

Abstracts

The Minimum Wage System in Japan: Based on Experiences in Europe and the U.S.

Isao Ohashi (Chuo University)

Minimum wages in Japan are relatively low among the OECD countries, but they appear to be starting to increase, based on the manifesto of the Democratic Party of Japan. I will review the current situation of the minimum wage systems in Europe and the U.S., focusing on the way the minimum wage is determined as well as the historical background of Japan. This review shows how the Japanese system has evolved since its establishment in 1959 and why it now needs to be changed. Many housewives and students work as part-timers and receive low wages, but they are not suffering in the sense that they depend on their husbands or parents for their living costs. In turn, there are low-wage workers who must earn their living costs. In order to avoid reductions in the employment of housewives and students, I propose that minimum wages be reduced on the basis of the duration of working time. Low-wage workers earning living costs will work for many hours.

The Determinants of the Minimum Wages in Japan

Keiko Tamada (Fukuoka University)

In this article, we explain the Japanese minimum wage system, and examine the determinants of the amounts of minimum wage increases recommended by the Central Minimum Wage Council ("*meyasu-gaku*"), and the actual amounts of minimum wage increases set by Local Minimum Wage Councils ("*hikiage-gaku*"). We find that the amounts of minimum wage increases recommended by the Central Minimum Wage Council are positively affected by the size of wage increases in small sized firms and the active job openings-to-applicants ratio. The actual amounts of minimum wage increases set by Local Minimum Wage Councils are positively affected by the amounts of the minimum wage increases recommended by the Central Minimum Wage Council. Finally, we also examine the effect of unionization on the amounts of the minimum wage increases, and find that unionization has no effect on the amounts of the minimum wage increase set by either the Central Minimum Wage Council or Local Minimum Wage Councils.

The Effect of the Minimum Wage for Companies: The Understanding and the Correspondence

Naofumi Sakaguchi (The Institute for Research on Household Economics)

This paper focuses on awareness of the lowest wage in businesses that we obtained from the survey conducted by the Japan Institute for Labour Policy and Training. The survey was based on the data collected in 2004 before the lowest wage issue attracted much interest. Most businesses in Japan were unaware of their regional lowest wages, or they apparently considered them irrelevant to corporate management because they did not refer to them when deciding wages. That is, firms did not consider finding whether the lowest wage restrains employment. However, in areas where part-timers earn wages close to the regional lowest wage, businesses showed a greater awareness of their regional lowest wages and had significantly more experience of controlling new employment by increasing the lowest wage than firms in other areas. As described above, there was a regional difference in awareness and responses by businesses regarding the lowest wage, though the survey covered only a limited number of businesses.

Socioeconomic Background of Minimum Wage Workers and the Effect of Minimum Wage Hike on Employment in Japan

Daiji Kawaguchi (Hitotsubashi University) and **Yuko Mori** (Ph.D. candidate, Hitotsubashi University)

This paper examines the socioeconomic background of minimum wage workers and the effect of minimum wage on employment utilizing the micro data of the Employment Status Survey between 1982 and 2002. Workers who are female, junior-high-school or high-school graduates, living in a rural area, working in the retail, wholesale, restaurant and lodging industries, and/or on a part-time contract, are likely to be minimum wage workers. Less than 15 percent of minimum wage workers are heads of households with an annual household income of less than 3 million yen. On the contrary, about a half of minimum wage workers are members of households with an annual household income of 5 million yen or more. Regression analysis, which exploits the regional variation in the ratio of workers who are affected by a minimum wage hike, points to a loss of employment among teenage males and middle-aged married females because of the minimum wage hike. The full English version of this paper appears in the *Pacific Economic Review*, October 2009 issue, under the title "Is Minimum Wage an Effective Anti-Poverty Policy in Japan?" by the same authors.

The History, Current Situation and Challenges of the Minimum Wage in the United States

Yoshio Sasajima (Meiji Gakuin University)

Minimum wage legislation was enacted in several states in the U.S. in the 1910s. However, the U.S. Supreme Court declared it unconstitutional, so the minimum wage system became inactive thereafter. During the Great Depression, the Fair Labor Standards Act was enacted following a decision by the U.S. Supreme Court to reverse its previous decision. The Fair Labor Standards Act covers almost all employees, but excludes salaried white-collar workers. Almost all states have their own minimum wage legislation and the statutes differ from state to state. Minimum wage workers tend to be young, female and part-time. About half of the minimum wage workers work in food preparation and serving occupations. The U.S. Government calculates the poverty threshold by type of family, which shows the minimum income needed to cover the cost of living. The Federal minimum wage rate was not enough to cover the cost of living for a family of two persons or more in 2008. A new type of minimum wage is worth considering. The living wage is such that a city or county enacts a living wage ordinance which requires those companies having a business contract with the city or county to pay its workers the living wage, which is higher than the state minimum wage. Some cities set a city-wide minimum wage. The challenges of the Federal minimum wage are to introduce an inflation-free system and to improve the coverage of health insurance for low-income workers.

The Minimum Wage System in France

Naoki Mitani (Graduate School of Economics, Kobe University)

This paper surveyed recent studies on the Minimum Wage (SMIC) in France with an empirical analysis on the effects of minimum wages on employment. The level of the minimum wage is internationally high. Only one minimum wage is uniformly applied to all workers aged over 18 years old in the private sector, regardless of age, industry, occupation and region. The proportion of workers whose wages are directly or indirectly affected by the increase in SMIC is about 35%, thus the minimum wage has an important influence on the overall determination of wages in France. The annual increase in SMIC is arbitrarily determined by the government in addition to the increase automatically determined. It has been revealed that SMIC is not an efficient tool for combating low wages and poverty. On the other hand, it has negative effects on the employment of unskilled workers such as youths. Therefore, to cope with poverty, it is necessary to reform and reinforce other tools such as social aid measures or tax systems. The introduction of RSA, which is an in-work benefit system with an incentive for the labor supply of low-paid workers, can be considered as one such reform. It is pointed out that a minimum wage that is highly restricted and regulated by the state may deteriorate industrial relations which can be considered as social capital.

The Minimum Wage Regulations in Germany

Itaru Nemoto (Osaka City University)

In Germany there is no universal minimum wage law; instead, various regulations including collective bargaining at the industry level play a large role. This article examines their contents and the arguments concerning their legal framework. The minimum wage for workers including foreigners in Germany has been mainly regulated by the extension of collective agreement (general binding effect system) and the general clause of the Civil Code. However, the national minimum wage law has recently come under review, because many workers who can earn only lower wages

than under the standard of collective bargaining have emerged as a social issue and the limitations of the existing regulations have become clear. Such circumstances affected the enactment of a law concerning the posting of workers and the revision of the minimum working conditions law of April 2009, but these can provide minimum wages only to some industrial workers.

A Theoretical Study on Minimum Wage and Benefit Policies

Wataru Kobayashi (Policy Research Institute, Ministry of Finance)

In this paper, I organize theoretically the characteristics of three low-income supporting policies: the guaranteed minimum income (GMI), the minimum wage (MW) and the negative income tax (NIT). I then focus on poverty reduction as well as inequality reduction in considering the income redistribution effects of the policies, and examine the usefulness of indicators such as the poverty reduction efficiency (PRE). First, a simple GMI has large disincentive effects on labor supply because the recipients face a marginal tax rate of 100 percent. In that case, we need to pay extra attention when calculating the PRE because the poverty gap widens under the program. However, the Public Assistance System in Japan has a work requirement for employables and we need to consider the points. Next, the MW has a function to secure a minimum income for employables, so the MW and the GMI can share roles unless the disincentive effects on employers are too large. Finally, discussions on adopting the NIT include two trends: replacing the GMI by the NIT, and income deduction without benefits by the tax credit with benefits. We have to compare the former with the GMI including work requirements, and must consider that there is a poverty reduction function but no poverty resolution function for the latter.