

Minimum Wage, Earned Income Tax Credit, Child Allowance and Basic Income in Japanese Policy Reform

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Introduction

A historical change of the Japanese government occurred last year. The newly elected coalition government, led by the Democratic Party, is now struggling with various policy reforms. Some of these policy reforms are relevant to basic income.

This presentation focuses on minimum wage, earned income tax credit and child allowance in Japanese policy reform, and examines them in the perspective of basic income. In addition, this presentation discusses Japanese tax reform which is related to the affordability about basic income.

1. Minimum wage

1. 1. Minimum wage in Japan

The minimum wage is determined according to region and industry in Japan. Where an employee is subject to two different minimum wages, the employee is entitled to the higher of the two minimum wages.

To give examples, following the latest revision in October 2009, the current minimum wage for Tokyo is 791 yen per hour, the current minimum wage for Okinawa is 629 yen per hour and the current minimum wage for the publishing business in Tokyo is 819 yen per hour.

The regional minimum wages are determined in the following process. First, a national council on minimum wages, which consists of members representing the public interest (retired bureaucrats and academics), employers, and employees (union leaders), establishes “reference’s wages” for minimum wages. Japan’s 47 prefectures are grouped by wage level and reference's wages is assigned to each group.

Second, local minimum wage councils decide their own minimum wage levels, but the reference’s wages suggested by the national council has a significant influence on the final decisions of local councils.

In the negotiations of the national council, the opinions of representatives of the public interest are a decisive factor because there are always conflicts between the representatives of employees and employers that make it very difficult to reach a unanimous agreement on the amount of a minimum wage increase. In this situation, the opinions of council members representing the public interest are respected as a means of reaching an agreement.

An industry minimum wage is determined by the deliberation of national council when the national council accepts the necessity of increasing specific industry minimum wage.

On January 28, 2010, the Ministry of Health, Labour and Welfare and the Ministry of Economy, Trade and Industry set up a task force to examine the effects of increasing the minimum wage. They intend that the aim of immediate level is 800 yen per a hours.

1. 2. Effects of increasing minimum wage

Card and Krueger (1995) and Tachibanaki and Urakawa (2007) claim that there is an advantage in increasing the minimum wages because the increase in wages is accompanied by an increase in employment, and it occurs to rise the income of working poor. However, some studies show that the minimum wage is not an effective means of reducing poverty (Neumark and Wascher (2008), Kawaguchi and Mori (2009) etc.). Minimum wages reduce employment opportunities for less-skilled workers and tend to reduce their earnings.

Negative advocates about minimum wages suggest refundable tax credit or basic income as alternative policy. This presentation discusses whether increasing the minimum wage is compatible with basic income in the Japanese social context.

A central point at this issue is the level of basic income or refundable tax credit and the range increasing the minimum wages. If high level of basic income is introduced, minimum wages may not be necessary. However, low level of basic income does not achieve sufficient life. Thus, to support sufficient standard of living, increasing the minimum wages could play important roles.

Referring OECD 2007 date, Japanese level of minimum wage is belong to relative low class. This means that Japan has the potential for increasing minimum wage. However, the advantage that Japan is low unemployment rate may be undermined by increasing the minimum wage. For this bothering dilemma, this presentation highlights Japanese corporate tax. The corporate tax in Japan is belonging to relative high class. Thus, the lower rate of corporate tax may compensate the increasing minimum wages in Japan.

Many factors where this presentation does not discuss are left. For example, there are work incentive, labor union, job training, family structure etc. However, this presentation focuses on the feasible level of basic income in Japan. Before considering the level of basic income in

Japan, this presentation examines the refundable tax credit as modest basic income.

2. Refundable tax credit

2.1. The earned income tax

The next topic is the refundable tax credit. In the 1970s, the earned income tax credit emerged as a more modest or mini version of the negative income tax (Haslett (1994), Fitzpatrick (1999)). In Japan, the tax commission suggested the introduction of the earned income tax credit in 2009. This has become a high priority task for government.

Some researches have examined the feasibility of the earned income tax credit in Japan (Morinobu ed (2008), Takayama, Shiraishi and Kawasaki (2010) etc). They emphasize that the earned income tax credit is a characteristic of workfare policy.

However, the earned income tax can be interpreted as a kind of basic income. Then, the earned income tax credit is categorized into the refundable tax credit. The refundable tax credit is related to child care support policy (Pressman (1992) etc). This is similar to the child allowance which was introduced in Japan, June, 2010. In the following, this topic is considered.

2.2. Child allowance

An allowance for each child up to the third grade in middle school was a main promise in the Democratic Party of Japan's election manifesto in 2009. The party plans to make the monthly 26000 yen allowance a permanent measure. The administration plans to give half the amount, or 13000 yen, in fiscal 2010, the first year of the measure, and give the full amount from after fiscal 2011. This child allowance is without a means test, so it may be called partial basic income.

However, the new government is examining a combination of in cash and in kind payments—the latter being a voucher related to a child's care and education. In the name of encouraging administrative localization, the government is also suggesting that the proportion of the combination of the payments be determined by local governments.

The government's proposal is different from unconditional basic income. Only households with a child up to the third grade in middle school are eligible for the child allowance. And the Japanese child allowance is at a relatively low level.

Meanwhile, another variation of partial basic income is a kind of negative income tax which is selected by a means test. This presentation turns to the topic of partial basic income with a means test and tax reform.

3. The possibility of realizing partial basic income in Japan.

Finally, this presentation considers one way of realizing partial basic income in Japan. This is an examination of the relation between the earned income credit and the negative income tax. This idea is inspired by Moffitt (2003). The goal of this presentation is to apply his ideas to Japanese welfare and tax policy.

Meade (1972), Parker (1991) and Van Parijs (1995, 2004) have discussed the difference between the negative income tax and basic income. They show that the points of divergence between them are the form of provision (ex ante /ex post) and the use of a means test.

In contrast, this presentation focuses on the similarity between the negative income tax and the earned income tax credit by adopting the standpoint of synthesizing the income tax regime and subsidy policy.

This theme is related to the computerization of tax technology and the social security number to capture the true revenue level. These are being discussed by the Japanese government and researchers. This presentation surveys this discussion and considers its implications for realizing partial basic income in Japan.

In addition, this presentation refers to reform of the progressive rate of the income tax in Japan. Recently, the progressive rate of the income tax has been flattening in Japan.

However, the new Japanese government is suggesting a return to a more progressive income tax and increasing the rate of the consumption tax. Japan's new prime minister Naoto Kan and new finance minister Yoshihiko Noda suggest increasing taxes on high earners, not just to raise revenue but to narrow the Japan's income inequality.

The new Japanese government is examining introducing a refundable tax credit to compensate low income earners for an increasing of the rate of the consumption tax. This may be interpreted as a partial basic income.

Conclusion

This presentation briefly reviewed present Japanese policy reform. This may show the realizing partial basic incomes in Japan. Of course, there are difficult problems. However, the Japanese policy reforms will link to some version of basic income.

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