

Comments on  
**The Japanese Economy:  
Strategies to Cope with a Shrinking and Ageing Population**  
by Dr. Randall Jones

Sagiri Kitao  
RIETI and University of Tokyo

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RIETI BBL

# Overall Comments

- **An extremely thorough and comprehensive summary of economic issues faced by aging and shrinking Japan**
  - Clear visualization of the big picture, supported by the wealth of macro and micro data
  - Rich cross-country analysis to highlight where Japan stands relative to its peers
- **A comprehensive strategy and policy recommendations ranging over many aspects of the economy, backed by the data analysis**
  - Inevitable decline in the population → either raise the labor force or the productivity
  - Rising age-related expenditures (public pension, health and long-term care) → effective fiscal policies to stabilize the rising burden

# My Discussion

- **A micro-founded macroeconomic approach to corroborate the two of the many points discussed**
  - On the labor shortage and roles of women's labor force participation
  - On the labor market dualism, inequality and fiscal challenges

# Women in the Labor Force

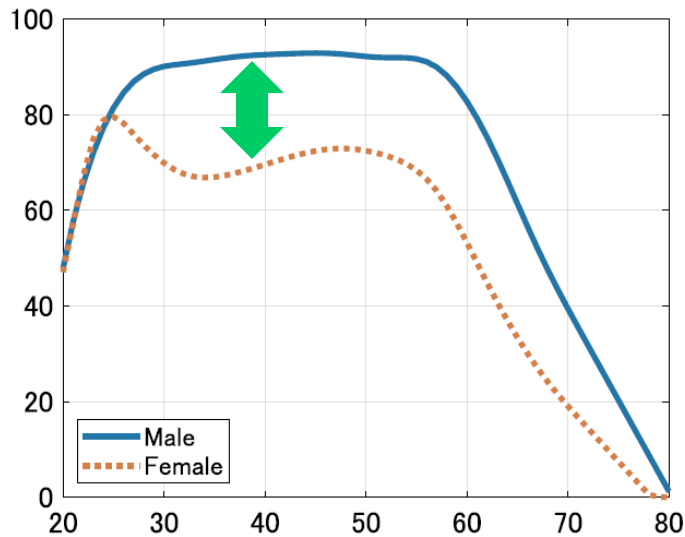


Fig. 1. Labor force participation rates in 2015 (%).

Labor Force Participation Rates (2015)

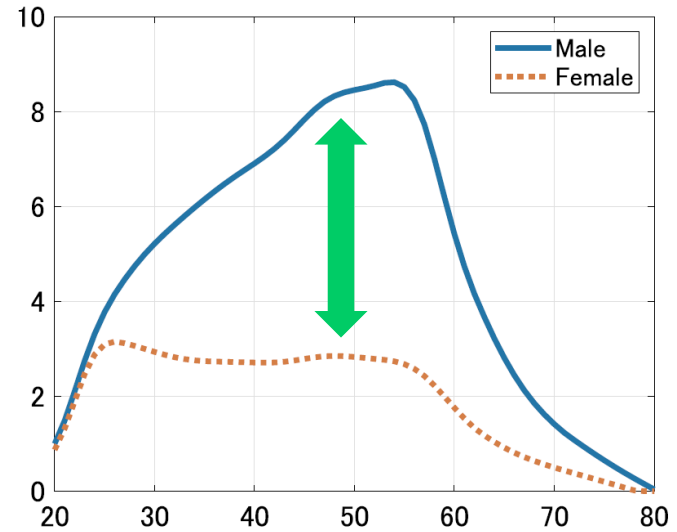


Fig. 4. Efficiency profiles  $\varepsilon_{i,g,t}$  (Normalized by the level of males aged 20).

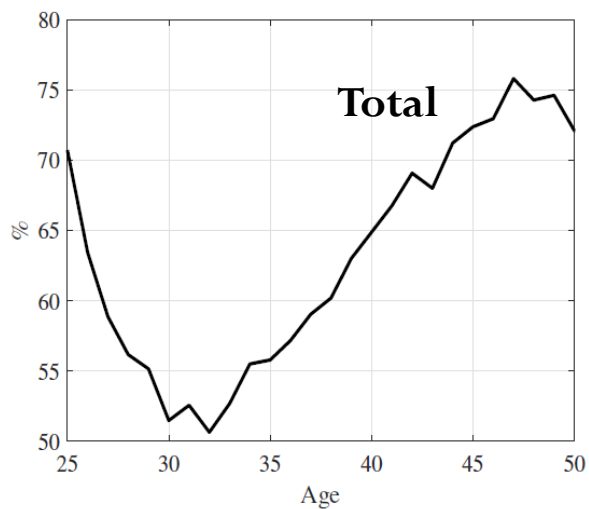
Average Earnings  
(2015, Men at 20 = 1.0)

Source: Kitao and Mikoshiba (2020 JJIE and RIETI Discussion Paper)

# Women in the Labor Force

- **Why do women work and earn the way they do?**
- **What are the roles of fiscal policies?**
- **Kitao and Mikoshiba (2022, RIETI Discussion Paper)**
  - Build a life-cycle model to answer these questions.
  - Examine the women's labor market data: career and earnings over the life-cycle (Japan Panel Surveys of Consumers: JPSC): focus on the cohort of women born in the 1960s.
  - Focus on three policies:  
(1) spousal deductions, (2) social insurance tax exemptions, and (3) survivors' pension benefits ← Originally introduced to support low-income/non-working dependent spouses

# Women's Labor Force Participation

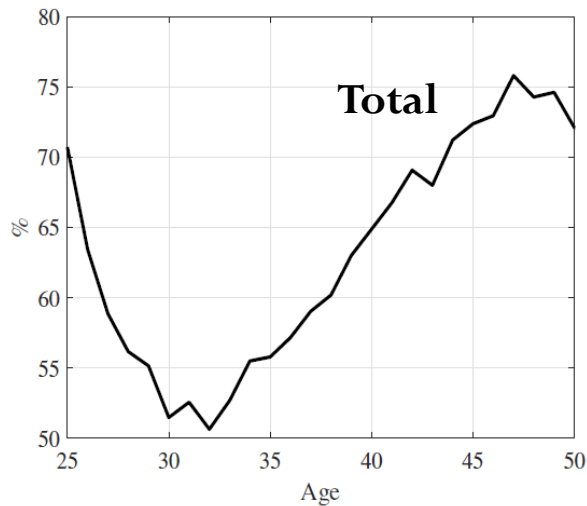


(a) Total (Regular+Contingent)

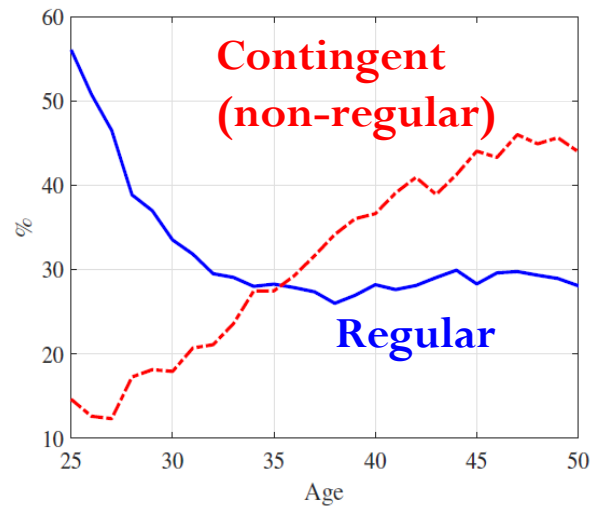
Figure 1: Women's Labor Force Participation Rates: JPSC Data

Source: Kitao and Mikoshiba (2022 RIETI Discussion Paper)

# Women's Labor Force Participation



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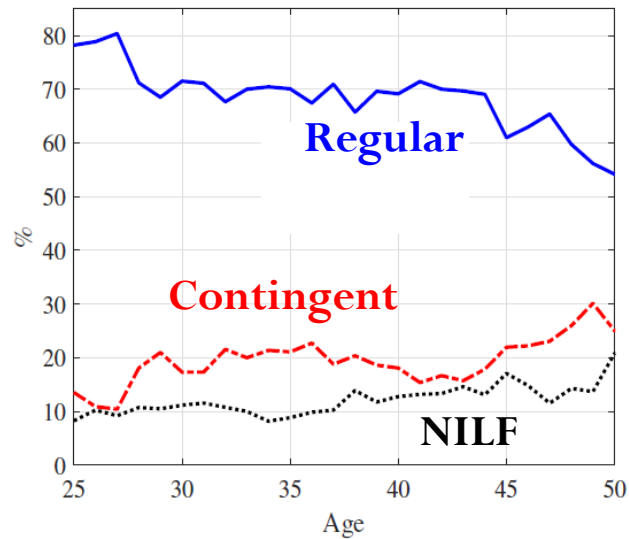


(b) By Employment Type

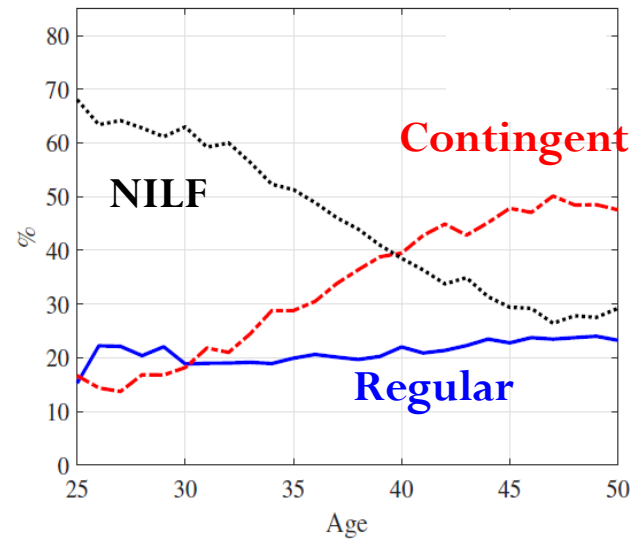
Figure 1: Women's Labor Force Participation Rates: JPSC Data

Source: Kitao and Mikoshiba (2022 RIETI Discussion Paper)

# Women's Participation by Marital Status



(a) Single



(b) Married

Figure 2: Women's Participation Rates by Marital Status: JPSC Data

Source: Kitao and Mikoshiba (2022 RIETI Discussion Paper)



# Women's Earnings

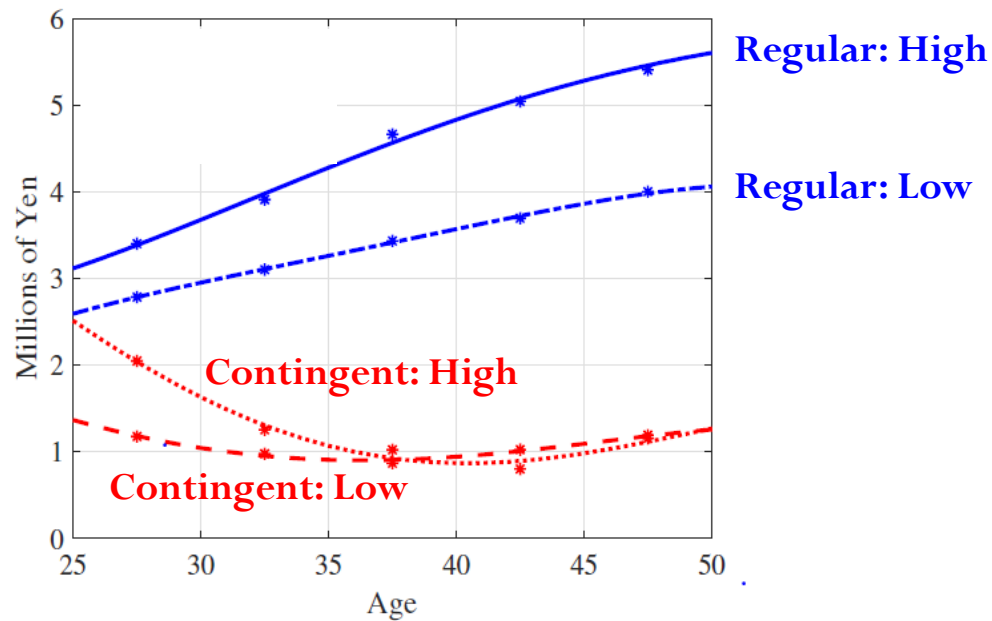


Figure 3: Women's Earnings by Skill and Employment Type: JPSC Data

Source: Kitao and Mikoshiba (2022 RIETI Discussion Paper)

# Fiscal Policies to Analyze

- **Social Insurance System**

- Universal coverage: pension, medical and long-term care insurance. Taxes depend on employment and marital status
  - Most regular workers are covered at work. Pay about 30% of earnings, shared equally by employer and employee.
  - **Exemption of SI taxes:** spouses of covered individuals at work pay none, provided earnings <1.3mm yen

- **Pension Benefits**

- Lump-sum basic part + employment-based tied to contributions
- **Survivors' benefits:** up to 75% of employment-based part of a deceased spouse's benefits

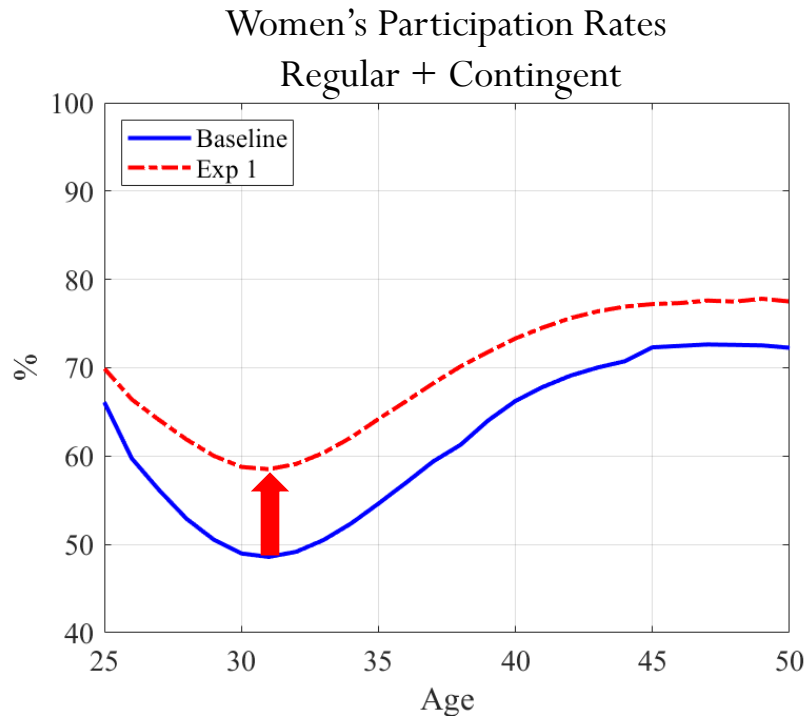
- **Labor Income Tax**

- Individual-based and progressive
- **Spousal deductions:** max deductions of 760,000 yen (reduced to 380,000 yen in 2004) subject to earnings cutoffs

# Fiscal Policies to Analyze

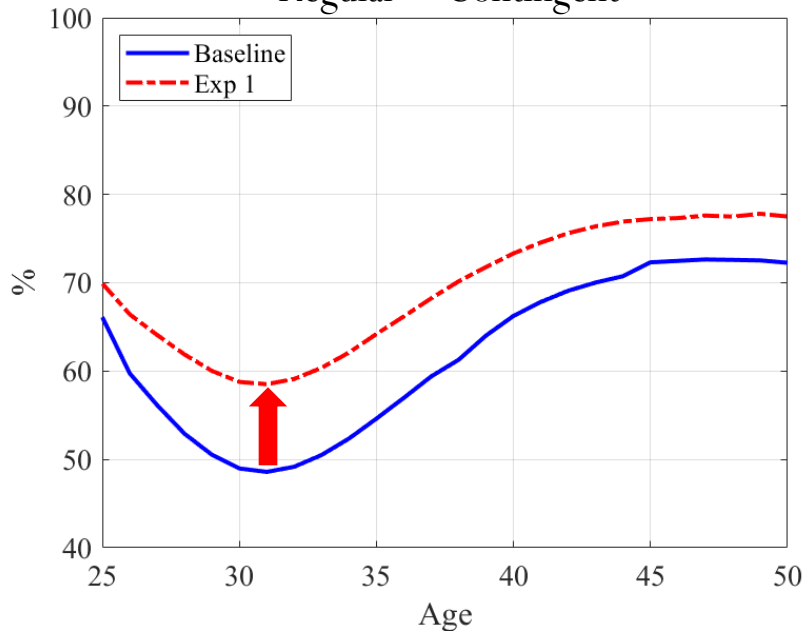
- **Use a life-cycle economic model to quantify what would have happened without:**
  1. Spousal deductions
  2. Exemption of social insurance taxes
  3. Survivors' pension benefits

# (1) No Spousal Deductions

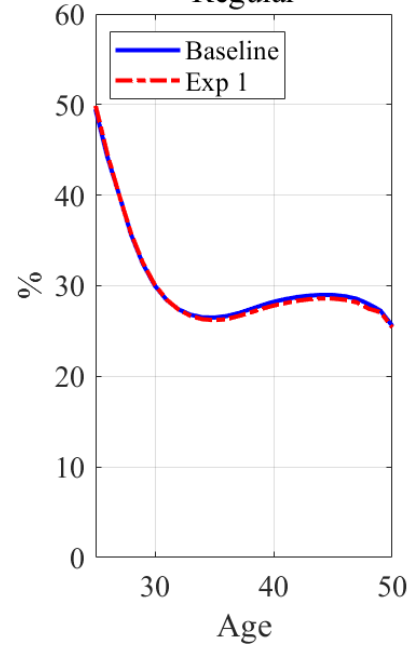


# (1) No Spousal Deductions

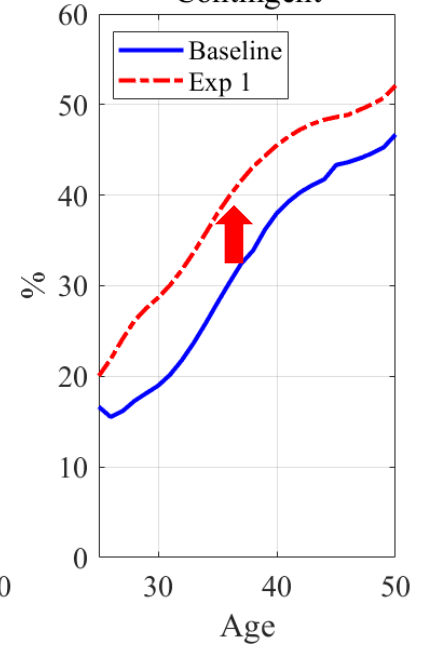
Women's Participation Rates  
Regular + Contingent



Regular

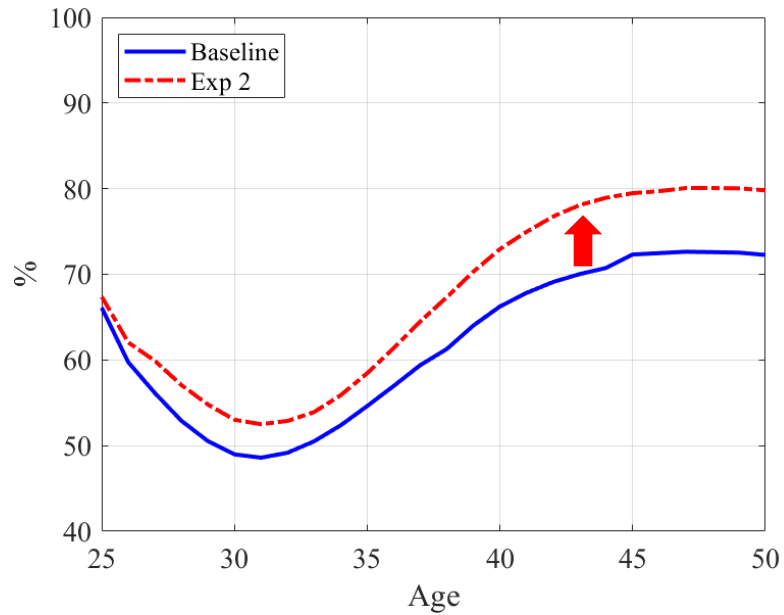


Contingent



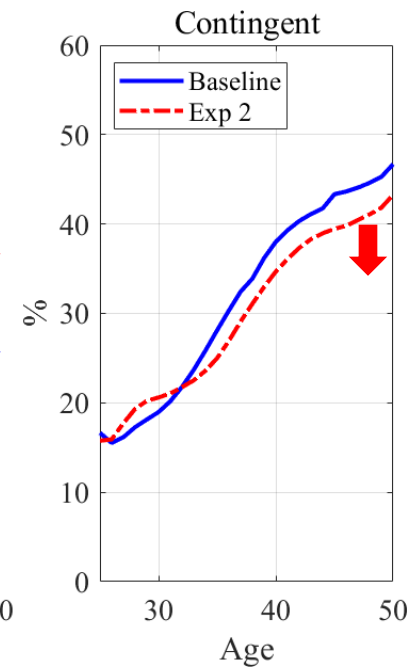
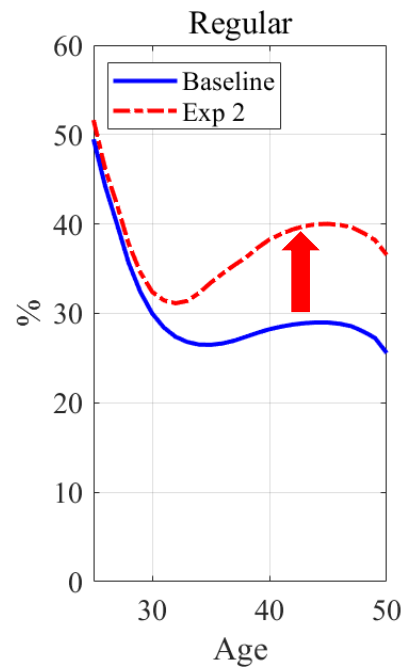
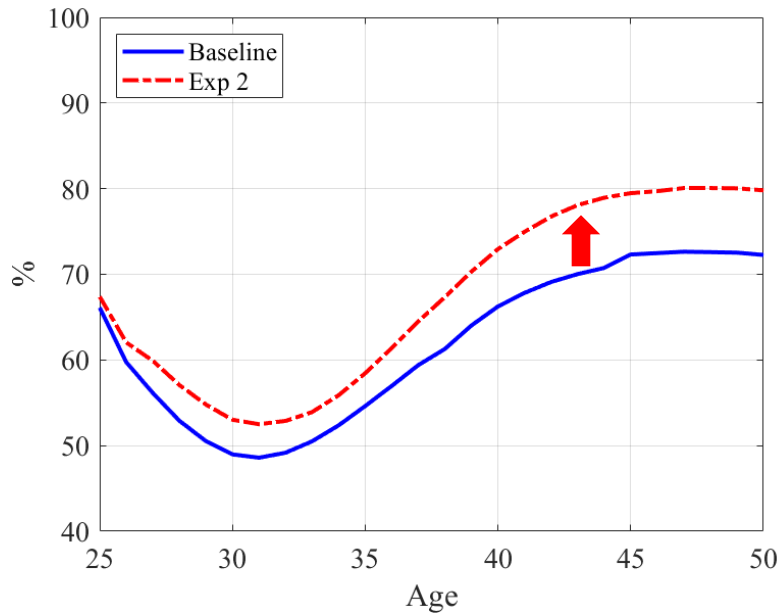
## (2) No Exemption of Social Ins. Taxes

Women's Participation Rates  
Regular + Contingent



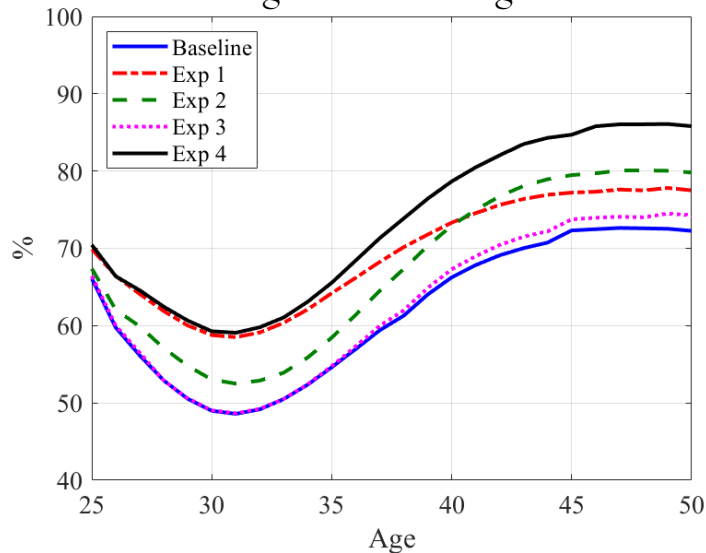
## (2) No Exemption of Social Ins. Taxes

Women's Participation Rates  
Regular + Contingent



# All Three Policies Removed

Women's Participation Rates  
Regular + Contingent

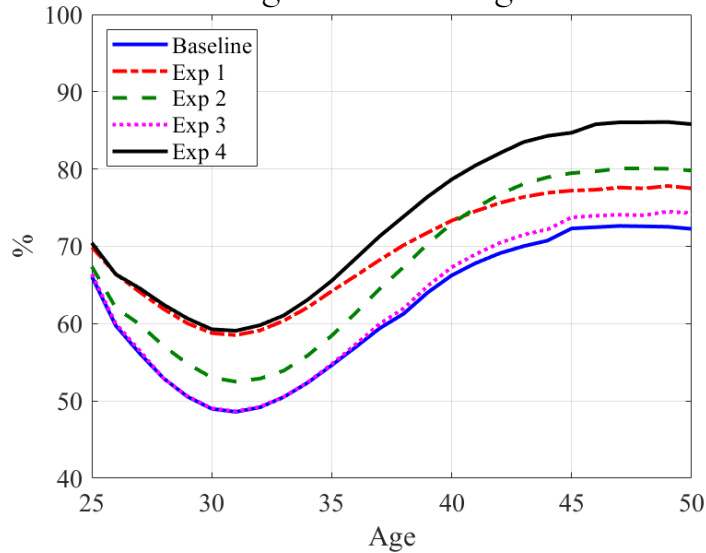


	Baseline	Exp 4 All Removed
All Employed	65%	77%
- Regular	27%	40%
- Contingent	38%	37%



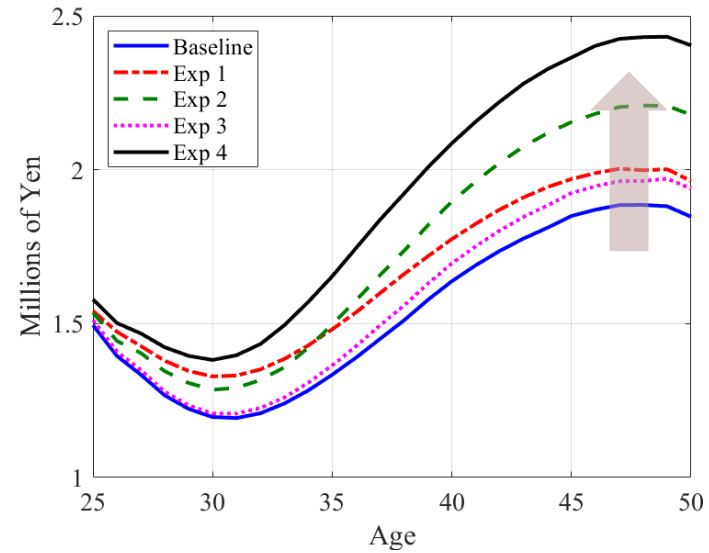
# All Three Policies Removed

Women's Participation Rates  
Regular + Contingent



	Baseline	Exp 4 All Removed
All Employed	65%	77%
- Regular	27%	40%
- Contingent	38%	37%

Average Earnings (All Women)



	Exp 4 All Removed
All Women	+27.7%
- Single	+2.9%
- Married	+37.7%

# Labor Market Dualism

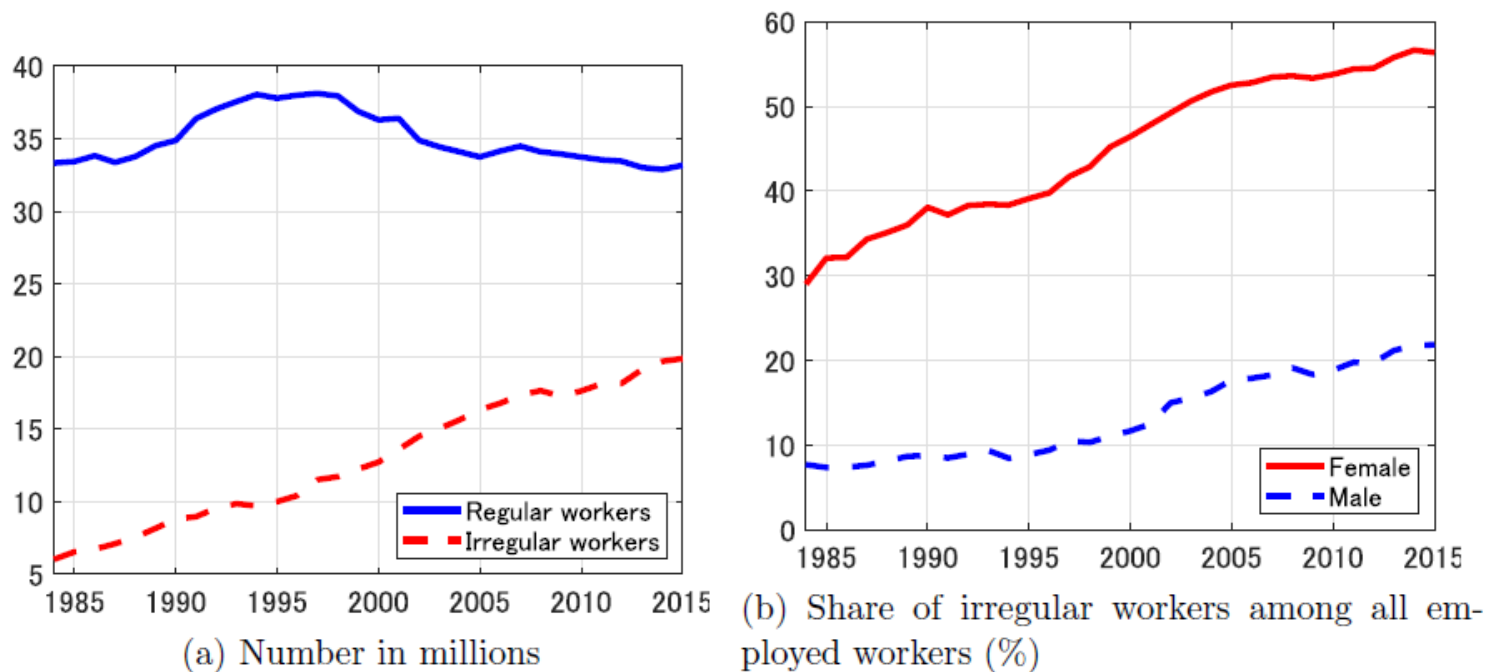
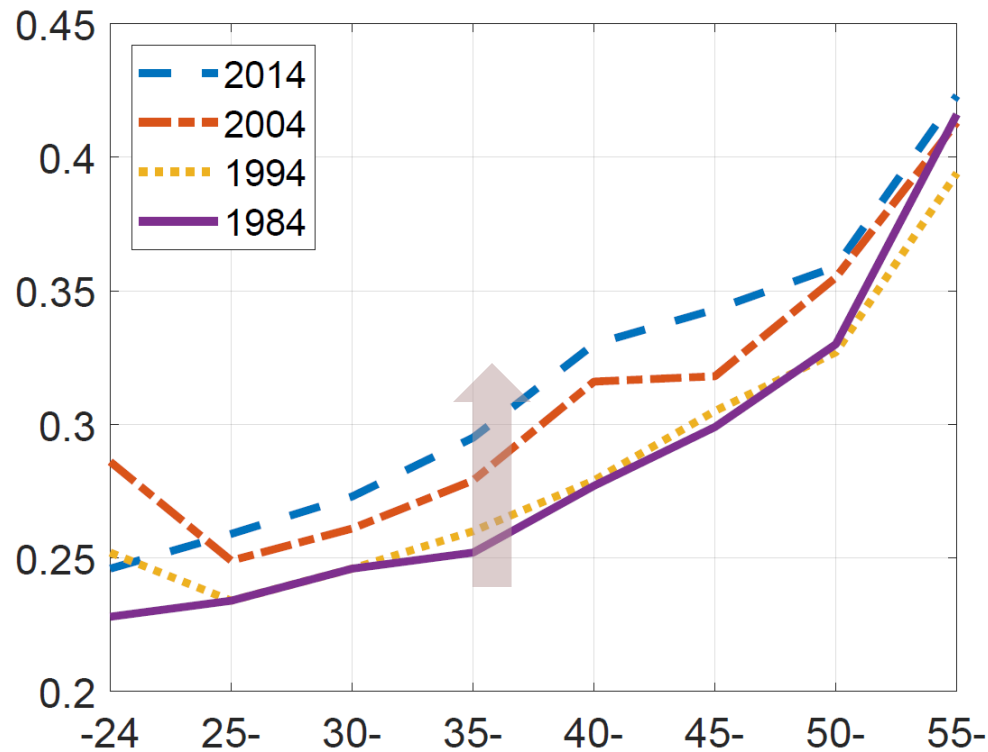


Figure 8: Regular and Irregular Workers

Source: Kitao and Yamada (2019 RIETI Discussion Paper)

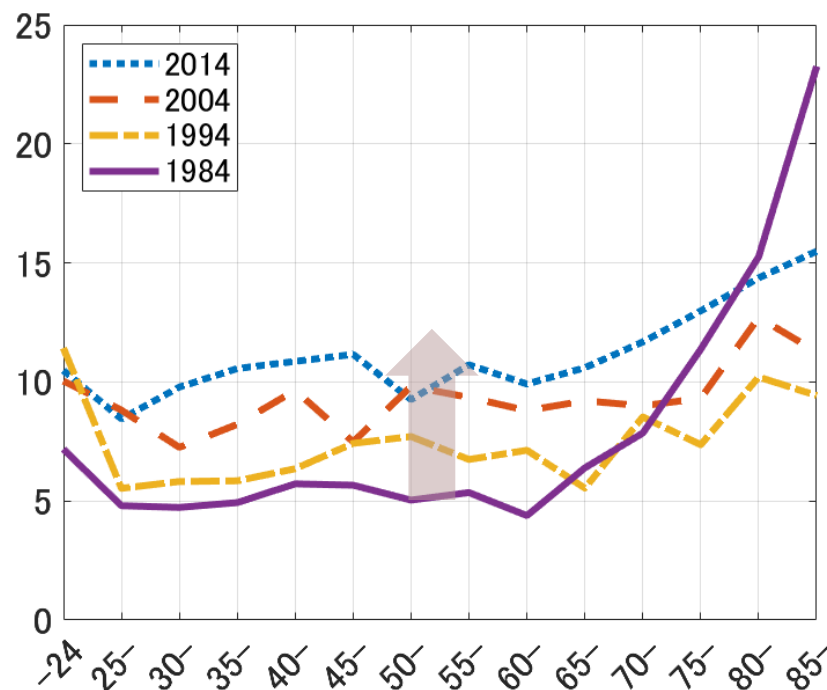
# Rising Inequality among the Young

## Earnings Gini by Age



Source: NSFIE data, Kitao and Yamada (2019 RIETI Discussion Paper)

# Households with Zero Wealth (%)



Source: NSFIE data, Kitao and Yamada (2019 RIETI Discussion Paper)

# Final Remarks

- **Many outstanding issues associated with shrinking and ageing population**
  - Fully agree on the problems identified and suggested policies discussed in the presentation.
  - At the same time, there are many policies in Japan that may have worked well in the past but not any more. Perhaps equally important to reexamine existing policies and remove those that do not fit the current economy.