

Abstracts

Taxation and Labor Supply

Shun-ichiro Bessho (Hitotsubashi University)

Income tax is one of the main taxes in Japan, and tax revenues from labor income occupy a significant proportion. Taxation on labor income can influence responses of labor supply and related behaviors. This paper gives an overview of the history of the Japanese income taxation system from the late 1970s to the mid-2000s, and empirical research on the effects of income taxation on labor supply. The Japanese government made the personal income tax system flatter, with a smaller number of brackets and a lower top marginal tax rate, in a series of tax reforms during this period. The key words for the series of tax reductions included “incentives to work” and “neutrality (no distortion)”. In a simple framework of leisure-consumption choice, a change in tax rate affects the labor supply through substitution and income effects. In addition, changes in the tax system can affect intertemporal or interfamily resource allocation or have general-equilibrium effects. Market distortion other than the tax system could exacerbate or offset these effects. Workers may not have perfect knowledge of the tax system. Changes in labor supply behavior include those in working hours (intensive margin) and in labor participation (extensive margin). This paper provides estimates for uncompensated labor supply elasticity of 0.079 for males and 0.342 for females.

Refundable Tax Credit as a Labour Policy Tool

Takeshi Fujitani (Hokkaido University)

The “Refundable Tax Credit” is a mechanism which, as a part of the income tax system, delivers welfare payments to low-income individuals and households, via the tax refund procedures administered by the tax authority. For labour policy purpose, this mechanism could be utilized as a wage subsidy device to support the working poor, or to encourage the unemployed to enter the labour market. Given that policymakers in Japan have recently been paying closer attention to this mechanism, this article shall examine the wisdom of using this mechanism as a labour policy tool, from several mutually-complementary perspectives. For example, this mechanism could be favorably considered as an inherent component of the optimally designed tax-and-transfer system, as the optimal tax theory might suggest. On the other hand, given the nature of the income tax system, the tax credit mechanism might fail to fulfill sufficient levels of accuracy and responsiveness that should be satisfied by welfare programs, casting doubt on its capacity as a policy tool. Based on these analyses, this article argues that the refundable tax credit should be justified as a moderate tool for labour policy, which does not substitute but rather complements other labour policy (as well as other social welfare policy) measures.

An Estimation of the Work Disincentive Effects of the Spousal Deduction and the Social Security Systems on the Labor Supply of Japanese Married Women

Shingo Takahashi (International University of Japan)

Japanese spousal tax deduction and social security systems cause a piece-wise budget constraint for married women. Using a pooled sample from the Japanese Panel Survey of Consumers, this study structurally estimated a labor supply model that explicitly takes into account the nonlinearity in the budget constraint, then evaluated the effects that various alternative policies would have on the labor supply of married women by using the estimated parameters. The results suggest that the effects of spousal deduction and social security reforms on the labor supply of Japanese married women would be much smaller than what the past reduced form studies suggest. The reform to completely eliminate the spousal tax deduction would increase the population’s labor supply only by 0.7%. The policy reform to require all women to pay the social security premium regardless of their income level would have almost no effect on the population labor supply. This study also suggests that lump-sum income transfer programs, such as the current child care support program, would have negligible effects on female labor supply unless the transfers are substantially large.

Rethinking Arguments for Abolishing or Curtailing the Category-3 Insured Persons System in a Public Pension System

Kayo Kurata (Kumamoto University)

The public pension system, in which the Category-3 insured persons receive a basic pension without paying premiums, has been criticized for its unfair burden sharing. Thus, there have been arguments for abolishing or curtailing this system. However, considering the purpose of the pension system – to secure and improve a decent standard of living for the entire population – social security coverage should be provided to those Category-3 insured persons. A decline in the number or a change in behavior of these persons does not support the idea of abrogating the system. It is indicated that discussing social insurance system in terms of equality or simplistic fairness may damage the fundamental nature of the system.

The Economic Implications of the Systems of Tax, Retirement Benefits, and Corporate Pensions

Kensuke Miyazawa (Nihon University)

This paper considers the effects of the systems of tax, retirement benefits and corporate pensions on workers in Japan. While the retirement benefits and corporate pensions could mitigate the inefficiency due, for example, to the information asymmetry between employers and employees, they could increase the risk of labor income or worsen liquidity constraints. The purpose of this paper is to confirm the effects of the systems on economic welfare, and provide guidelines on system design. We study the characteristics of the systems from the viewpoint of economics, investigate the benefit models of retirement benefits and corporate pensions, and consider their economic implications using theoretical and empirical studies. We find that, because defined-benefit retirement benefits and corporate pensions affect employer-employee relations and the consumption profile of workers, their taxation may have important effects on economic welfare. We propose that the government relaxes the restrictions on the receipt and strengthens the right to receive.