

Minimum Wage in Deflationary Economy: Experience of Japan, 1994-2003

Ryo Kambayashi, Daiji Kawaguchi, and Ken Yamada¹

December 29, 2008

¹Ryo Kambayashi: Associate Professor, Institute of Economic Research, Hitotsubashi University, 2-1 Naka, Kunitachi, Tokyo 186-8603 Japan; Tel: +81-42-580-8364; Fax: +81-42-580-8364; E-Mail: kambayas@ier.hit-u.ac.jp; Daiji Kawaguchi: Associate Professor, Faculty of Economics, Hitotsubashi University, 2-1 Naka, Kunitachi, Tokyo 186-8601 Japan; Tel: +81-42-580-8851; Fax: +81-42-580-8882; E-Mail: kawaguch@econ.hit-u.ac.jp; Ken Yamada: Assistant Professor, School of Economics, Singapore Management University, 90 Stamford Road, Singapore 178903, Tel: +65-6828-1914, Fax: +65-6828-0833, E-mail: kenyamada@smu.edu.sg

Abstract

Median nominal wage started to fall after 1999 in Japan because of severe recession, while the statutory minimum wage had steadily increased during the period. Using large sample micro data of two government surveys, we examine the effect of minimum wage on wage distribution and employment in an unusual event of deflation. The compression of lower tail female wage distribution is almost all explained by increase in the real value of minimum wage. Higher minimum wage decreases employment of young male and middle-aged female workers, but the mechanical effect of employment loss on wage compression is found to be minimal. This paper adds another evidence to the literature that minimum wage is an important determinant of lower tail wage distribution.

Key Words: Minimum Wage, Wage Distribution, Employment, Deflation, Japan

JEL Classification Code: J23 (Labor Demand), J31 (Wage Level and Structure; Wage Differentials), J38 (Wage Related Public Policy)