

Restricted regular employees and compensating wage differentials : theory and evidence

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Abstrak

The theory of compensating wage differentials predicts that there will be a positive relationship between wages and poor working conditions and that workers are fully compensated for poor working conditions through their wage. In this article, we first present a theoretical model of compensating wage differentials under the assumption of a perfectly competitive labor market to confirm these predictions. We then show that empirical studies have found evidence that contradicts these theoretical predictions. Specifically, we introduce studies that show the following: (i) workers are not matched with their desired working conditions, and those workers who report dissatisfaction with their hours change employers to work in jobs that are more consistent with their preferred hours; and (ii) workers are overcompensated for poor working conditions. We provide two theoretical models that are more consistent with the observed empirical patterns. The first is an equilibrium labor search model in which a job is a package of wages and working hours, while the second is a “rat-race” model in which professional employees are required to work inefficiently long hours. Finally, we offer suggestions for offering more flexible jobs (e.g., restricted regular employees) in the Japanese labor market.