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Minimum Wage Increase Pushed by Rising Concern of Income Inequality

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Raising the minimum wage can have positive impact on income, but can also negatively affect corporations and employment. Therefore it is often criticized as a populist strategy and treated in a cautious manner upon implementation. But in Japan and U.S., where the minimum wage is relatively low¹, rising concern over income inequality and impoverishment is pushing the minimum wage to be increased more aggressively.

In July the Japanese government decided to increase minimum wage by 18 yen in national average for fiscal 2015, a 2.3% increase from the previous fiscal year. The national average minimum wage will rise to 798 yen. The increase was the largest since 2002 when the minimum wage started to be measured by hourly rates (Chart 1). Although inflation and labor productivity remain stagnate, the minimum wage rose by, on accumulative basis, 20% in the past 13 years. However, the “reverse phenomenon”, where the welfare pays were more than the net income of the minimum wage, which was the driving force in the recent raises of the minimum wage, was resolved in all prefectures just last year. Awareness of the problem of the working poor and poverty amongst children has been increasing as their harsh realities get recognized. Also as Abe government puts emphasis on wage increases as one of the measures to end deflation, there is less resistance towards raising the minimum wage.

In the U.S. after the global financial crisis, income level of very few rich households was maintained while the income level of other households dropped drastically (Chart 2). Because of this, the problem of the income gap which was taken lightly in the past, came to be regarded as an important issue, and poverty measures became more widely accepted. Wage increase demonstrations by low paid workers have gained many supports. Owing to the changes in public opinion, President Obama called for minimum wage increase in the 2013 State of the Union and in the 2014 State of the Union called on Congress to raise the federal minimum wage to \$10.10 per hour, which is, on a real income Congress has kept federal minimum wage at

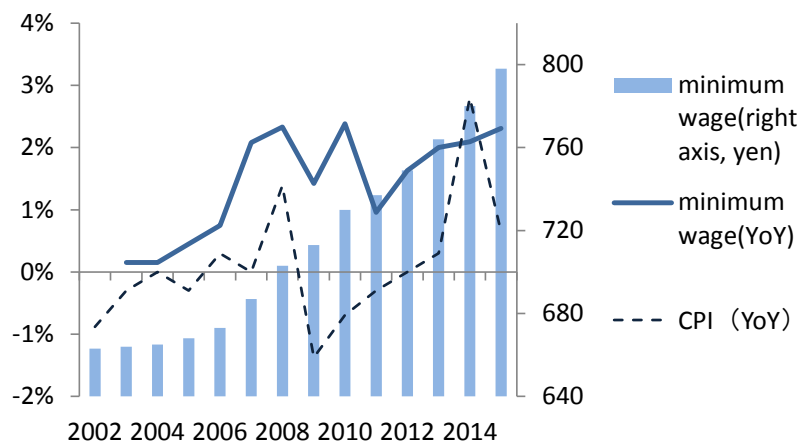
¹ OECD statistic:

http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2015/minimum-wages-levels-in-oecd-key-partner-and-accession-countries-2013_empl_outlook-2015-graph10-en#page1

\$7.25 per hour (Chart 3), numbers of states and cities who set their own minimum wage and corporations began to raise the minimum wage/ initial salary. Amongst them, City of Los Angeles's decision to raise minimum wage and New York State's decision to raise minimum wage for fast food workers, both to \$15.00 per hour in phases and Wal-Mart Stores Inc., the retail giant criticized for years over its treatment of employees, announcing to raise the initial salary from \$7.25 (the same as the federal minimum wage) to \$10.00 per hour in one year, particularly caught national attention.

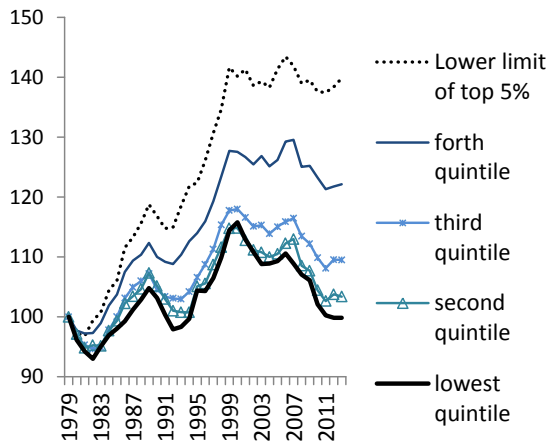
The effects of the recent raise in minimum wages of both countries will be evaluated in the days to come. Meanwhile, reconsidering will continue on the problem of income inequality which is now seriously concerned that it will cause further damage to the social soundness without for government's aggressive intervention.

Graph1. Japan Minimum Wage (national average)



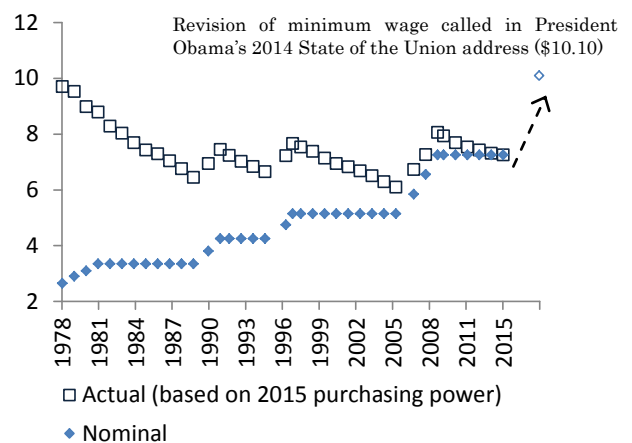
(Source) The Japan Institute for Labour Policy and Training, Ministry of Internal Affairs and Communications
 *CPI of 2015 is Jan-June average

Graph2. US Income Disparity



(Source) U.S. Census Bureau

Graph3. US Federal Minimum Wage



(Source) U.S. Bureau of Labor Statistics

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