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Comparing Minimum Wage Setting Mechanisms in Japan and Korea: Searching for the Sources of Difference

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The paper examines developments on minimum wage setting mechanisms (MWSM) in Japan and Korea in recent years, focusing on institutions, processes and outcomes of MWSM. Such attributes of the institution are examined as the basic minimum wage setting structures, the constitutions and deliberation procedures of the consultative bodies, and the factors considered in deciding annual minimum wage deliberation.

Some similarities are found. Both countries heavily rely on tripartite committees at the national level. Besides, both governments try to influence minimum wage setting procedures by indicating higher minimum wage is desirable. Contrarily, some differences are discovered. One difference is shown in the process of MWSM: it is much tougher in Korea than Japan. Another difference is observed in the outcome of MWSM: the minimum wages have increased much faster and higher in Korea than in Japan. From a system perspective, the differences may be related to what factors minimum wage setting organizations consider. While income distribution is

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one of the important factors to be considered in Korea, it is not the case in Japan. It seems that the Korean MWSM is assigned a wider role to reduce income gap among workers, while the Japanese counterpart is allowed to focus more on specifically low wage group of workers.

The authors remind people of policy circles of the importance of wider perspective in examining performance of minimum wage policy. A minimum wage policy may produce expected results under certain circumstances and may not under other conditions. In order to reach a conclusion, one needs to consider wide range of related policies besides economic/social factors.

► **Keywords:** minimum wage setting mechanisms; institutions, processes and outcomes of MWSM; factors considered in deciding annual minimum wage deliberation

I. Institutional Approach to Minimum Wage

This paper examines developments on minimum wage setting mechanisms, MWSM in short, in Japan and Korea in recent years. The studies on minimum wage have tended to focus on the employment effect of the government regulation to the competitive labor market (Neumark, Salas, & Wascher, 2014). However, assuming the labor market competition is imperfect, this perspective on minimum wages is “too narrow” (Kaufman, 2010). Kaufman asserts in the article that the purpose of the minimum wage is broader. The purpose includes eliminating low labor standards, preventing unrestrained competition in labor markets, and so on. From this institutionalist prospect, Kaufman insists that the benefits and costs of a minimum wage vary not only by economic conditions including labor market situation, but also by the “breadth, depth, and structure of the labor market regulatory regime.”

The research question of this paper is whether different institutions of MWSM in Japan and Korea lead to different processes and outcomes and if the answer is yes, how. To answer the question, the authors’ basic premise follows the institutionalist labor and employment research, originally provided by Commons (e.g. Commons, 1924) and recently rethought by Kaufman (e.g. Kaufman 2010 above). Upon taking account of improving labor standards as an important purpose of the minimum wage, this paper

argues institutions matter when MWSM operate to produce outcomes, i.e. certain levels of minimum wage.

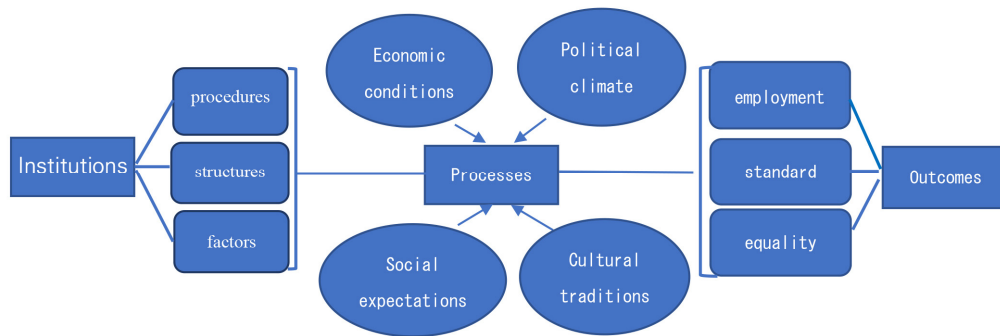
The basic framework of the study is shown in Figure 1. Though Kaufman said the “breadth, depth, and structure of the labor market regulatory regime” might be important, he did not incarnate the contents of the regime. In the discussion of ILO, for instance, the difference of the minimum wage scheme between one based on direct government regulation and the other supported by indirect collective bargaining was emphasized (ILO, 2008). However, even in that case, the structure/function of the government regulation and the impact of the government regulation have not been revealed clear beyond that there is a difference in composing the regulatory body among countries.

In examining the role of regulatory regime and its impact on economic conditions, the authors set three constituents of MWSM: institutions, processes and outcomes. The attributes of institutions the authors regard important are 1) basic minimum wage setting structures (nation-wide or regional/sector-base, etc.) and decision making mechanisms (political decision vs. reliance on a consultative body, etc.), 2) constitutions and deliberation procedures of the consultative bodies that play crucial roles in MWSM, 3) factors the consultative bodies are expected to consider in deciding annual minimum wage deliberation, which are related to social norms. Those attributes would likely to affect minimum wage setting processes.

The processes would also be influenced by various environmental factors, such as economic conditions, political climate, social expectations and cultural traditions. While admitting these factors’ influences, however, the paper tries to find out how the different institutional arrangements influence the minimum wage setting processes in two countries based on qualitative research methods of detailed case studies. The authors collect data and closely observe developments in how MWSM work in two countries.

And finally, the paper analyzes how the distinct nature of the minimum wage setting processes lead to some differences of outcomes in two countries. With regard to outcomes, the study focuses on the labor standard aspect on considering that the most important purpose of minimum wage is to elevate the labor standard of low-wage earners, though the employment and the income equality are the other important aspects of the minimum wage’s outcome. The paper especially examines the minimum wage’s effect on the magnitude of directly influenced labor force, and its impacts on the overall wage distribution. The study will not make analysis on the employment effects. However, it

Figure 1. Minimum Wage Setting Mechanisms



may be suspected that if the wage effects are large, they can influence employment levels in one way or other.

In studying actual performances of minimum wage, it is desirable to conduct cross national comparison since normally there is only one minimum wage system in a country and the number of observations to be analyzed would be limited (Neumark & Wascher, 2004). Using case studies of Japan and Korea, this paper approaches the attributes and performances of minimum wage.

II. Current State of Discussions in Japan and Korea

There have been fairly large number of studies on minimum wage in each country. However, existing researches focus primarily on two aspects. A group of studies focus on institutional aspects of the minimum wage system, which include minimum wage deliberation structure/determination procedure and legal/social norms that affect MWSM. Tamada (2009), Kanki (2011), Iwata (2010), Tamai (2016), Ogasawara (2018) in Japan, and Jung, Ahn, and Pak (2003) in Korea investigated the institutional aspects of minimum wage system in each country.

Another group of studies primarily focus on the economic effects of minimum wage, especially the impact on employment. Regarding the influence of minimum wage on employment, decisive study results have not been yet obtained worldwide. For instance, Addison and Ozturk (2012), and Neumark, Salas, and Wascher (2014) found that the minimum wage had a negative impact on employment. On the contrary, Allegretto, Dube,

and Reich (2011), and Leonard, Stanley, and Doucouliagos (2014) asserted that the negative effects of the minimum wage on employment might be insignificant.

In Japan, Tachibanaki and Urakawa (2006), Abe and Tanaka (2007), Kawaguchi and Yamada (2007), Ohtake, Kawaguchi, and Tsuru ed. (2013), JILPT (2016) examined the effects of the minimum wage especially on particular employee groups such as part-timers and youth. In Korea, Kim, D. (2012), Lee and Hwang (2016), Hong (2018), Kim, Y. (2018) investigated the effects of the minimum wage especially on the employment of low-income earners. The results obtained by those studies are divided. Some studies like Ohtake, Kawaguchi, and Tsuru ed. (2013), and Kim, D. (2012) suggest negative effects on at least some groups of workers. On the contrary, studies like Tachibanaki and Urakawa (2006), and Kim, Y. (2018) do not find such effects. It is too early to draw conclusion from those econometric studies particularly because of scarcity of panel data and difficulties to examine the impacts of sharp rise of minimum wages in recent years.

In this study the authors pay special attention to a critical problem: the relationship between institutional aspects and economic effects that has not been fully explored. If the structure/procedure and the norms that compose a system differ, it should affect how the system perform and bring about particular set of results. The institutional aspects and economic effects of minimum wage systems may be intertwined, and the difference in the former may produce some different results. Comparative study is a method that can be utilized to elaborate the types of structure/function nexus.

There have been small numbers of cross-national studies of minimum wage systems. For instance, Neumark and Wascher (2004) collected data on minimum wage from 20 countries from 1976 to 2000 and did an econometric analysis. Japan is included, and it is concluded that minimum wage adversely affected youth employment in Japan. The authors do not make an in-depth evaluation on this study because the focus is too narrow for their research purpose. A government who searches for a better minimum wage system would not find a useful advice in this type of study since the only lesson to be learned would be that minimum wage is harmful for the economy and employment, and all the government should abolish it as soon as possible. Most of developed countries have a minimum wage system and it seems most of them will continue to exist for a while. The authors argue that there is an acute need for knowledge on minimum wage, for instance, how various types of minimum wage systems bring about particular set of results.

III. Basic Data Showing the Trends and the Differences

Figure 2 and Figure 3 show the transition of GDP per capita increase rates, average wage increase rates, and minimum wage increase rates in Japan and Korea respectively after 2000. In the case of Japan, the rate of minimum wage increase is the weighted average of 47 local minimum wage increase rates.

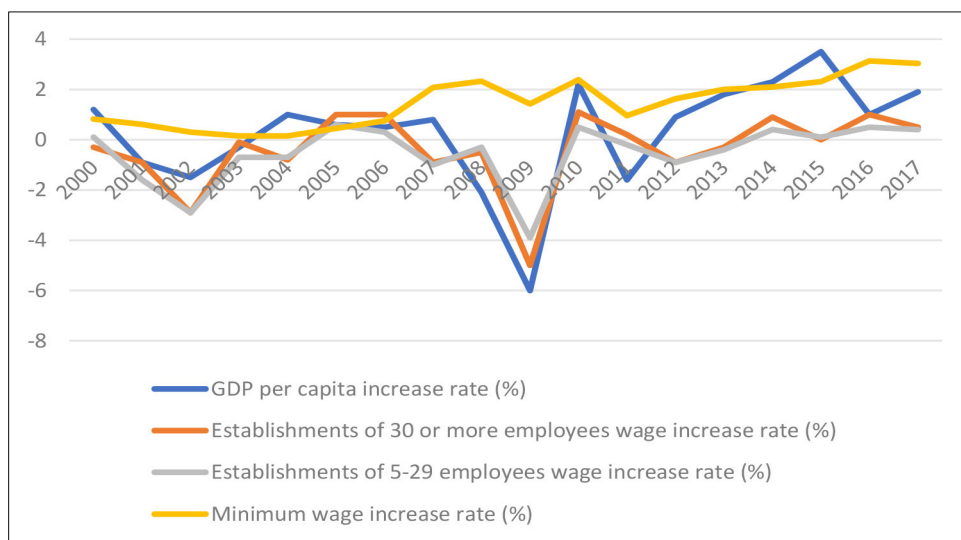
Each figure compares the minimum wage increase rate to the average wage increase rate by the size of establishments. In Japan, on average of 2000-2017, the increase rate of minimum wage is 1.5%, higher than not only -0.5% of the establishments of 5-29 employees but also -0.4% of the establishments of 30 or more employees. The gap between minimum wage increase rate and average wage increase rate has been within the range of roughly 2%. Similarly, the average increase rate of minimum wage during 2000-2017 is 8.4% which exceeds by about 3.0% that (5.0%) of the establishments of 5 or more employees, or that (5.3%) of the establishments of 10 or more employees in Korea.

A difference between Japan and Korea is shown in the comparison of minimum wage increase rate to the GDP per capita increase rate. In Japan, on average of 2000-2017, the gap between two rates is 1.2%, which means the minimum wage has increased more speedily than GDP per capita. However, before the amendment of minimum wage law in 2007 that will be explained later, the average gap between two rates during 2000-2007 was lower than 0.5%, which implies the minimum wage increase had been relatively restrained. Contrarily, the increase rate of minimum wage in Korea has significantly surpassed that of the GDP per capita, except 2010 when the quick recovery from world-wide recession occurred. On average of 2000-2017, the minimum wage increase rate is 7.3% which is higher by 2.6% than the GDP per capita increase rate of 4.7%.

Besides the gap, one more interesting trend is that the increase rate of minimum wage seems to move independently from economic conditions shown in the GDP increase rate in both countries. In Japan, that trend started in 2007 when minimum wage began to be taken up as an important policy tool and the Minimum Wage Act was revised. In Korea that trend seems to have started after the economic crisis of 2008-2009.

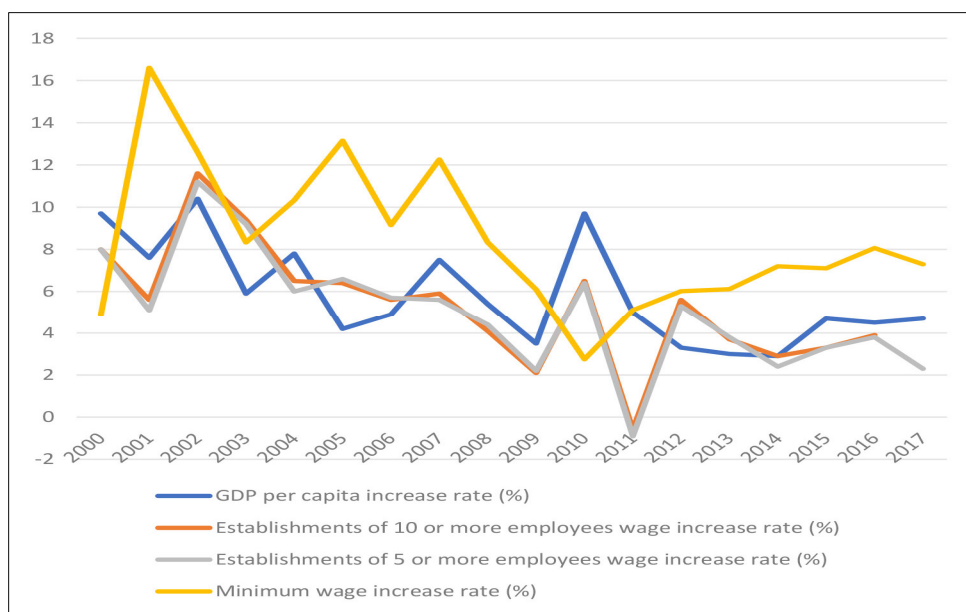
In sum, Figure 2 and Figure 3 imply that there exist not only some similarities but also some differences of the situation on minimum wage in its institution and operation between Japan and Korea.

Figure 2. Transition of GDP Per Capita Increase Rate and Wage Increase Rates in Japan during 2000-2017



Sources: Cabinet Office, “National Accounts of Japan”; Ministry of Health, Labour and Welfare (MHLW), “Monthly Labour Survey”.

Figure 3. Transition of GDP Per Capita Increase Rate and Wage Increase Rates in Korea during 2000-2017



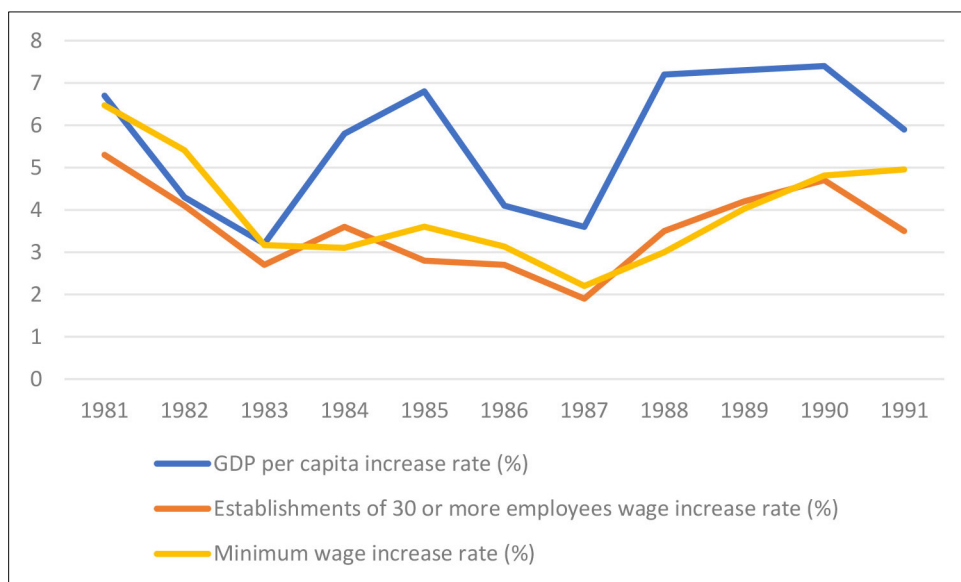
Sources: Bank of Korea, “National Accounts”; Ministry of Employment and Labor (MOEL), “Report on Labor Force Survey at Establishments”.

When one makes observations and draw a comparison on minimum wages between two countries, it is necessary to consider general economic conditions in the countries. For instance, there may be an argument that such a comparison above is not appropriate because a big difference in economic development stage exists between Japan and Korea. During “the lost 20 years,” Japan experienced very low GDP growth with low or even minus CPI rate. In contrast, Korea enjoyed relatively high economic growth with comparatively high CPI rate during that period, although the GDP growth rate fell after the 2007-2008 global financial crises.

An answer to this question is that the movement of minimum wage increase rate started adrift from the movement of GDP growth rate in mid-to-late 2000s in two countries. It suggests we need to focus more on other factors than general economic conditions if one wish to understand the movement of minimum wage increase rate and MWSM that have produced such trends.

Another answer to the question can be found in Figure 4. It shows the transition of GDP per capita increase rate and wage increase rates in Japan during 1981-1991 when Japan enjoyed higher economic growth. On average of 1981-1991, the minimum wage increase rate was 4.0%, while the wage increase rate of the establishments of 30 or more employees was 3.5%, and the GDP per capita increase rate was 5.7%. According to this data, the absolute minimum wage increase rate during this period was certainly higher than that of minimum wage during 2000-2017 shown in Figure 2, however the relative increase rate of minimum wage, compared to the wage increase rate of the employees working for the establishments of 30 or more, was not high. It was even very low, compared to that of GDP per capita. One need to find some factors other than economic conditions that would help him or her to understand the backgrounds of relatively low increase rates of minimum wage in Japan during the period.

Figure 4. Transition of GDP Per Capita Increase Rate and Wage Increase Rates in Japan during 1981-1991



Sources: Cabinet Office, “National Accounts of Japan”; Ministry of Health, Labour and Welfare (MHLW), “Monthly Labour Survey”.

IV. Who Set the Minimum Wage and How?

In Japan, there are two kinds of minimum wage. One is the regional minimum wages, and the other is industry/occupation specific minimum wages. The former, which are decided by 47 prefectural minimum wage councils and are applied to all workers within each prefecture regardless of industry and occupation, are more important in the coverage and impact than the latter that are only applied to a particular group of workers in some industries or occupations. Upon considering the target levels for annual minimum wage increase set by the Central Minimum Wage Council (CMWC), each Local Minimum Wage Council (LMWC) of 47 prefectures discusses and decides its own regional minimum wage every year.

In contrast, only a single, nationwide minimum wage has been established in Korea, while it is possible from the legal point of view to set a minimum wage specific to an industry. Every year, the (National) Minimum Wage Commission (MWC) convenes and

decides the nationwide minimum wage.

Japan and Korea have a similarity in minimum wage setting procedures. Both rely on independent tripartite bodies which are composed of members representing public interests (working with government), employer representatives, and worker representatives. In Japan, the CMWC, which plays a decisive role in setting annual target increase level for regional minimum wage discussions, consists of 18 members who are commissioned by the government. Worker representatives and employer representatives are nominated by each organization. In Korea, similarly, the MWC consists of 27 members. The labors, the employers, and the government nominate 9 members respectively, although the members are finalized and confirmed by the government.

If one look into deliberation procedures of those bodies, however, he or she will find significant difference between two countries. In Japan, in the case of LMWC, in which majority vote is used, at least two-thirds of the total council members, or one-third of each group of members representing public interests, employers, or workers are needed in order to make a decision. Proceedings of the council shall be decided with a majority of those attending the meeting, and if the number of agreement and opposition is equal, the chairperson decides. Actually, the public interests representatives play an adjuster role between the employer side and the worker side. In the deliberation of minimum wage setting meetings, the public interests representatives led by chairperson strive to reach a unanimous result as much as possible.

In the more important CMWC deliberation, it does not use majority vote. At a subcommittee to discuss annual target increase level, worker representatives and employer representatives do not reach consensus but agree for public interests representatives to present a report on annual target increase levels for CMWC general meeting. A practice has been that CMWC general meeting accept the subcommittee report unanimously.

In Korea, it is similar that at least one-third of each group of members representing employers or workers are needed in order to make a decision at the MWC. However, it is different from Japan that this provision shall not apply to cases where worker representatives or employer representatives fail to attend without justifiable reasons even after the issuance of two or more summons. As this provision being misused, in fact, there have been a lot of cases where worker members or employer members refuse to join the meeting if their opinion is not accepted. Besides, unlike in the case of CMWC in Japan, making effort to reach a unanimous (compromise) result has not been strongly pursued.

Instead, the MWC relies on the “concurrent vote of a majority of members present”.

The process of determining the minimum wage for 2019 shows the characteristic of Korea in a clear way. At the 15th general meeting of the MWC on July 14, 2018, as all the employer representatives and some worker representatives refuse to attend the meeting, only a part of worker representatives and the members representing public interests voted for final decision among the workers’ proposal (8,680 won, 15.3% higher than the previous year) and public interests representatives’ proposal (8,350 won, 10.9% higher than the previous year). The public interests representatives’ proposal received 8 votes while the workers’ proposal received 6 votes. Thus, public interests representatives’ one won the vote.

To tentatively conclude, even though it is common that tripartite bodies are in the center of minimum wage setting in both countries, the negotiation process of determining the minimum wage in those bodies is much tougher in Korea than in Japan. While the compromising way of Japan has brought the moderate increase of the minimum wage, the conflicting way of Korea has resulted in a sharp hike in the minimum wage level. We need to examine the relationships between the processes and results of annual minimum wage negotiations in two countries.

V. Who Represent Workers’ Interests?

Regarding worker representatives in both countries, the representatives of national centers of labor unions are mainly invited. The relevant provisions of Japan and Korea say that the Ministry shall ask for relevant labor union centers to recommend a candidate in order to appoint a member representing the workers at the Council/Commission.

However, there are some differences in how worker representatives are appointed. One is that only one big center participates in the Council in Japan (There is a smaller center but it does not send a representative to any of the Local and Central Councils), whereas two major centers occupy seats in the Commission in Korea. In Japan, all of six seats of worker representatives are occupied by the Japanese Trade Union Confederation (JTUC-RENGO). In Korea, of the nine seats of worker representatives, five are allocated to the Federation of Korean Trade Unions (FKTU) and four to the Korean Confederation of Trade Unions (KCTU). FKTU and KCTU are not only different in vision and policy,

but they also compete with other to secure more union members or supporters. It means that the two unions may compete for wider coverage, and/or speedier increase, and/or higher level of minimum wage. Actually, in the deliberation process of the minimum wage for 2019 year, KCTU has chosen the way of refusing to attend the commission meeting, due to the recent amendments to the minimum wage law, which, they claim, bring disadvantages to some workers.

Another difference is that the mainly traditional union leaders discuss the matters in the Council in Japan, whereas ‘new type’ worker representatives begin to voice their own interests in Korea. In Japan, the worker members of the Council seem to represent the interests of traditional unions, though a member nominated from UA Zensen is taking the charge of the Department for Part-Time Workers at UA Zensen. In Korea, except seven members from traditional unions, two members from new type worker organization are participating the Commission: one from the “Korean Contingent Workers’ Center” (nominated from FKTU) which tries to protect the rights of non-regular workers and promote the unionization of those workers; and the other from the “Youth Community Union” (supported by KCTU) which asserts itself the first ‘generation-based’ union in Korea.

To summarize, the criticism that the interests of low-income earners like non-regular workers, female workers, and young workers have not been sufficiently represented in the minimum wage council/commission is harsher in Korea than in Japan, and participation of various voices in the deliberation processes may make negotiation more complicated and may affect the results reached. In the end, the gap may become wider between the moderate increase in Japan and the sharp hike in Korea, although this outcome of procedural difference has not to be over-valued.

VI. What Factors are to be Considered in Revising Minimum Wage Levels and How?

In Japan, the Article 9 of Minimum Wage Act says the regional minimum wages shall be set in consideration of living expenses of workers, wages of workers, and ordinary employers’ ability to pay in the region. In Korea, the Article 4 of Minimum Wage Act says the minimum wage shall be determined taking into account the cost of living of

workers, the wages of similar workers, the labor productivity and the distribution of income, etc.

Relating to the criteria for calculating an appropriate minimum wage level, both countries commonly consider living expenses and current wage levels. However, Japan seems to place more importance on the wage payment ability of ordinary employers. While employer representatives occasionally insist that ability to pay can best be appraised by added value, the kind of data is not available in a timely way for an annual negotiation. Thus, traditionally, actual wage increase rate of workers in small businesses surveyed annually just before deliberation processes start in June has been regarded as the most important indicator in the sense that it reflects both demand side (payment ability) and the supply side (living expenses of workers). Wages of small business sectors were stagnant in the survey, so were minimum wages closely linked to this data for a long time.

In the meantime, “Working Poor” problems came to the fore in Japan in early 2000s, particularly related to increasing number of ‘non-regular’ workers. In order to cope with the problems, the Article 9 of Minimum Wage Act was amended in 2007. In the new clause, “consistency with public assistance policies” shall be taken into account when living expenses of workers are considered. The idea was that minimum wages should not be less than the public assistance level in order that workers can maintain the minimum standards of healthy and cultural living. Even though the difficulties in comparing levels of public assistance (basically supporting family expenses per month) and minimum wage levels (basically hourly wage for an individual worker) exist, some ways of calculation measures were agreed upon in CMWC and the new clause was put into practice. Triggered in part by this amendment, the degree of minimum wage increase got significantly higher than before, as seen in Figure 2 above. As the minimum wages in metropolitan areas such as Tokyo have risen faster and higher because public assistance levels were higher in those areas, the gap between minimum wages in metropolitan areas and non-metropolitan areas has also expanded.

After the effects of 2007 amendment were absorbed and some levels of parity were achieved, more of a political pressure to increase minimum wages came to play important role. Both conservative government of LDP-led coalition and progressive middle-of-the-road government led by DP tried to influence minimum wage deliberation processes and those pressures have clearly played an important role in the higher increases

of minimum wages in late 2000s and 2010s as is observed in the figure above. The governments moved to the direction to ameliorate uneasiness brought about by increasing income gaps particularly related to regular versus non-regular divisions in the labor market.

By contrast, Korean minimum wage systems take income distribution more directly into consideration. In 2005, the Minimum Wage Act was amended and such a new criterion as the improvement of income distribution was added to the bases of minimum wage setting. After 2008, the MWC has utilized two indicators for income distribution rate. One is the ratio of the first decile worker wage relative to the fifth decile worker wage, and the other is the ratio of the minimum wage relative to the fifth decile worker wage. In 2015, the MWC decided to add the third indicator: the ratio of the minimum wage relative to the average wage. Although the third indicator has not been used until the deliberation process of 2018, it shows that the factor of income distribution has been very seriously considered. Actually, the component of income distribution improvement has occupied a considerable proportion of the minimum wage increase.

Interestingly, in both Japan and Korea recently, the economic policy considerations have come to influence the level of the minimum wage. Both Abe government in Japan and Moon government in Korea think that expansion of domestic demand is necessary for economic growth, and higher increase of minimum wages can be a useful measure of boosting domestic demand.

In the “Basic Policies on Economic and Fiscal Management and Reform 2018” decided on June 15, 2018, for instance, the Abe government stated: “the government will raise the minimum wage with an annual rate of around 3% while paying attention to the nominal GDP growth rate.” Abe government added that in order to develop an environment where small businesses can cope with higher hurdles of increased minimum wage, it would implement consultation programs to improve productivity and profitability of small businesses.

Similarly in Korea, Mr. Moon won the 2017 presidential election with the vision of income-led growth. As an election pledge, Mr. Moon promised: “we will increase the current minimum wage (hourly wage) to 10,000 won by 2020”. Soon after the inauguration of new president, the MWC increased the minimum wage for 2018 to 7,530 won, 16.4% higher than previous year. And the MWC increased the minimum wage for 2019 to 8,350 won, 10.9% higher than current year. As of the bases of the determination

of the minimum wage for 2019, the MWC provided four indicators: the wage increase rate (3.8%), the decline of minimum wage due to the amendment of the Act (1.0%), the change of economic variables (1.2%), and the income distribution improvement (4.9%). A problem caused by this rapid minimum wage increase is that SMEs began to complain. To cope with the complaint, Moon government has implemented policies to subsidize part of the minimum wage increase for SMEs that hire workers and pay for their social insurance contributions.

Although Japan and Korea are similarly targeting the economic growth based on domestic demand and reduced social gaps in the labor market, Korea more focuses on the redistribution of income than Japan, which can be considered as one of the main factors that have made the speed and rate of minimum wage increase in Korea faster and higher than in Japan.

To summarize, the differences in the factors to be considered in deliberation of minimum wages might be one of important causes for differences in how the deliberation processes are managed and also the differences in the achieved results in Japan and Korea. In Japan, emphasis is placed more on the business payment abilities, while it is placed more on income redistribution in Korea. The differences of emphasis between two countries might be instrumental in an important way to bring about different results, the moderate increase of minimum wage in Japan compared to its sharp increase in Korea as well as relatively stable and compromising deliberation processes in Japan and tough ones in Korea.

VII. What are the Effects of Minimum Wage Hike?

Relating to the direct/indirect effects of minimum wage, it is often said that there is a negative effect of minimum wage on employment, though its real effect is not clear and its accurate measurement is difficult. Here, the authors try to examine the effects of minimum wage increase over various kinds of wages. If one finds those effects significantly big, it is more likely that the minimum wage increase policies would have significant impacts on economy as a whole. Although both Japan and Korea have constantly raised the level of minimum wage in recent years, it is natural to assume that the direct impact of minimum wage increase must have been greater in Korea than in

Japan, because of much higher hike in the former.

Figure 5 and Figure 6 show the transition of two indicators that represent the impacts of minimum wage hike on wages in Japan and Korea. This study introduces not one but two figures because estimating the minimum wage hike effects is not easy and each government actually suggests two indicators to measure the effects. It is suspected that the true picture may be in the middle of the two figures. Each figure shows two ratios. One is the ratio of workers paid less than already revised minimum wages (hereinafter referred to as ratio 1), and the other is the ratio of workers who will be paid less than revised minimum wages after the revision (hereinafter referred to as ratio 2). Ratio 1 indicates to what extent the workers are actually under the situation of law violation, and Ratio 2 indicates to what extent the workers will be directly influenced by raising the minimum wages.

There is one thing to be aware of in comparing two countries by these figures. On one hand, in the Japan data of Figure 5 (hereafter F5J), the workers working for small businesses which hire less than 30 workers in commercial and service sectors and less than 100 workers in manufacturing sectors are counted, based on the Basic Survey on Minimum Wages. However, in the Japan data of Figure 6 (hereafter F6J), the workers of all private businesses (including big companies) other than workers hired by very small businesses with less than 5 persons are counted, based on the Basic Survey of Wage Structure. Since smaller companies tend to pay less, there is a possibility that F5J may be over-valued and F6J under-valued to a whole picture.

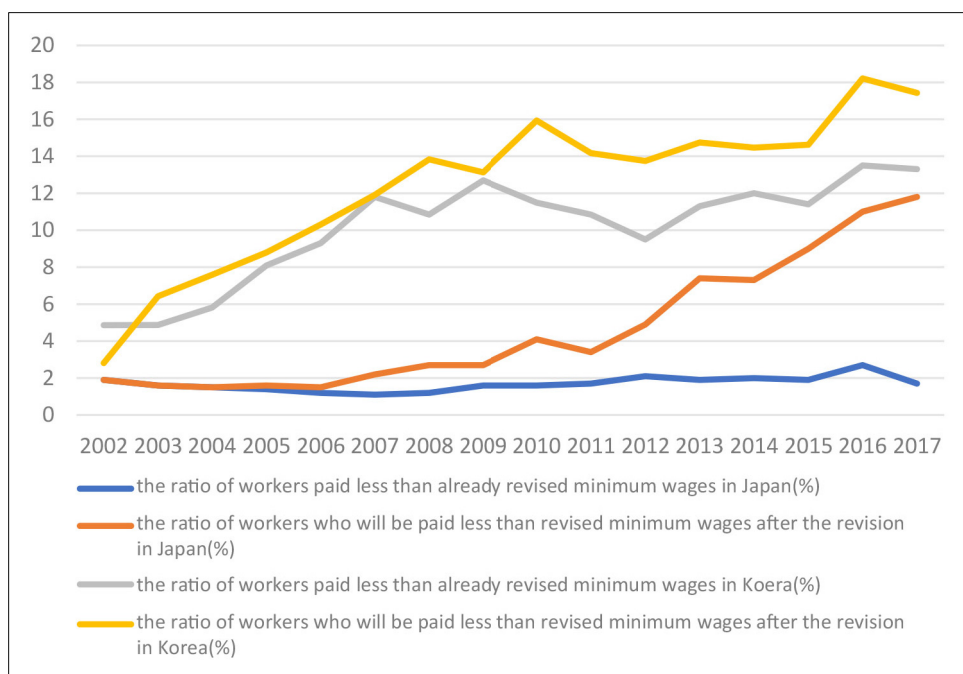
On the other hand, in the Korea data of Figure 5 (hereafter F5K), all kinds of workers are counted, based on the Economically Active Population Survey which makes use of household-unit samples. However, in the Korea data of Figure 6 (hereafter F6K), all the workers working for businesses, except for self-employeds, are counted, based on the Survey on Labor Conditions by Employment Type which makes use of enterprise-unit samples. Since the coverage of 'workers' is wider and as a result the pay amount reported by household survey tends to be less than that reported by enterprise survey, there is a possibility that F5K may be over-valued and F6K under-valued to a whole picture.

As of Ratio 1, both of F5J and F6J have been lower and more stable than those of Korea. The results may show law enforcement is more rigorous in Japan than in Korea. They may also show that small business in Japan are in better positioned in the economy and can endure rising minimum wages. Or they may just show that much higher pace of

minimum wage increases have put small businesses in Korea in a very difficult situation to neglect minimum wage regulations. Whatever were the most influential factors, the data suggest some problems to Korean government which tries to propel income of workers and macro-economy by using minimum wage policies.

As of Ratio 2, Japan and Korea data show that they are all increasing. However, those of Korea have been higher and increasing faster than those of Japan, which means that a substantial number of small businesses in Korea are under pressure of the minimum wage increase.

Figure 5. Transition of the Ratio of the Workers Paid Less and to be Less Paid than Minimum Wage in Japan and Korea (Possibly over-valued based on BSMW and EAPS)



Sources: (Japan) MHLW, "Basic Survey on Minimum Wages"; (Korea) Minimum Wage Commission, "Manual for the Minimum Wage Deliberation in 2018", pp. 74-76, originally from Statistics Korea, "Economically Active Population Survey".

Figure 6. Transition of the Ratio of the Workers Paid Less and to be Paid Less than Minimum Wage in Japan and Korea (Possibly under-valued based on BSWs and SLCET)



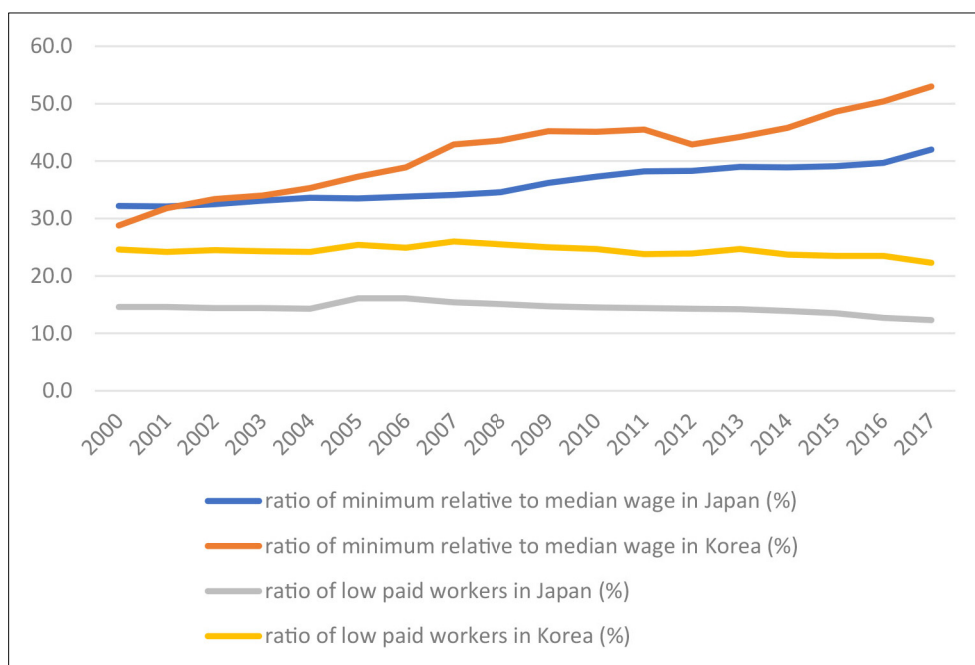
Sources: (Japan) MHLW, “Basic Survey of Wage Structure”; (Korea) Minimum Wage Commission, “Manual for the Minimum Wage Deliberation in 2018”, pp73, originally from MOEL, “Survey on Labor Conditions by Employment Type”.

Another way to evaluate the effects of minimum wages on wages is to focus on their impacts on wage differential. It is expected that wage differential becomes more equitable by raising low-paid worker wages using minimum wage policies. Here the authors observe two indicators. One is the ratio of minimum relative to median wage (hereinafter referred to as ratio 3). It is obtained by the following formula: $(\text{minimum wage of full-time workers} \div \text{median wage of full-time workers}) \times 100$. It indicates how much the workers who are paid the minimum wage are reducing their gaps with workers paid for median wages. The other is the ratio of low paid workers relative to total workers (hereinafter referred to as ratio 4). It is obtained by the following formula: $(\text{number of workers earning less than two-thirds of median wage} \div \text{total number of workers}) \times 100$. This ratio indicates how many workers are under the poor working conditions, even after the minimum wage policy installed.

Figure 7 shows the transition of two ratios in Japan and Korea. The data show that even if ratio 3, positioning minimum wage against median wage of fulltime workers, are both increasing in Japan and Korea, it is increasing much faster in the latter and the level

has surpassed 50% level, which is significantly higher than the ratio in Japan which stays at 40% level. However, ratio 4 of Japan has been systematically lower than that of Korea. Near a quarter (22.3% in 2017) of total workers in Korea are not able to escape from the condition of low wage earner, while in Japan it has been confined to 12.3% in 2017.

Figure 7. Transition of the Minimum-median Wage Ratio and the Low Paid Workers Ratio

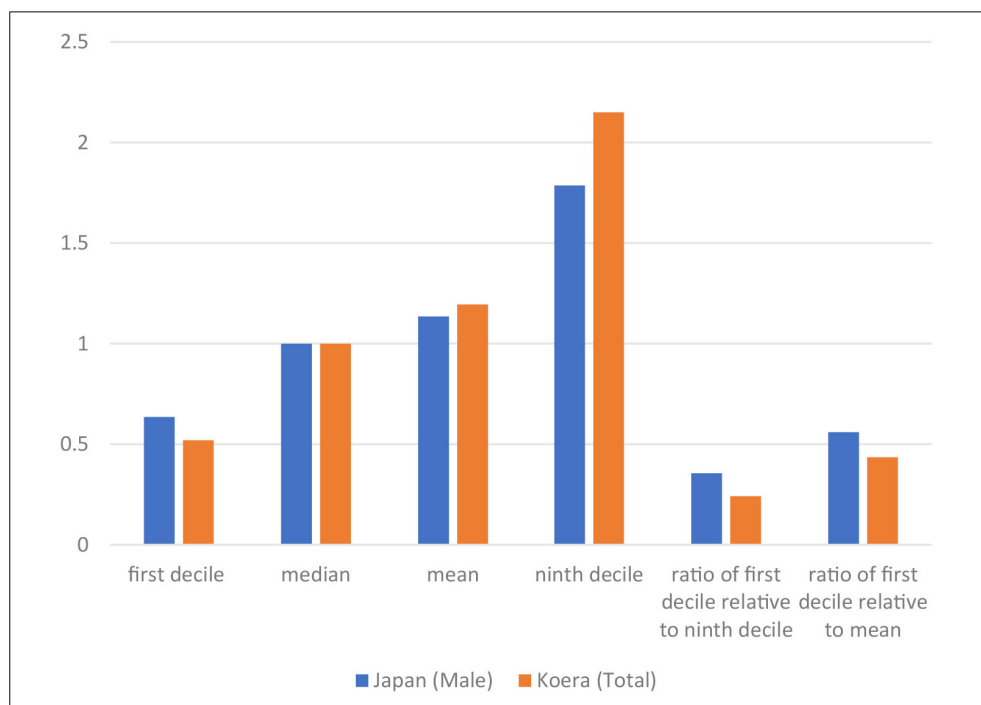


Source: OECD, <http://stats.oecd.org/>, Minimum relative to average wages of full-time workers Median, 2019. 01; OECD, <http://stats.oecd.org/>, Decile ratios of gross earnings Incidence of low pay, 2019. 01.

This suggests wage distribution had been more equitable in Japan than in Korea before minimum wage policies started to push for higher wages for low-paid workers. Figure 8 shows the 2017 wage distribution by decile data in Japan and Korea. The level of first decile in Japan is higher than in Korea, and the level of ninth decile in Japan is lower than in Korea, which implies the distribution gap in Korea is larger than in Japan. Actually, both of the ratio of first decile relative to ninth decile and the ratio of first decile relative to mean in Korea are lower than in Japan. In short, more workers in Korea concentrate near low wage line, which makes it more difficult in Korea for the minimum wage policy to achieve income distribution more favorable for low-paid workers. As the

wage distribution is more acute issue in Korea, so is it necessary for Korean government to pursue more equitable wage distribution using minimum wage push. As a result, MWSM in Korea feels strong pressures from various corners of the society.

Figure 8. Wage Distribution in Japan and Korea in 2017



Source: (Japan) MHLW, “Basic Survey on Wage Structure in 2017”; (Korea) Statistics Korea, “Economically Active Population Survey in 2017”.

VIII. Conclusion

As stated above, the authors found some basic features that are common between developments in minimum wages in Japan and Korea. From institutional point of view, both countries heavily rely on tripartite committees at the national level to manage annual minimum wage setting procedures, although there is a difference that Korea has a nation-wide single minimum wage in comparison with Japan’s having local minimum wages. Even 47 local minimum wages are enforced in Japan, however, as a matter of practice, the CMWC plays a decisive role by indicating the target increase level for

LMWCs.

From a policy perspective, both governments try to influence minimum wage setting procedures by indicating that higher minimum wage is desirable both in Japan and Korea, even if the Korean government is center-left and the Japanese government is conservative. It seems both governments are concerned about divisive tendencies in the labor market and regard higher minimum wages good for economic growth because it would help increase consumption.

The authors also found major differences between developments on MWSM in two countries. One of the most prominent differences is shown in the process of MWSM. They are much tougher in Korea than Japan. Often, some groups of the members refuse to participate in the process, and decisions made by MWC tend to be harshly criticized by the public as well as both business and labor sides. On the contrary, CMWC in Japan, even without internal rules to reach conclusions by majority vote, has reached conclusions for a long time and both labor and management sides have accepted the opinions of public interests representatives, although it has experience of lengthy negotiations.

Another of most prominent differences is found in the outcome of the processes. Although recent minimum wages have increased significantly, and in a speed higher than GDP growth rate both in Japan and Korea, they increased much faster and higher in Korea than in Japan.

Those two aspects of differences may not be totally independent each other. It is likely that the more does the process become tough when outside pressure for higher and faster minimum wage increase is strong, the more does the outcome become conspicuous.

From a system perspective, the differences may be related to what factors minimum wage setting organizations are supposed to consider. While income distribution is one of the factors to be considered in Korea, it is not the case in Japan. It seems that the Korean MWSM is assigned a wider role to reduce income gap among workers, while the Japanese counterpart is allowed to focus more on specifically low wage group of workers. From this perspective, if Korean government and/or other actors try to pursue less tough processes in MWSM, they may consider reducing burdens on the processes by developing other policy channels to be responsible for improving income distribution.

In the case of Japan, the government is also concerned about widening income gap particularly related to increasing number of non-regular workers when it includes higher and steady increase of minimum wage in its labor-market reform plan. It seems, however,

the Japanese government counts more on the new wage-parity laws between regular and non-regular workers to reduce the widening wage gap. If the high expectation placed on the wage parity laws does not materialize, then it is possible that the minimum wage may be given a bigger role in the fight for income equality.

The authors remind people of policy circles of the importance of wider perspective in examining performance of minimum wage policy. A minimum wage policy may produce expected results under certain circumstances and may not under other conditions. One needs to consider wide range of related policies and economic and social factors to reach a conclusion. The authors recommend that concerned people should rely on such a broad perspective to discuss about minimum wages.

Finally, regarding the theoretical implications of the study, this paper found the approach proposed by Kaufman based on institutional economics giving fruitful backgrounds for further research on minimum wages. The authors developed the framework by suggesting that institutions, processes, and outcomes are important to explicate MWSM. The authors also elaborated the framework by proposing that structures, procedures, and factors are critical in consideration of the institutions. With this framework, the authors investigated what actually are going in Japan and Korea. As of now, both governments of Japan and Korea are strongly concerned about wage gap between worker groups, particularly regular versus non-regular workers. These two governments, while one is a center-left in Korea and the other is a conservative in Japan, are fighting against depression in the economy. However, examining the effect of this fighting needs further study.

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국문요약**일본과 한국의 최저임금 설정 메커니즘 비교: 차이의 원인 탐구****니타 미치오 · 우종원**

이 논문은 최저임금을 전반적으로 규정하는 제도, 과정 및 성과에 초점을 맞추어 근래의 한국과 일본의 최저임금 설정 메커니즘(MWSM)을 검토한다. 이때 제도를 고려함에 있어서는 첫째, 최저임금 결정구조, 둘째, 최저임금심의회의 구성 및 심의절차, 셋째, 최저임금 심의 결정 시 고려되는 요인을 중요시한다.

검토 결과 다음과 같은 사실이 발견되었다. 한일 간에는 유사점이 존재한다. 3자 구성의 심의회에 의존하고 있는 점, 양국 정부가 최저임금 인상이 바람직하다는 인식 아래 최저임금 설정에 영향을 미치려고 노력하고 있는 점 등이 그것이다. 반면, 한일 간에는 차이점도 존재한다. 그 하나는 MWSM의 프로세스에서 관찰되는 것으로서, 일본보다 한국이 훨씬 더 터프하다는 점이다. 다른 하나는 MWSM의 성과에서 보여지는 것처럼, 최저임금은 일본보다 한국에서 훨씬 더 빠르게 인상되고 있다는 점이다. 시스템적 관점에서 볼 때, 이런 차이점은 최저임금 설정 시 고려되는 요인과 관련이 있다. 소득분배는 한국에서 고려되는 중요한 요소 중의 하나지만 일본에서는 그렇지 않다. 한국의 MWSM은 근로자의 소득격차를 줄이는 데 더 많은 역할이 주어지는 반면, 일본의 MWSM은 특정 저임금근로자의 상태에 더 집중한다.

본 논문은 최저임금정책의 성과를 검토함에 있어 좀 더 폭넓은 관점을 가지는 것이 중요하다는 점을 정책관계자에게 상기시킨다. 최저임금정책은 특정 상황 아래에서는 예상되는 결과를 산출할 수 있지만 다른 조건 아래서는 그렇지 못할 수도 있다. 최저임금정책에서 어떤 결론을 내리기 위해서는 경제적 혹은 사회적 요인과 더불어 광범위한 정책적 요인을 고려해야 한다.

주제어: 최저임금 설정 메커니즘, 최저임금을 이루는 제도와 과정 및 성과, 최저임금 결정 시 고려되는 요인