job-ability & result-related pay (1)	15.7	38.6
Seniority << job-ability & result-related pay (2)	39.4	26.6
Solely job-ability & result-related pay	38.3	2.4
Total	100.0	100.0

Source : Shakai keizai seisansei honbu (1998)

Note : (1) Seniority remains, but job-ability & result-related pay is more important.

(2) Seniority is minimised, and job-ability & result-related pay is the main element in pay determination.

wage profiles can be temporarily weakened and recovered in future, but employment cannot. It is, thus, understandable that Japanese firms attempt to protect employment, especially that of core workers (standard male employees). This is also reflected in recent unemployment statistics. Due to the severe economic condition, the unemployment rate considerably increased from 2.2% in 1992 to 4.7% in 1999 (Ministry of Internal Affairs and Communications, 2013). It is, however, argued that unemployment was a phenomenon occurring mainly among older men (55-64 year olds) and younger women (25-34 year olds) (Rebick, 2001). Rebick claimed that unemployment of prime-age men was below 2% and that family well-being was not seriously damaged, even though the overall unemployment rate was significantly higher (4.9% in June 1999).

Secondly, a legal reason should be highlighted. Whilst labour law provides the right of dismissal to employers, it is unlikely that they will win court cases without substantial reasons (Koshiro, 1997). Therefore, when Japanese firms, especially large ones, face economic depression, they tend to avoid large scale layoffs, and attempt to protect the employment of their core workers, who are normally standard male employees, by restricting overtime, laying off part-timers, changing individuals' jobs, secondments to subsidiary firms, decreasing/stopping mid-career recruitment, temporary suspensions, early retirement plans and having fewer new intakes (Koshiro, 1998).

It is noteworthy that the modification of the pay system varies according to job track and status. Because there is a correlation between job status and age, it also depends on age. Changes in wage dispersion can be a proxy for the implementation of performance-related pay. According to the Ministry of Labour, Japan (2000), wage dispersion rose from 1980 to 1999 only among standard male university graduates in their late 30s or over. In contrast, it decreased among those in their 20s. In manufacturing firms, a

sharp contrast is observed by job track. Wage dispersion of male standard white-collar university graduates increased only in their late 30s or above; but there were no significant changes among standard male white-collar high school leavers; and it is noteworthy that wage dispersion decreased among standard male blue-collar workers in their late 30s or above from 1980 to 1999. The implementation of an Annual Salary System shows a sharp contrast between managers and non-managers. According to a survey by Roumu Gyousei Kenkyusho (1998) from April 1996 to June 1997 involving 150 major firms in various industries, 20.7% of firms introduced an Annual Salary System for managers, but only 3.3% of firms implemented the system for all employees.

It is likely that this tendency will continue. Table 2 presents the results of an opinion survey conducted by a research institute, Shakai keizai seisansei honbu (1998), concerning future pay policy. The weight of merit is more significant for managers, and the importance of seniority is more significant for non-managers. For example, 38.3% of firms considered that pay should be determined solely by job-ability and result-related pay for managers, but the proportion was only 2.4% for non-managers. In contrast, 14.9% of firms responded that their future pay policy will be mainly seniority pay for non-managers, but this was only 2.9% for managers. Different attitudes toward pay policy by job status are consistent with the changes in wage dispersion by job track from 1980 to 1990 in which only managers' wage dispersion increased. In Table 2, "solely job-ability & result-related pay" is treated as the Annual Salary System (*nempo-sei*) using the definition provided by Ariga *et. al.* (2000). Therefore, an Annual Salary System is, and will be, much more common for managers, than for non-managers.

Why are managers the major target of pay reform? There are two main reasons: (1) protection by unions (Ministry of Labour, Japan, 2000) and (2) the excess supply of managers (Imada and Hirata, 1995; Genda,

1999; Okunishi, 1998).

Firstly, managers are the easiest target for altering wages, since they do not belong to unions. As described above, managers cannot belong to enterprise unions. There are some independent unions for managers, but it is a very exceptional case to affiliate to them. Secondly, an excess supply of managers has been caused by an excess supply of university graduates, the great number of baby boomers and the insufficient increases in managerial posts due to slow economic growth. According to a study by Imada and Hirata (1995) regarding a large Japanese manufacturing firm with approximately 35,000 employees, the number of university graduates exceeded that of high school leavers in the firm after 1976. The number of university graduates has dramatically increased in Japan. The proportion of full-time high school students who went to university was 11% in 1965, and this subsequently steadily increased to 31% in 1975 and 38% in 1995 (Ministry of Education, Japan, 2000). Thus, it is a common phenomenon in Japan that the relative importance of university graduates fell gradually but continuously. A firm I investigated decreased the relative status of university graduates. The firm changed its pay system because they estimated that qualified high school leavers would be in short supply. Several university graduates have already worked as blue-collar workers in the firm.

Moreover, Okunishi (1998) argued that flattening age-wage profiles are closely related to the proportion of workers in their 40s and 50s, because the rapidly ageing Japanese population has resulted in an excess labour supply of 40 and 50 year olds, leading to downward pressure on their wages. The existence of baby boomers worsened the situation. The Ministry of Labour, Japan (2000) claimed that the more the workforce of a firm is ageing, the flatter the age-wage profiles of their employees are. This supports Okunishi's argument.

Furthermore, it is a problem when the number of posts does not increase sufficiently. Normally, promotion management is based on peer-cohort and job track. In general, all male university graduates are put onto the managerial track together, and are supposed to become managers by their 30s. If firms grow, the number of posts increases, but this did not occur during the economic recession of the 1990s.

Rebick (2001) argued that the number of managerial posts for older employees became fixed during the 1980s and 1990s, and that this resulted in reduced morale among employees. In contrast, the Ministry of Labour, Japan (2000) stated that firms in all industries increased the number of managerial posts from 1980

to 1999 by 5%, but this was not enough. As a result, it took longer to become lower, middle and upper managers, and also university graduates who did not become managers appeared. It has also been argued that the older the average age of employees in a firm, the later their age on becoming a manager (Ministry of Labour, Japan, 2000). Consequently, the degree of excess supply of those in their 40s and 50s was particularly serious among university graduates (white-collar workers on the managerial track).

IV. Conclusion

This paper has outlined the background and characteristics of the 1990s pay reforms. Pay reform resulted from the need to decrease labour costs. This necessity was caused by economic depression, demographic conditions and intensified world competition. Pay reform is a general trend and is particularly significant in large firms. Unions usually show co-operative attitudes towards pay reform.

The main characteristic of pay reform is to decrease seniority/age factors and increase merit factors. The key concept of the 1990s pay reform is the implementation of performance-based pay (*seika-shugi chingin*), of which the Annual Salary System (*nenpo-sei*) is one major type. As a result, it is assumed that wage dispersion among employees will be widened by individuals' merit payments.

Despite pay reform, tenure increased between 1992 and 1999 (Ministry of Health, Labour and Welfare, Japan, 2002). Chuma (1997) examined the proportion of those who work for a single firm after school/university graduation, and claimed that long-term employment has gradually intensified over the last 40 years. One of the reasons might be a positive link with skills development, yet it should also be noted that standard employees are legally protected.

This paper considers at the typical Japanese system of wages and promotion, and seeks to examine the impact of pay reform on large Japanese firms in the 1990s and its implication on the people involved. It has been argued that upward sloping age-wage profiles and long-term employment are positively related to the strength of Japanese firms (e.g. Becker, 1962; Kumazawa, 1997; Lazear, 1979; Shimada, 1994).

However, upward sloping age-wage profiles have been gradually flattening out. But, these changes vary by job track and status. The target of the pay reform was focused on managers both because they are not protected by unions and because managers' supply greatly exceeds demand for demographic and economic reasons.

Therefore, the pay reform in the 1990s was not resulted in decisive changes of Japanese pay systems.

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