



Minimum wage in a deflationary economy: The Japanese experience, 1994–2003[☆]



Ryo Kambayashi^a, Daiji Kawaguchi^b, Ken Yamada^{c,*}

^a Institute of Economic Research, Hitotsubashi University, 2-1 Naka, Kunitachi, Tokyo 186-8603, Japan

^b Faculty of Economics, Hitotsubashi University, 2-1 Naka, Kunitachi, Tokyo 186-8601, Japan

^c School of Economics, Singapore Management University, 90 Stamford Road 178903, Singapore

HIGHLIGHTS

- We examine the impact of the minimum wage on the wage distribution under wage deflation in Japan.
- We quantify the impact of employment loss resulting from the minimum-wage increase on the wage distribution.
- The increase in the minimum wage accounts for roughly one half of the reduction in lower-tail inequality among women between 1994 and 2003.
- The increase in the minimum wage had adverse effects on new hires, hours worked, and employment for women.
- The loss of employment only partially accounts for the wage compression.

ARTICLE INFO

Article history:

Received 21 November 2012

Received in revised form 28 August 2013

Accepted 3 September 2013

Available online 20 September 2013

JEL classification:

J23

J31

J38

Keywords:

Minimum wage

Wage inequality

Employment loss

Truncated distribution

Deflation

ABSTRACT

The statutory minimum wage in Japan has increased continuously for a few decades until the early 2000s even during a period of deflation. This paper examines the impact of the minimum wage on wage and employment outcomes under this unusual circumstance. We find that the minimum-wage increase resulted in the compression of the lower tail of the wage distribution among women and that the wage compression is only partially attributable to the loss of employment. The continuous increase in the minimum wage accounts for one half of the reduction in lower-tail inequality that occurred among women during the period between 1994 and 2003.

© 2013 Elsevier B.V. All rights reserved.

1. Introduction

Although many advanced industrialized countries share similar experiences of skill-biased technological change and increased exposure to international trade and outsourcing (Machin and Van Reenen,

1998), wage distributions have evolved differently among these countries. One representative example is the stark difference in changes in wage inequality between Japan and the United States. Wage inequality increased only moderately in Japan from the mid-1970s to the early 1990s, while it rose substantially in the United States (Katz et al.,

[☆] This paper is part of the research being conducted by the Global Centers of Excellence Program at Hitotsubashi University and the Research Institute of Economy, Trade and Industry. The Basic Survey on Wage Structure and the Employment Status Survey are used with special permission from the Ministry of Internal Affairs and Communications. We thank Christian Dustmann, Hidehiko Ichimura, Fumio Ohtake, Tatsushi Oka, Emiko Usui, and participants in seminars at Hitotsubashi University, Paris School of Economics, Singapore Management University, the University of Tokyo, the mini-conference on minimum wage and social security, the Trans-Pacific Labor Seminar, the Japanese Economic Association Spring Meeting, the SNU Summer Economics Conference, the Japan-UNSW Applied Microeconomics Workshop, the European Association of Labour Economists Annual Conference, the ZEW Workshop, the Royal Economic Society Annual Conference, and the Econometric Society World Congress for their helpful comments. We would also like to thank the editor and anonymous referees for their comments and suggestions to improve the paper. This study was partially supported by a Grant-in-Aid for Young Scientists (A) (20683003).

* Corresponding author.

E-mail addresses: kambayas@ier.hit-u.ac.jp (R. Kambayashi), kawaguch@econ.hit-u.ac.jp (D. Kawaguchi), kenyamada@smu.edu.sg (K. Yamada).

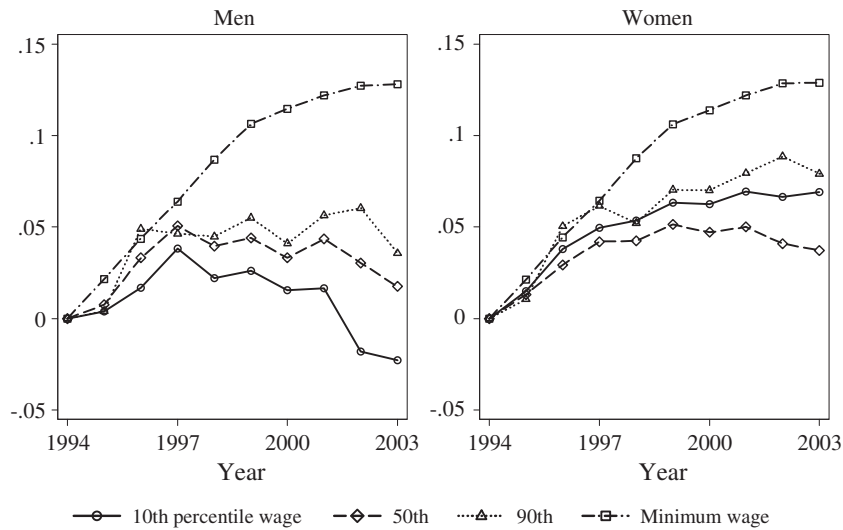


Fig. 1. Changes in the wage distribution and the average minimum wage.

Notes: We calculate the 10th, 50th, and 90th percentiles of the wage distribution and the average minimum wage by year and plot their logarithmic values after normalizing them to zero in 1994 both for men and women.

Data source: BSWS.

1995). Differences in inequality trends across countries are typically attributed to differences in wage-setting institutions, such as labor unions and minimum wages (Blau and Kahn, 1996; Freeman and Katz, 1996). When these institutions are compared between Japan and the United States, the real minimum wage deflated by the consumer price index rose by 60% in Japan from the early 1970s to the late 1990s, while it fell by 20% in the United States (OECD, 1998). DiNardo et al. (1996), Lee (1999), and Teulings (2003) demonstrate that the erosion of the real value of the minimum wage accounts for a large part of the rise in wage inequality in the United States, but there has been a lack of formal analysis regarding the impact of the minimum wage on inequality trends in Japan.

The moderate increase in wage inequality occurred in Japan until the early 1990s for both men and women (Katz et al., 1995). After the early 1990s, however, while male wage inequality increased, female wage inequality declined. To be precise, while the male wage distribution fanned out as the 10th percentile of the wage distribution declined

after the late 1990s, the female wage distribution compressed as the 10th percentile of the wage distribution increased after the early 1990s (Fig. 1). During the same period, the statutory minimum wage continued to increase in all prefectures, even after the median wage started to decline in the late 1990s. Since the rate of increase in the minimum wage was nearly uniform across all prefectures regardless of their differences in labor-market conditions, the ‘bite’ of the minimum wage rose more significantly in low-wage prefectures than in high-wage prefectures. In fact, the fraction of workers paid less than or equal to the minimum wage rose above 5% among women in some prefectures after the late 1990s, although it continued to be below 1% among men in most prefectures between 1994 and 2003 (Fig. 2). While teenagers make up the majority of minimum-wage workers in the United States (Flinn, 2010), women make up most of the minimum-wage workers in Japan. The aim of this paper is to investigate the extent to which a reduction in lower-tail inequality among women in Japan is attributable to the minimum-wage increase.

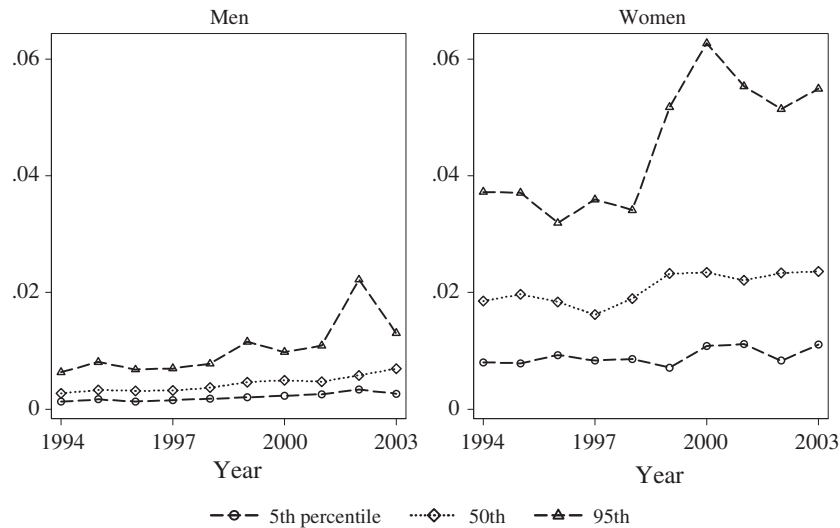


Fig. 2. Changes in the fraction of minimum-wage workers.

Notes: We calculate the fraction of workers paid less than or equal to the minimum wage by prefecture and year and plot the fraction in prefectures at the 5th, 50th, and 95th percentiles by year both for men and women.

Data source: BSWS.

Download English Version:

<https://daneshyari.com/en/article/7372420>

Download Persian Version:

<https://daneshyari.com/article/7372420>

[Daneshyari.com](https://daneshyari.com)