

METI-RIETI Symposium
“Next Actions for the Japanese Economy in
Recovering from the 3.11 Disaster”

Handout



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Japan's fiscal crisis and policy challenge

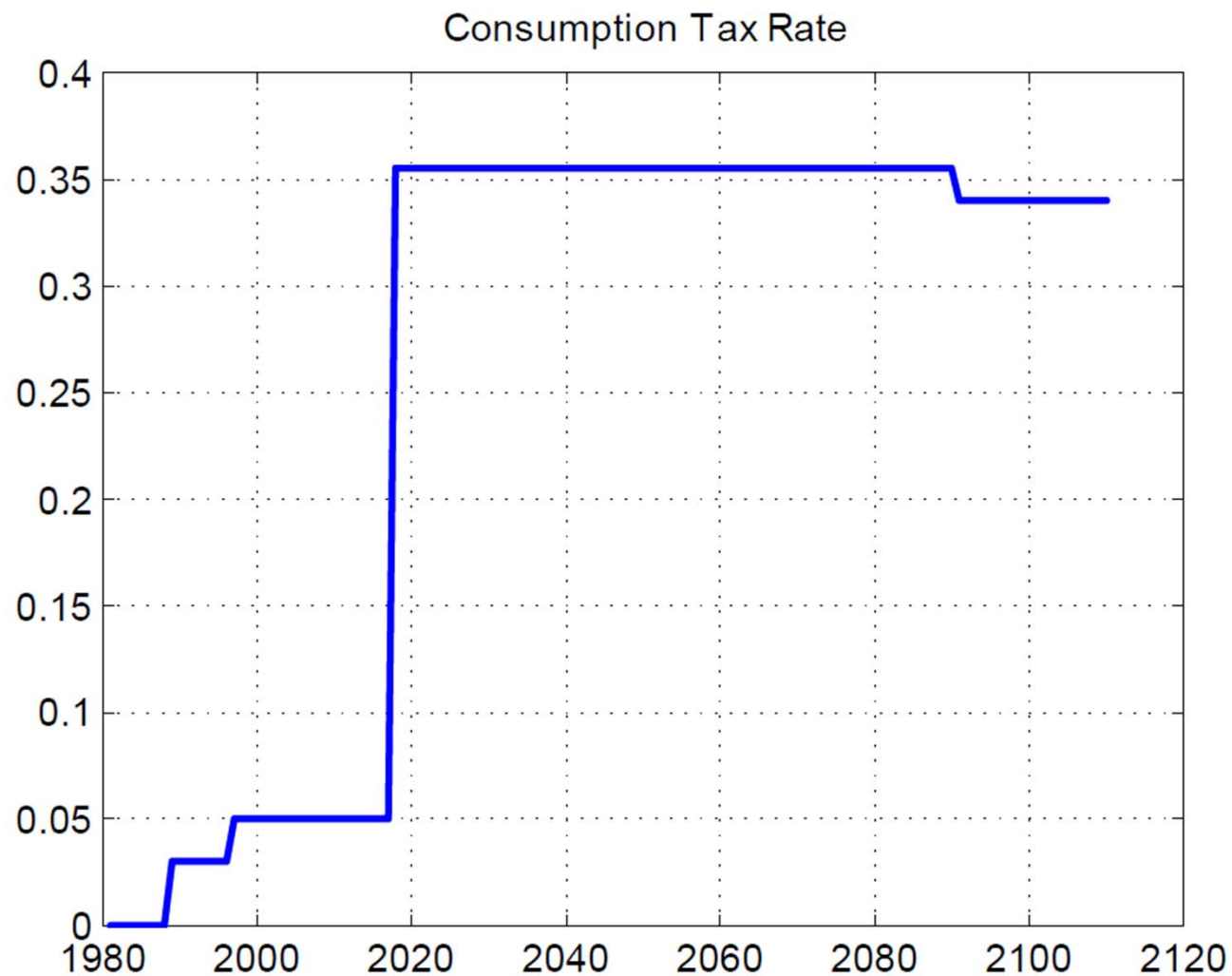
Keiichiro Kobayashi, Hitotsubashi University

Necessary Tax increase to restore the fiscal sustainability of Japan

- ▶ Doi (2009): Accounting method
 - ▶ Consumption tax rate 5% → 17%
- ▶ Shirakawa Hiromichi (2010): Accounting method
 - ▶ Consumption tax rate 5 → 32%
- ▶ Hansen and Imrohorglu (2011): General Equilibrium
 - ▶ Consumption tax rate 5 → 35%
- ▶ Braun and Joines (2011): General Equilibrium
 - ▶ Consumption tax rate 5 → 33%



Hansen and Imrohoroglu (2011) Tax schedule for fiscal sustainability



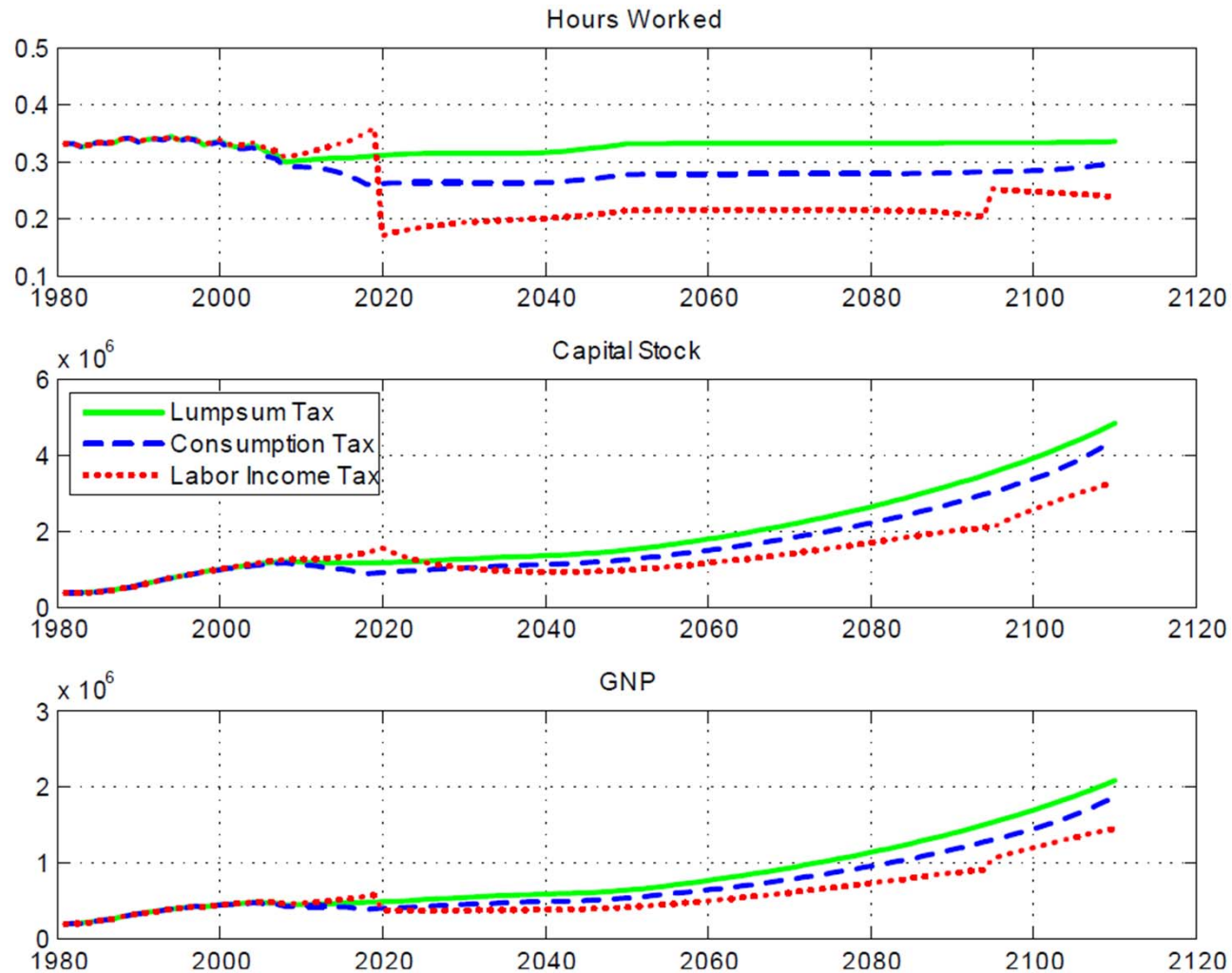
Hansen and Imrohoroglu (2011)

Tax schedule for fiscal sustainability



Hansen and Imrohoroglu (2011)

Effect of tax hike on Japanese economy



Risk scenario

► Points

1. Trigger of the crisis management
2. Financial crisis (Capital injection to banks)
3. Plan for fiscal rehabilitation
4. Liquidity provision to the government
5. Deflationary policy (Tax increase and spending cut) or
Inflationary policy (Inflation tax in 1980s in Latin America)



Smoothing of economic growth

- ◇ Public fund for foreign investment
 - ▶ Government provides the fund with equity
 - ▶ INCJ, JBIC
 - ▶ Debt denominated in JPY
 - ▶ Financial Institutions and market investors
 - ▶ Investment to
 - * foreign securities
 - * FDI projects
 - ▶ The fund absorbs forex risk

Joint Debt Management Policy?

- ▶ Countries face risk of fiscal collapse
 - ▶ Market investors attack sovereign debt of the countries one by one.
- ▶ Can these governments make insurance arrangement for their fiscal risk?
- ▶ The governments can diversify their fiscal risk by mutual holding of the government bonds.
- ▶ Theoretically,
Mutual holding of government bond strictly improve welfare of these countries. (Pareto improvement)

Gerontechnology -- Demographic change and directed technical change

- ▶ Population aging continues regardless the success or failure of fiscal consolidation
 - ▶ Increasing demand and decreasing supply for nursing care service
 - ▶ Social security reform is not sufficient to keep the current living standard
- ▶ Technological innovation in nursing care services is necessary, e.g., Elderly care robots.
- ▶ Development of Gerontechnology

