

Urban Wage Premium in Japan: Evidence from Matched Employer–Employee Data*

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Preliminary Version (In Progress)

Abstract

This study conducts a comprehensive empirical analysis on urban wage premium in Japan using the matched employer–employee data in the manufacturing sector. This study clarifies to what extent the spatial sorting of establishments causes the overestimation of urban wage premium and aims to quantify urban wage premium in Japan. Our extended analyses examine how minimum wage gaps between Japanese prefectures are explained by the estimated urban wage premium and further focus on skill intensity of cities as a source of urban wage premium. We find that additional control for establishment characteristics reduces the degree of urban wage premium, suggesting that the large-sized and productive establishments paying higher wages tend to be located in bigger cities. Furthermore, we show that, compared with almost all other prefectures, the minimum wage of Tokyo is higher than explained by urban wage premium. Another important contribution of this study is to provide evidence on that skill intensity of cities is a main source of urban wage premium. In addition to that university graduates earn higher wages at the individual level, their spatial concentration further brings about positive externalities at the regional level.

JEL classifications: J31, R12, R23

Keywords: Urban Wage Premium, Agglomeration, Skill Intensity, Minimum Wage, Matched Employer–Employee Data

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