

A Theoretical Analysis of the Wage Differential between Regular Workers and Non-regular Workers in Japan

Masao Yamaguchi*
Graduate School of Economics, University of Hyogo**

Abstract

Japan has been facing bad labor market conditions since the 90's. The unemployment rate has been increasing remarkably since the beginning of 1990, and it is currently drifting at around 5%. The number of non-regular workers has also been growing conspicuously. The wage differential between regular workers and non-regular workers has been increasing gradually since the 70's. In this paper we attempt to explain the backgrounds of these phenomena, specifically the wage differential with our dual labor markets theory.

These phenomena are assumed to be due to compound effects of recession, a change in individual labor supply attitude, technical progress. Some researches such as Yoshikawa(1992) Osumi(1999), Nakatani(2003), Kikumoto(2003) and Yamaguchi(2004) try to explain these facts based on the models of the dual labor markets developed in the mid 80's by McDonald and Solow(1985), Bulow and Summers(1986) and others. They show that the enlargement of the wage differential between primary labor (regular workers) and secondary labor (non-regular workers) is due to the recession using the short run model.

However, few studies have ever tried to explain the enlargement of the wage differential together with the increase in the ratio of non-regular workers to regular workers from a long-term viewpoint. In the present paper, we attempt to develop a simple growth model based on McDonald and Solow(1985), and to explain the macroeconomic change in the Japanese labor market, particularly the wage differential and the ratio of non-regular workers to regular workers arising from the business fluctuation, "the tendency of the unemployed turning into a non-regular worker," and the technical progress. The present paper is unique in that we show that the enlargement of the wage differential between regular and non-regular workers attributes to both business fluctuation and technical progress theoretically as well as empirically.

* E-mail: bm02n105@stecon.u-hyogo.ac.jp

** 8-2-1 GakuenNishimachi, Nishi-ku, Kobe 651-2197, JAPAN