

CIGS Small Policy Conference¹

Japan's Fiscal Sustainability

June 1, 2012

Panel Discussion Summary

Mr. Chikahisa Sumi (Ministry of Finance) presented a perspective of fiscal situation of Japanese government. Japan's public debt is the highest in the world, but Japan as a country has large saving pool enough to finance its public debt. Hence, Japanese Government Bond (JGB) yield curve is so far stable. After the global financial crisis, the U.S., U.K. and Euro zone public debt are increasing and faced serious government debt problem. These countries' situation is very similar to that of Japan in the period after the bubble burst. In Japan, for securing stable financial resources for maintaining and strengthening social security toward the future a draft bill is pending in the parliament. The bill proposes that the rate of consumption tax shall be raised in stages to 8% in April 2014, and to 10% on October 2015.

Professor Shigeki Morinobu (Chuo University and Senior research fellow of Tokyo Foundation) suggested that it is necessary to increase not only consumption tax but also personal income tax. The burden of personal income tax in Japan is lower than those in other developed countries. In particular, Japanese income tax base is one-half of the U.S. And, Japanese income tax base is decreasing because of increasing social insurance benefits which are tax exempted. Therefore to widen income tax base is main issue of next tax reform.

Mr. Yukihiro Matsuyama (Research Director of CIGS) proposed several plans to restore the sustainability of the social security system. First, the patient copayment ratio of the elderly should be raised to at least 20% with support programs for the poor elderly. Second, government should promote vertical integration of regional medical services to improve business efficiency of hospitals. Third, the government should cut down the medical reimbursement fee, because many health care delivery organizations have made record profits. Forth, the government should cut down the subsidies to municipal public hospitals and social welfare corporations.

¹ The views expressed in this summary are those of the presenters and do not necessarily reflect the official views of any affiliations of the presenters. The editor is responsible for the contents and wording's of this article.

Professor Selahattin İmrohoroğlu (University of Southern California) emphasized that designing responsible, effective economic and social policy that requires dispassionate, scientific analysis of the intertemporal dimensions of taxes and government expenditures over time. Hansen and İmrohoroğlu (2012) shows that public debt sustainability requires to increase the consumption taxes to 30 percent. To ease the fiscal burden, it is necessary to encourage to rise in retirement age, female labor force participation, female wage and immigration.

Professor Alan Auerbach (University of California, Berkeley) pointed out that the U.S. and Japan face similar fiscal problem. The U.S. is also aging and the public debt is increasing rapidly. Inflation does not help to resolve public debt problem, because health care and medical care service prices will increase due to inflation. In order to have the problem lead to a solution, it is necessary to increase a tax as soon as possible and social security expenditure should be considered to be revised in the long run.

Question

Q. Some academic research show that consumption tax should increase to 30%. How does policy maker think about this problem?

Mr. Sumi said that there would be considerable political difficulty in increasing tax. In fact, the government faces difficulty to increasing consumption tax from 5% to 10%. So, a realistic view requires an analysis that how much of the government expenditure is equivalent to an increasing of consumption tax rate. And, it is also necessary to consider treatments about elderly people and poor people.

Q. Aging will lead to declines in national saving rate and current balance will also diminish surplus. In this case, it has a possibility that domestic buying of JGBs cannot be maintained. How long the current-account surplus in Japan continues?

Some studies show that at least until 2020, current-account surplus will continue in Japan, because the Japanese economy has huge net external assets that yield large asset income. These income inflows into Japan as income balance that keep current-account surplus, even if trade balance will be deficit.