

Overtime Premium and Hours of Work: Lessons from the mandatory increase of the overtime premium[☆]

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Abstract

This study assesses how the increase in the overtime premium influences work hours and the incidence of overtime. The mandatory overtime premium for overtime hours of more than 60 hours per month was increased from 25 % to 50% in 2010. This reform generated an exogenous variation in the marginal cost to employers of assigning extra overtime. Because the reform is only applied to workers in large firms, we used a difference-in-difference approach and identified the causal effects of the reform on work hours by comparing workers in large firms and those in small and medium firms. The firm-level data shows that the reform significantly decreases the hours of work in large firm compared to those in SMEs. However, the employee-level data suggests that despite the overtime premium doubling, there has been no change in work hours or in the incidence of overtime, suggesting the prevalence of unpaid overtime in Japan.

Keywords: Overtime Premium, Employment, Work Hours, Difference-in-difference

JEL: J10, J22, J88

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