

# **Local Minimum Wages**

**Eve Caroli**

(PSL-Université Paris-Dauphine, LEDa-LEGOS, PSE and IZA)

**Workshop on minimum wages: Lessons from recent experiences and European perspectives**  
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# USA vs Japan

- **Claire Montialoux**

- State minimum wages in the USA and their impact on prices.

- **Ryo Kambayashi**

- Local (prefecture) minimum wages in Japan and their impact on employment, job polarization and wage compression.

# Price impact of the minimum wage

- Very little research on this issue
- Extremely important to assess the more or less redistributive nature of the minimum wage
- Results
  - A 10 % MW hike increases prices by 0.3%
  - This is consistent with a full pass-through of minimum wages into grocery store prices

# Employment and Wage compression effects of the minimum wage

- What do we learn from local minimum wages on their impact on employment levels, polarization and wage compression?
- Results
  - Not much effect on employment
  - Minimum wage mitigates job polarization
  - Strong effect of minimum wages on wage compression at the bottom of the distribution

# Identification

- Micro data...
  - USA: prices at the store level
  - Japan: Employment Status Survey
- ... but semi-macro regressions:
  - Identification on state or prefecture variations
  - Reverse causality issues
    - USA: Granger causality test?
    - Japan: Minimum wage truly exogenous??
  - Unobserved shocks
    - Identifying assumption: same trend in control and treatment groups if treatment had not taken place.
    - Different institutions across states/prefectures.

# The USA (1)

- Prices around the MW legislation
  - Prices increase before the MW legislation
  - Anticipation? Seasonality not included in this specification?
- Model used for estimating wage elasticities
  - Much simpler than the price model
  - Are they consistent?
- Could the effect of MW hikes affect wages above the MW?
  - No effect at the moment
  - Demand increases (in addition to cost effect)?
  - Diffusion
  - What would be the redistributive consequences?

# The USA (2)

- **Redistributive effects of MW hikes?**
  - Paper shows that they are reduced by the inflation effect.
  - But even the gross effect (including the price increase) is not perfectly redistributive with the 2<sup>nd</sup> and 3<sup>rd</sup> lower income groups benefitting more than the lowest one.
    - Importance of inactive or unemployed people at the bottom of the income distribution?
    - Role of welfare transfers that may be lost when MW increases?

# Japan

- MW increases
  - Very little variability
  - Explain the lack of employment effects?
- Why estimate the MW impact on employment and non-employment?
  - Why aren't the estimates consistent?
- Why should MW hikes reduce job polarization?
  - What is the theoretical intuition?
- Wage compression
  - Graphical analysis: the MW has become more binding.
  - Estimation of co-movements
  - Spillover effects?