

# A. Okamoto

# Tax Policy for Aging Societies Lessons from Japan

With 26 Figures and 40 Tables

# Contents

Fi	efaceguresbles	XI
1.	Introduction	1
	1.1 The Applicability of the Life-Cycle Hypothesis of Saving to Japan	. 1
	<ul> <li>1.2 A Life-Cycle General Equilibrium Simulation Model</li> <li>1.3 Modeling Demographics: Comparison of Two Steady States</li> <li>1.4 Intragenerational Equity</li> </ul>	4 5
	<ul><li>1.5 Quantitative Analysis</li><li>1.6 Progressive Expenditure Taxation</li><li>1.7 Organization of This Book</li></ul>	7 8
2.	Taxation of Interest Income in an Aging Japan: Simulation Analysis Using a Life-Cycle General Equilibrium Model	
	2.1 Introduction	
	2.2 Theoretical Framework.	
	2.2.1 Household Behavior	
	2.2.2 Firm Behavior	
	2.2.3 Government Behavior	
	2.2.4 Market Equilibrium.	
	2.3 Simulation Analysis.	
	2.3.1 Method of Simulation	
	2.3.2 Solution Method and Computation Process.	
	2.3.3 Simulation Cases	
	2.3.4 Parameterization of the Simulation Model.	
	2.4 Simulation Results.	
	2.4.1 Simulation Results and Their Interpretation.	
	2.4.2 Policy Implications.	. 28

## VIII Contents

	2.5 Conclusions				29
	Appendix Appendix 2.B	2		A	30
	Appendix 2.B				
3.	Progressive Taxes and Intrag				
	Aging Japan				
	3.1 Introduction				
	3.2 Theoretical Framework				
	3.2.1 Household Behavio	or			35
	3.2.2 Firm Behavior				
	3.2.3 Government Behav				
	3.2.4 Market Equilibriun				
	3.3 Simulation Analysis				40
	3.3.1 <i>Method</i>			Simulation	
	3.3.2 Simulation Cases				
	<ul><li>3.3.3 Specification of Par</li><li>3.4 Simulation Results</li></ul>				
	3.4.1 Findings and Their				
	3.4.2 Comments				
	3.5 Conclusions				
	Appendix 3.A				
	Appendix 3.B				51
	Appendix 3.C.				
	Appendix 3.D				
	Appendix 3.E				
4.	. Simulating Progressive Expe	enditure Taxa	ition	in an Aging Japan	57
	4.1 Introduction.				
	4.2 Theoretical Framework				
	4.2.1 Household Behavio				
	4.3 Simulation Analysis				
	4.3.1 Simulation Cases.				
	4.3.2 Specification of Pa				
	4.4 Simulation Results				
	4.4.1 Findings and The				
				Capital Accumulation	
	4.4.3 Effects of the Two 4.5 Conclusions			Individual Behavior	
	4.5 Conclusions 4.5.1 How Can a Progre				
				е 1 ил <b>D</b> e	70
	Appendix 4.A				

	Contents	IX
5.	Inheritance Taxes and Tax Reforms in an Aging Japan.	. 75
	5.1 Introduction.	. 75
	5.2 Theoretical Framework	
	5.2.1 Household Behavior.	
	5.3 Simulation Analysis	
	5.3.1 Method of Simulation	
	5.3.2 Simulation Cases.	
	5.3.3 Specification of Parameters.	82
	5.4 Simulation Results	84
	5.4.1 Findings and Policy Implications.	. 84
	5.5 Conclusions	88
	Appendix 5.A	. 88
	Appendix 5.B.	90
	Appendix 5.C	91
6	Integration of Tax and Social Security Systems: Financing Methods	
0.	for a Public Pension Scheme in a Pay-as-you-go System.	93
	6.1 Introduction.	
	6.2 Theoretical Framework	
	6.2.7 Household Behavior.	
	6.3 Simulation Analysis.	
	6.3.1 Method of Simulation.	
	6.3.2 Five Cases for Simulations.	
	6.3.3 Data and Parameter Values.	
	6.4 Simulation Results.	
	6.4.1 Simulation Results and Their Interpretation	
	6.4.2 Comments.	
	6.5 Conclusions.	
	6.5.1 The Current Japanese State and Policy Implications.	
	6.5.2 Justification for Our Proposals.	
	Appendix 6.A	
7.	A Life-Cycle General Equilibrium Simulation Model with Continuous	110
	Income Distribution: An Application to an Aging Japan	113
	7.1 Introduction	113
	7.2 Theoretical Framework	
	7.2.1 Household Behavior	
	7.2.2 Firm Behavior.	
	7.2.3 Government Behavior	
	7.2.4 Market Equilibrium	
	7.3 Simulation Analysis.	
	7.3.1 Simulation Method	
	7.3.2 Simulation Cases	
	7.3.3 Specification of Parameters	121

### X Contents

7.4 Simulation Results	122
7.4.7 Findings in the Simulation Results.	
7.4.2 Comments	
7.5 Conclusions.	
Appendix 7.A	
Appendix 7.B	
Appendix 7.C	
Appendix 7.D	
Appendix 7.E	
Appendix 7.F	
8. Within-Cohort Inequality and Tax Reforms in an Aging Ja	pan 135
8.1 Introduction	
8.2 Theoretical Framework.	
8.2.1 Household Behavior	
8.3 Simulation Analysis	
· ·	tion138
8.3.2 Simulations in Various Cases.	
8.3.3 Specification of Parameters.	
8.4 Simulation Results	
8.4.1 Findings and Their Interpretation.	
8.4.2 Distortions of Progressive Expenditure Taxation of	
Individual Behavior	
8.5 Conclusions	
Appendix 8.A	
Appendix 8.B	
Appendix 8.C.	
9. Summary and Conclusions	
9.1 General Summary	
9.2 Individual Summaries for Chapters 2-8.	
9.3 Introduction of a Progressive Expenditure Tax	
9.4 Reservations and Suggestions for Future Research	
References	
Author Index	
Subject Index	