

# No Stopgap Measures Effective Accept Foreign Labor for Fiscal Resuscitation, Economic Growth

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The Japanese economy remains on the gradual wane owing to the swiftly falling birthrate and the rapidly aging population. Moreover, Japan's public-sector liabilities have reached about 190% as against gross domestic product (GDP) – the worst level among developed countries and confronting public finance with the danger of collapse. Immediate countermeasures are urgently needed, but with little time left, no temporary expedient for slight revision of the existing systems can tide Japan over the present crisis. This is evident from the prevailing confusion and stalemate on the economic and political scenes. That is, a drastic reform for resuscitation of the Japanese economy should be undertaken as soon as possible without uselessly exploring stopgap measures.

From this viewpoint, I think the government should take roughly three major steps for reform. The first is the resuscitation of collapsing public finance and social security. The second is the promotion of growth strategy, and the third is measures to make active use of foreign workers as a policy that can contribute to the foregoing two steps – namely, the resuscitation of public finance and social security, and the promotion of growth strategy. I have already dwelt on specific measures for these two reforms (the first and second steps) in my book, “2020 – The Day of Japan's Collapse” (Nikkei Premier Series). In the present article, therefore, I would like to briefly focus on the effects of the third step – measures to make active use of foreign workers.

## Why Curb Acceptance of Unskilled Foreign Manpower?

First of all, let us think about the possible macroeconomic effects of expanded acceptance of foreign workers. Many people tend to think that the stepped-up acceptance of foreign manpower would have a negative impact on the Japanese economy. For, they argue, the acceptance of unskilled labor could result in lowering the wages of domestic workers to the disadvantage of our economy although introduction of skilled labor from abroad will bring certain benefits to the Japanese economy. This is a persistent “common opinion,” but lacks a viewpoint from employers' side. A different view emerges from a macroeconomic angle.

Well known in this regard is Grubel's model (1994), which analyzes the effects of a labor shift from developing to developed countries. Therefore, let me use this model to explain the above.

To simplify the argument, let us assume: there are only two countries in the world – a developed country (1) and a developing country

(2); the availability of relevant information is perfect; the cost of labor shift is nil; and productivity differs between the two countries.

This can be portrayed as in *Chart 1*, the left and right vertical axes showing the marginal labor productivity of the developed country 1 and the developing country 2, and the horizontal axis indicating the labor populations of both countries. Let us assume that the labor population of the developed country 1 is  $H_I$  with its wage level high at  $W_I$ , whereas the labor population of the developing country 2 is  $K_I$  and its wage level is low at  $W_{II}$ , and that the developed country 1 expands the acceptance of unskilled foreign labor  $IJ$  from the developing country 2. In that case, the labor population of the developed country 1 increases to  $H_J$ , and its wage level drops to  $W'_I$ , whereas employers' profits of the developed country 1 rise from  $LMW_I$  to  $LMW'_I$ . By contrast, the labor population of the developing country 2 declines to  $K_J$ , and although its wage level increases to  $W''_{II}$ , employers' profits of the developing country 2 diminish.

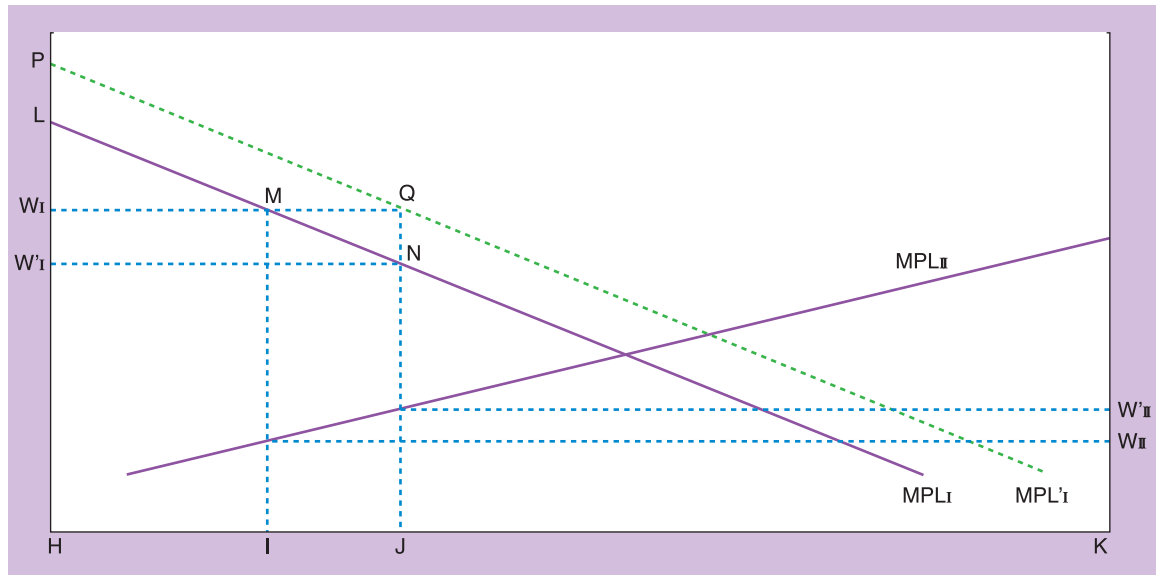
As is clear from the analysis of this simplified chart, the expanded acceptance of unskilled labor from abroad raises the possibility of lowering the economic welfare of the developed country's workers. This is used as a basis for developed countries to curb the acceptance of unskilled workers from developing countries. If political importance is attached to this problem, it is desirable to expand the acceptance of skilled foreign labor without lowering the wage level of the developed country in the above chart, and to shift the marginal productivity of the developed country 1 rightward from  $MPL_I$  to  $MPL'_I$ . In this case, employers' profits of the developed country also increase to  $PQW_I$  without detracting from the economic welfare of domestic workers. Therefore, a positive stance can be taken in regard to the stepped-up acceptance of skilled foreign workers, such as intellectual workers and information technology (IT) specialists, who can conduce to achieving new technological innovation. This is a commonly accepted argument.

## Possible Macroeconomic Benefits of Accepting Unskilled Labor – Employer Viewpoint Neglected

Nonetheless, *Chart 1* indicates that even if the expanded acceptance of unskilled foreign workers results in reducing the wage level of the developed country, that decrease is smaller than the increase in employers' profits. It is evident from this that the economic welfare of the developed country's workers is enhanced if employers' profit increase is properly distributed. Namely, if the government engineers the proper redistribution of employers' profit increase, the

CHART 1

## Effects of immigration on developed/developing economies



acceptance of unskilled foreign labor contributes to the Japanese economy.

As a result, the above-mentioned problem of redistribution boils down specifically to whether or not necessary compensation is provided to disadvantaged domestic workers.

As regards this problem, a number of countermeasures have already been implemented abroad. One is a policy to collect from companies making active use of unskilled foreign workers an additional tax that does not exceed such companies' profit increment stemming from the use of immigrant workers, and to redistribute this tax revenue among domestic workers. Singapore, for instance, has imposed a "foreign worker levy" on companies hiring foreign workers, although the amount of tax differs depending on industry categories and whether hired foreign workers are skilled or unskilled.

The second policy is to levy a certain additional tax on unskilled foreign workers. Essentially, unskilled foreign workers' desire to seek employment abroad is motivated by the prospect of earning higher wages than in their own countries. Then, an additional tax may be imposed on unskilled foreign workers within the limit of not exceeding their benefit (wage difference between their home countries and Japan). This additional tax revenue is redistributed among domestic workers.

In the case of these policies, foreign workers are substituted for domestic workers, and as such, the acceptance of the former results

in lowering the latter's wages. Also conceivable, however, is the case in which the relationship between the two parties is complementary. In this case, the acceptance of foreign workers does not lead to a wage drop for domestic workers. A corroborative analysis by a team of Prof. Jiro Nakamura of Nihon University suggests the possibility that the inflow of foreign workers leads to a wage increase for Japanese workers with limited school education who tend to compete with immigrant workers, although certain attention is needed to bring about such a result (*"Foreign Workforce in Japan"* published by Nikkei Publishing Co.). This is in contrast with the commonly accepted view.

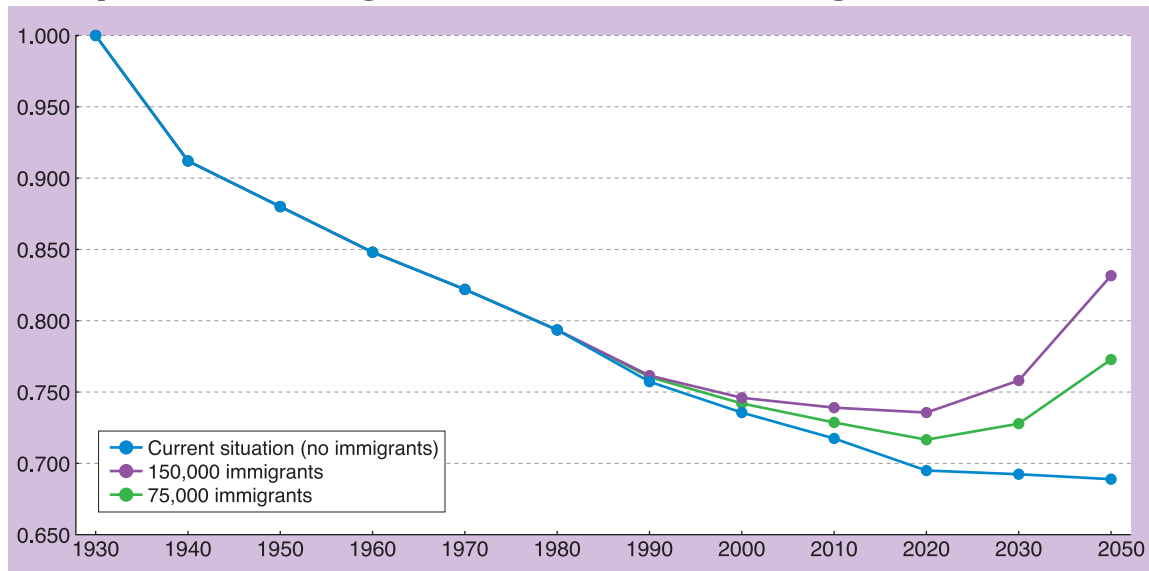
### Foreign Labor Inflow Brings Long-term Benefits to Public Finance & Economic Growth

As noted above, the expanded acceptance of foreign workers entails the possibility of invigorating the Japanese economy. Rather, the problem lies in the case in which immigrant workers' stay in Japan is prolonged with some of them even calling their families from their home countries. This raises the question of "social integration" – that is, to what extent various rights, guaranteed to Japanese nationals, should be meted out to foreign workers to integrate them into Japanese society.

However, such social integration has also a number of merits. For

CHART 2

### Acceptance of immigrants & benefits for each generation



Source: Compiled by this writer and others. The horizontal axis denotes each generation's year of birth, and the vertical axis indicates the lifetime benefits of each generation in terms of 1.000 for the lifetime benefits of the generation born in 1930.

instance, it will lessen the Japanese people's burden of supporting the public pension system and contribute to augmenting tax revenues and consumption. At a time when people capable of supporting the pension and medical care systems are diminishing owing to fewer children and more aged people, young foreign workers can be expected to play a supplementary role in the short perspective. In the long perspective, however, they could turn into a minus factor. Namely, when immigrant workers retire from the labor market, they will become the recipients of pensions, thus bringing heavy pressure to bear upon the future public finance and social security.

Therefore, I undertook joint research with Associate Prof. Manabu Shimasawa of Akita University and we calculated the benefits of each generation of the Japanese population in two cases – that is, (1) the annual acceptance of 150,000 foreign workers from 2015 and (2) the annual acceptance of 75,000 foreign workers from the same year. The “benefits,” mentioned here, represent a sense of satisfaction each generation will gain from their lifetime consumption, among others, on the basis of their lifetime wages (take-home pay after deducting taxes and insurance premiums, plus pensions). The result of such trial calculations is indicated by *Chart 2*.

It is clear from this chart that the benefits to be enjoyed by each generation in and after 1980 will be improved by the acceptance of foreign workers since the burdens of taxes and insurance premiums will decline while consumption will increase. That is, this analysis shows that as a result of the permanent acceptance of foreign workers, the aforementioned merits will more than offset demerits, contributing to both public finance and economic growth in the long-term perspective as well.

### Study “Japanese Version of Foreign Manpower Use”

Be that as it may, Japan's public finance and economy are, without doubt, heading for balanced contraction because of the sagging birthrate and the graying population. As a consequence, tragically dismal sentiment prevails among the public, and the exploration of ways for survival is all the whole nation can do at present. Such loss of composure has made it impossible to think about the future of Japan from the long-term perspective. Japan, the long-time holder of the No.2 position in GDP, has now been outstripped by China. If things go on like this, the Japanese economy is highly likely to stagnate in the medium- and long-term perspective.

It goes without saying that the resuscitation of public finance and social security and the pursuit of growth strategy constitute the royal road to reform. The active use of foreign labor entails the possibility of contributing to both of them, enabling the nation to look forward to promoting the “the homeward return” of Japanese enterprises, currently based in foreign countries, and consequently arousing related demand in varied ways. Now is the time to undertake the earliest possible discussion on, among others, how best to make active use of foreign labor while taking account of possible benefits for future generations as well, and thereby to carry out a sweeping reform. **JS**

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