

Abstracts

Impact of Minimum Wage Increase on Businesses

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This paper reviews literature on responses to minimum wage increases by firms and presents findings from an original survey of Japanese firms. Recent studies have revealed that firms respond to minimum wage increases by various margins: (1) reducing non-wage labor costs, (2) compressing corporate profits, (3) passing on selling prices, and (4) improving productivity. In particular, an increasing number of studies have shown that increase in labor costs caused by minimum wage hikes is passed on to product and service prices. The continuous increase in minimum wages amid a stagnant overall wage environment has resulted in a significant increase in the minimum wage relative to the average wages of the general workforce. As a result, an increasing number of firms have indicated significant impact of minimum wage increases on their businesses. Nearly half of the firms cited raising product and service prices as a measure to cope with the minimum wage increase. The survey also indicated a close association between the price pass-through and the impact of the minimum wage on business. The impact of further increases in the minimum wage on firms depends on the pace of increases in the relative minimum wage and ability of firms to respond by passing the increase onto selling prices, improving productivity, and so on. This may have a greater impact on firms in rural areas where relative minimum wages are already high.

Minimum Wage Effects across Heterogeneous Markets: A Review on Employment Effects

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Evidence on the disemployment effects of the minimum wage provides important policy implications. However, an exclusive focus on the overall employment impact risks overlooking the potential variation in the redistributive effects of the minimum wage across different regions, industries, and demographic groups. Consequently, recent research increasingly examines the heterogeneous employment effects of the minimum wage, with particular attention to the mechanisms driving these divergent impacts. This study first reviews recent advancements in this strand of the literature and summarizes the analyses provided by Okudaira et al. (2019). Based on production function estimates using plant-level panel data from the Census of Manufactures in Japan, it is shown that labor markets exhibit a stronger tendency toward imperfect competition in rural areas than in urban areas. An imperfect labor market competition was also observed in industries such as tobacco manufacturing and food and seafood product manufacturing. Importantly, the disemployment effect of the minimum wage was observed in competitive labor markets, while it was small and insignificant in less competitive labor markets.

Empowering Regional Initiatives in Minimum Wage Determination in Japan

Yukiko Abe (Hokkaido University)

The minimum wage decisions by Regional Minimum Wages Councils in 2023 might be a landmark for minimum wage settings in Japan. The Regional Councils in low-wage prefectures proposed increases that significantly exceeded the amount suggested by the Central Minimum Wage Council. In contrast, little or no increases were proposed by Regional Councils in high-wage prefectures. As a result, minimum wage increase in low-wage prefectures exceeded that of high-wage prefectures. The author considers empowering local initiatives a welcoming trend. Some have argued that minimum wage should be uniform for all prefectures; however, the author believes this has two problems. First, with uniform minimum wage, the wage growth of low-wage workers in urban areas will likely be suppressed. Second, to make minimum wage uniform across prefectures, minimum wages in low-wage prefectures would have to increase more than those in high-wage prefectures. Urban workers may not welcome such a differential growth in minimum wages. To determine minimum wage in the medium term, a practical solution would be to utilize what is possible under the current system, including the use

of industry minimum wages, instead of seeking a drastic change in the system. In doing so, the empowerment of local initiatives is critical. The incremental changes under the current system are likely to deliver certain gains.

Challenges and Future Direction in Japan's Minimum Wage System

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The statutory minimum wage has recently increased at a fast pace, driven not only by social policy considerations but also by economic factors. In 2023, the average minimum wage level of prefectures exceeded 1,000 yen. The government has set a new goal to reach 1,500 yen by the mid-2030s. The proportion of employees earning slightly above the minimum wage has also increased, leading to concerns among small and medium-sized employers. As a result, questions have arisen about the legitimacy of government intervention in setting minimum wages and the effectiveness of the current system. Specifically, three challenges emerge: first, the validity of government intervention in setting wage goals; second, the consideration of a uniform statutory minimum wage across all prefectures; and third, the risk of distrust due to the ambiguity in wage determination criteria. To address the first question, this paper analyzes the Kaitz Index, then examines minimum wage systems in European countries to find solutions for the second and third questions.

Discussions and Issues Concerning Minimum Wage Increase in Korea

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Since the 1997 Asian Financial Crisis, the labor market has become increasingly polarized in Korean society, and poverty and inequality have emerged as social problems. The minimum wage system was implemented by the Korean government as a means to solve the problems of poverty and inequality, and has served to stabilize the working lives of Korean workers, with the minimum wage introduced in 1988 exceeding 10,000 won by 2025. Unlike Japan, Korea's minimum wage system applies uniformly nationwide, regardless of industry or region. Korea has adopted the "wage council method" for determining minimum wages, but minimum wages have been determined only seven times in the past by agreement between political, labor, and management at minimum wage councils held since 1988. Another main characteristic of social policy in Korea, including the minimum wage system, is that the priorities of the system vary greatly depending on the administration. Military and conservative administrations prioritize business-friendly and other business- and economy-oriented policies, while progressive administrations prioritize policies that strengthen workers and social security, such as substantial increases in the minimum wage. Thus, the rate of increase in the minimum wage varies greatly depending on which political party is in power, and conflicts over the minimum wage are intense. Furthermore, the Korean minimum wage faces the problem of a high rate of underpayment. In order to improve the effectiveness of the minimum wage system, employers and others have recently argued that it is necessary to introduce regional minimum wages and specific (industry-specific) minimum wages, as Japan has done, but labor-management conflicts continue. In Korea, where policy priorities change dramatically from administration to administration, it will be interesting to see how the minimum wage system will change in the future.

Do Minimum Wage Hikes Reduce Working Hours?

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It has been reported that minimum wage hikes may increase awareness of the "annual income barrier" leading to reduced working hours. This paper examines the impact of wage rate increases triggered by minimum wage hikes on working hours and the consequences of working hour adjustments when the "annual income barrier" due to taxes and social insurance is removed. Estimating the labor supply function, we find that the elasticity of the wage rate with respect to work hours is negative for both married and unmarried workers of both sexes. This implies that part-time workers with higher wage rates work shorter hours. The elasticities of annual income groups thought to be

strongly affected by tax and social insurance and those in other income groups, as well as the elasticities before and after changes in the tax and social insurance systems, showed no differences. This suggests that workers' behavior to curb their working hours may be due to reasons other than tax and social insurance. We further compared the distribution of reasons for restricting working hours by gender and marital status. Even among married women working part-time, who are most likely to be affected by tax and social insurance, more curtail their working hours due to personal preferences and family circumstances rather than tax and social insurance. This finding suggests that even if the "annual income barrier" due to taxes and social insurance were eliminated, it would have a limited effect on restricting working hours.