

## Abstracts

### How is a Wage Determined?: A Viewpoint from Labor Economics

**Masaru Sasaki** (Osaka University)

This paper explains how a wage (or salary) is determined from the viewpoint of economics. In principle, a wage is associated largely with the level of human capital that an individual has accumulated, but the market environment is another important factor in determining a wage. First, I show that the way of determining the equilibrium wage depends on the number and size of firms in the labor market. Then, I explain how to bargain over a wage between a worker and an employer and show that wages vary with the bargain timing. Also, I cover the bargaining model between a labor union and a firm and show its implications. Finally, I show that a wage is not necessarily associated with the human capital level in the labor market, where information on wage posting and productivity is imperfect.

### Recent Trends in Collective Bargaining and Wage Determination in Major EU Countries : Continuity and Changes.

**Hiromasa Suzuki** (Professor Emeritus, Waseda University)

This article gives an overview of some of the salient trends in collective bargaining and wage determination in major EU countries. Despite a declining union density, collective bargaining at the industry level still determines conditions of work and wages in major EU countries with a notable exception of UK. As regards wage determination, the article first examines the development of the minimum wage which provides a practical floor for low wages in many EU countries. Then, it looks into skill-based wage hierarchies contained in collective agreements fixed at the industry level and points to the fact that these skill levels are related to industry-wide skills obtained by education and training. As to recent changes in wage levels, the article finds that wages tend to increase approximately 3% annually-, but in real terms, this means a minor increase of less than 1% since 2001, according to EIRO surveys. Finally, as policy debates in the field of wages, the article identifies three areas: 1) a diminishing coverage of collective bargaining, 2) tensions between the freedom of movement of capital and workers and national boundaries of collective bargaining, and 3) problems of low-paying jobs.

### Japanese Employment System in the Lost Decades

**Junya Hamaaki** (Cabinet Office, Government of Japan), **Masahiro Hori** (Hitotsubashi University), **Saeko Maeda** (Cabinet Office, Government of Japan), **Keiko Murata** (Tokyo Metropolitan University)

Despite changes in the economic and social environment following the burst of the bubble economy in the early 1990s, studies on the Japanese employment system so far have detected few major changes in seniority-based wage or lifetime employment patterns. Using recent microdata from the *Basic Survey on Wage Structure*, this paper takes another look at developments in these two key elements of the Japanese employment system. In contrast with previous studies, we do find evidence that the two practices are eroding and that, hence, the traditional employment system overall has begun to unravel. Specifically, with regard to seniority-based wages, we found, for example, that the age-wage profile has become flatter in recent years, especially for employees in the middle and final phases of their careers. As for lifetime employment, we found a clear downward trend in the share of lifetime employees among younger, university-educated workers from the early 2000s. Taken together, the findings suggest that a growing share of younger educated workers choose to leave indefinite-contract jobs due to the poor prospects for seniority-based wage progression, whereas older workers choose to stay at their present jobs despite stagnating or falling wages, because, it is more difficult for them to find alternative employment.

### Performance-Based Pay Reform in Two Different Markets

**Junpei Higuchi** (Wakayama University)

The transformation of the pay system in Japanese companies has attracted attention for more than 10 years in relation to performance-oriented reforms. At the same time, increased globalization has promoted a discussion of the characteristics of and changes in the Japanese employment system from the viewpoint of an international comparison with the U. S. employment system. This discussion has formed another area of interest in the study of pay systems by taking a certain interest in the relationship between pay determination based on job duties or performance and the market. The study of the performance-based pay system has mainly attended to the relationship between performance (business performance) in the product market and pay determination. On the other hand, an international comparative study has placed more emphasis on the relationship with average salaries in the external labor market. The purpose of this paper is to examine the relationship between these two markets in relation to changes in the pay system following the findings of case studies on major companies in Japan and the United States. This paper focuses on the fact that a more direct link is formed in the relationship between the labor market and pay determination, whereas the relationship between the product market and pay determination is established through a complicated institutional mechanism. In this way, this paper presents an idea that pay determination based on a grading system, employee evaluation, and the pay system strengthens its relationship with both labor and product markets and therefore might cause a conflict that arises from respective effects. Furthermore, this paper proposes that performance-oriented reforms in Japan will allow for a detailed pay determination system that will maintain internal consistency because of limited access to the labor market while strengthening its relationship with the product market.

### Legal Problems of Wage Adjustments in Japan

**Atsuko Kajikawa** (Kobe Gakuin University)

Wages are one of the most significant working conditions. Therefore, it is generally said that the legal test of lowering wages should be strict. However, it is not to be denied that a too strict test brings about the possibility that employers may keep the wage level to a minimum in the worst-case scenario. Taking this possibility into consideration, it may be desirable for the legal attitude about employers' unilateral wage adjustments to be more flexible. I do not intend to give you any good idea about which test we should choose in the future. Instead, I examine the flexibility of wage adjustments under the current law by reviewing the legal tests and problems of some wage restraint measures that employers facing economic difficulties will take.

### An Analysis of Wage Distribution of full-time Employees in Japan: 1989-2008

**Hirohide Iwaki** (Cabinet Office, Government of Japan), **Tadashi Gonda** (Cabinet Office, Government of Japan), **Mikito Masuda** (Cabinet Office, Government of Japan)

The authors analyzed changes in real hourly wages and their distribution of full-time employees in Japan and factors affecting these changes, such as educational attainment, using a rich micro-level data set from *Basic Survey on Wage Structure* (1989-2008). First, we estimated wage functions and their coefficients (returns) for workers' attributes. It was found that there were lower returns on educational attainment and higher returns on job category for both sexes. Second, we measured the variance of real hourly wages and found that the variance decreased until 2000 and increased after the early 2000's. Third, we decomposed the variance of real hourly wages. The factors of establishment size and job category for males, and the factors of variance of workers' attributes for females contributed to the increase in the wage variance. Meanwhile, the factors of potential years of work experience, educational attainment, and years of tenure for males and, the factors of years of tenure for females contributed to the decrease in the wage variance.