

The Effects of the Change in the Rule on the Social Security Earnings Test on Japanese Male Labor Supply*

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Abstract

Despite the need for the elderly to work because of Japan's aging population, once an elderly person's labor income reaches a certain level, his or her pension is reduced by the government. As several researchers have pointed out, this earnings-test rule for the pension imposes a high tax rate on elderly workers, which discourages their labor supply. In this paper, we use data from the 2004 and 2007 Comprehensive Survey of Living Conditions to investigate how the elderly responded to Japan's change in the earnings-test rule for the pension; this is possible because the rule change affected some age groups but not others. Our difference-in-differences estimates of the labor-supply and work-status-choice functions indicate that the rule change did not affect whether, or how much, to work, but did affect whether men chose to be regular workers (who pay employee pension insurance).

JEL Codes: J14, J22, H55

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