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Performance-pay and the gender wage gap in Japan



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ABSTRACT

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Using the Japanese Survey of Living Preferences and Satisfaction, we examine the gender wage gap by performance-pay group across the whole earnings distribution in Japan. The main finding is that a sharp acceleration of the gap at the top is not observed in Japan when we use a sample of all workers. However, a glass ceiling effect is observed for white collar workers who do not receive performance-based pay. On the other hand, the feature of maintaining a raw gender wage gap at about the same level above the 60 percentile is observed for white collar workers who receive performance pay. In addition, we find that the raw gender wage gap among the performance-pay group is about 5–18 points greater across the wage distribution than that among the non-performance-pay group. A second finding is that after performing the counterfactual decomposition analysis introduced by Machado and Mata (2005), differences in promotion between women and men explain the gender wage gap at the top of the distribution for non-performance pay workers. On the other hand, the gender difference for those working in large companies explained the gender wage gap at the top distribution for performance pay workers. *J. Japanese Int. Economies* 34 (2014) 71–88. Research Fellow of Osaka School of International Public Policy, Osaka University, 1-31 Machikaneyama, Toyonaka, Osaka 560-0043, Japan; Institute of

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1. Introduction

Research into the gender pay gap in Japan has addressed a range of issues, although in recent times most attention has focused on the average pay differential. Recent research in other countries has focused on how the gender pay gap varies across the wage distribution (Albrecht et al., 2003; Kee, 2006; Arulampalam et al., 2007; De la Rica et al., 2008; Ge Li et al., 2011).

In an early study, Albrecht et al. (2003) showed that the gender log wage gap in Sweden was increasing throughout the wage distribution and accelerating at the top, and they interpreted this as evidence of a glass ceiling in Sweden. Albrecht et al. (2009) further developed the Machado and Mata (2005) decomposition across the wage-distribution methodology to account for sample selection. They found that if all women worked full-time, the average log gender wage gap would have been higher in the Netherlands. In addition, Arulampalam et al. (2007), using harmonized data for the years 1995–2001 from the European Community Household Panel, analyzed gender pay gaps in the public and private sector across the wage distribution in eleven countries, and found a widespread glass ceiling effect across Europe.

We follow a similar approach to that of Albrecht et al. (2003) and Arulampalam et al. (2007) to examine the glass ceiling effect in Japan using an all full-time workers sample. Furthermore, we focus on white-collar workers and stratify a white-collar workers sample by performance pay group to examine if the gender wage gap differs between performance pay and non-performance pay workers. If the earnings differential is due to statistical discrimination resulting from imperfect information among employers concerning the productivity of individual job candidates, pay for performance, which requires objective measures of employee performance, could be an approach to end statistical discrimination. Therefore, it is possible that a narrower gender gap might be observed among performance pay workers.

Using data from the Survey of Living Preferences and Satisfaction in Japan, our first objective is to analyze the gender wage gap within the performance pay group and the non-performance pay group using a quantile regression framework. The second objective is to clarify how much of gender pay gaps can be attributed to gender differences in characteristics, and how much can be attributed to differences between men and women in the returns to characteristics. To answer this, a counterfactual decomposition analysis introduced by Machado and Mata (2005) is performed.

The remainder of our paper is organized as follows. In the next section, we provide related previous research in Japan and in other countries. Next, we describe the data source and descriptive statistics. Then, we outline the methodology adopted. And then, we present the main results and discuss the findings. The final section is the conclusion.

2. Previous research

2.1. Gender wage gap in Japanese labor market

The Equal Employment Opportunity Law in Japan which prohibits gender discrimination in recruitment, assignment, promotion, retirement and dismissal was enacted in 1985 and further amended in 1997 to prevent gender discrimination. However, the economics status of Japanese and Korean women¹ remains well below average as compared with women in other developed countries (OECD, 2012). In addition, Japan stands out for their large gender gap in top percentile of wage distribution.

¹ Cho (2007) and Cho et al. (2010) discuss the gender wage gap in Korea.

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