

Spatial gaps in minimum wages and job search of young workers*

Nobuaki Hamaguchi[†]

RIETI & RIEB, Kobe University

Keisuke Kondo[‡]

RIETI & RIEB, Kobe University

Abstract

This study examines the extent to which spatial gaps in real minimum wages affect the location choice in job search of new high school graduates in Japan. We exploit the exogenous shock related to the 2007 amendment of the Minimum Wage Act which expanded variations in real minimum wage between urban and rural prefectures. We propose Bartik-like instruments for differential exposure to these shocks to perform a causal inference of the impact of spatial gaps in real minimum wages on the location choice in job search of unskilled young workers. Our estimation results show that the real minimum wage gaps partially motivate job search outside resident prefectures. Our counterfactual evaluation for the uniform minimum wage across prefectures shows that approximately 10-25% of new high school graduates in rural prefectures seek jobs outside their resident prefectures even under the uniform minimum wage setting. This result suggests that the simple correlation overestimates the impact of minimum wage on outmigration because other factors than wages such as urban amenity may explain spatial behavior in job search.

JEL classification: J61, J65, R23

Keywords: Minimum wage, Spatial job search, Bartik-like instrument, Shift-share design, Spatial weight matrix

RIETI Discussion Papers Series aims at widely disseminating research results in the form of professional papers, thereby stimulating lively discussion. The views expressed in the papers are solely those of the author(s), and neither represent those of the organization to which the author(s) belong(s) nor the Research Institute of Economy, Trade and Industry.

* We thank Yasuhiro Sato, Masahito Ambashi, Yuki Hashimoto, Yudai Higashi, Nobuyoshi Kikuchi, Sagiri Kitao, Tomoharu Mori, Masayuki Morikawa, Hiroyuki Motegi, Shinpei Sano, Masaru Sasaki, Takaaki Takahashi, Liu Yang, Atsushi Yamagishi, and participants at the 2021 annual conference of the ARSC, RIETI Discussion Paper Seminar, and Kansai Labor Seminar for their valuable comments and suggestions. Naturally, all remaining errors are our own. This work was supported by JSPS KAKENHI Grant Number 21K01497 and 23K01348. This study is conducted as a part of the Project “Economic Policy for Post Covid-19 Japanese Regional Economies” undertaken at the Research Institute of Economy, Trade and Industry (RIETI).

[†] Research Institute for Economics and Business Administration (RIEB), Kobe University. 2-1 Rokkodai-cho, Nada-ku, Kobe-shi, Hyogo, 657-8501, Japan. (e-mail: hamaguchi@rieb.kobe-u.ac.jp).

[‡] Corresponding author. Research Institute of Economy, Trade and Industry (RIETI). 1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo, 100-8901, Japan. (e-mail: kondo-keisuke@rieti.go.jp).