

STRATEGIC INTERACTION AMONG JAPANESE MUNICIPALITIES ON SALARY LEVELS OF PUBLIC SERVANTS

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Abstract

Following the aftermath of the Great East Japan Earthquake's sequence of disasters, the Japanese central government introduced several policies to reduce public wages at the local government level, as part of a thorough action plan to revive the economy and reconstruct damaged infrastructure. This paper empirically tests the strategic interaction among municipal governments in respond to the policies. It is found that the changes on public salary levels at Japanese municipalities are dependent on their neighboring salaries. Several estimation approaches have been take into accounted, which all result in consistent estimates. Strategic interactions among neighboring municipalities are stronger as the central government's top-down policy is effective. The paper also suggests that yardstick competition could drive the strategic interaction in deciding those salary changes.

Keywords: Strategic interaction, Japanese municipalities, Laspeyres index, yardstick competition.