

Interview with Toshiaki Tachibanaki, a distinguished economist and expert on the economics of income distribution in Japan

# I ncome Inequality over the Past Two Decades

By Japan SPOTLIGHT

Dr. Toshiaki Tachibanaki is a distinguished Japanese economist who started thinking about the issue of income inequality in Japan almost two decades ago when most Japanese believed that Japan was the most egalitarian society. He has given his attention to this issue for longer than any other Japanese economist and has produced pioneering analyses of it. He has been a professor of economics at distinguished universities including Kyoto University and Doshisha University and is currently visiting professor at Kyoto Women's University.

**JS: How long have you been working on the issue of income inequality?**

**Tachibanaki:** It was almost 20 years ago that I mentioned in a book titled *Income Inequality in Japan* (Iwanami Publications, 1998) that Japanese society was developing an increasing income gap between the rich and the poor and its desired reputation of being the most egalitarian society in the world was gone. Looking back at my history of research and study on the Japanese economy, it was then that I started thinking about income inequality in Japan.

**JS: Nobody seems to have thought about income inequality in Japan before, so how was it that you started to?**

**Tachibanaki:** I took note of the increasing Gini coefficient that showed a rise in income inequality in Japan. My book published in 1998 gives this statistical evidence. It was certainly true that the Japanese Gini coefficient was gradually increasing at that time, though 30 or 40 years ago it was almost the same as those in Northern European countries which were then considered the most egalitarian.

**JS: Your major is economics. Would you say that economics is a study of income distribution in general?**

**Tachibanaki:** Yes. Certainly, Marxist economics would have that perception, since it was created as a theory to criticize what capitalists are doing in our economy. But I did not learn Marxist economics but



*Toshiaki Tachibanaki, visiting professor at Kyoto Women's University*

modern economics, in which the main interest has been how to raise growth rates and efficiency in an economy. The question of income inequality was only a secondary consideration. Therefore, when I started talking about income inequality, I was looked upon as an economist of the Marxist group, even though I learned modern economics in the United States. I was considered a minority in the school of modern economics and my competency as an authentic mainstream economist was subject to some skepticism.

**JS: It was exactly at the time of economic reform in Japan based upon neoliberalism that you published your book in 1998, wasn't it?**

**Tachibanaki:** Yes, it was. That is why I got a negative response from the neoclassical economists promoting the market-based economic reform.

## Characteristics of Japanese Income Inequality

**JS: Thomas Piketty, the French economist who wrote the popular book *Capital in the 21st Century*, defined the income disparity between the rich and the poor as the difference in the increasing speed between assets owned by the wealthy people and wages paid for labor. This is, I believe, based upon an analysis of Western economies. Do you think there would be any difference between the Japanese income gap and this Western income gap?**

**Tachibanaki:** Yes. In talking about income inequality, I believe we need three perspectives. The first is, like Piketty, to look at how wealthy people are getting more wealth. In this perspective, we look at only those people earning high incomes and with large assets. The second perspective is to look at poor people and analyze how many are suffering from serious poverty and how that poverty is becoming more serious. The third one is to look at the difference between the rich and the poor by paying attention to Gini coefficients. I think Piketty's analysis is consistent with the first perspective and saying that wealthy people are increasing in capitalist countries and bringing about an unprecedented income inequality at this moment. What I have been highlighting on Japanese income inequality is the increase in poor people, which is different from what Piketty is saying.

My motivation is based upon a statistical finding mentioned by the OECD that Japan has the second-highest relative poverty ratio following the US. It is defined as the percentage of the nation whose income is less than 50% of the median income of the nation. According to "Society at a Glance 2014 Highlights: JAPAN OECD Social Indicator 2014", relative poverty in Japan is 16.0% — the second-highest among major OECD nations. Though we have remarkably wealthy people in Japan as well, the percentage of those wealthy people is not as high as in the US.

**JS: How has relative poverty in Japan increased to such a high percentage? Do you think an increasing percentage of non-permanent employees is part of the reason?**

**Tachibanaki:** Yes, but there are other reasons as well. The most important reason is continuing deflation. For the so-called two lost decades, our economic growth has been very low and thus we have not been able to expect an increase in wages. Secondly, as you mentioned, Japanese business firms have increased the weight of their non-permanent employees as the recession has continued and become more serious than ever. The percentage of non-permanent employees to total employees excluding executives reached 37.1% in the second quarter of 2016, compared with 20% in 1990, according to a Labor Force Survey by the Statistics Bureau of the Japanese Ministry of Internal Affairs and Communications. The third reason is that the Japanese taxation and social welfare systems have not been so useful in correcting income disparities. In comparison with the welfare states of the European nations, our social welfare system such as pensions, healthcare and caregiving is far behind them and has not been working well in helping poor people get out of poverty. Fourthly, the income tax rate on high income earners is getting lowered to a little more than 40%, while it was 70-80% in the past. The expected income redistribution function of income tax, namely taking more tax from wealthy people and distributing it among the poor, does not work well today. Fifthly, our minimum wage is too low and lower than those in Europe. For all these reasons, I believe, the number of poor people is now increasing in Japan.

**JS: The income disparity in Japan seems to be diversified across a wide range of groups of people,**

**such as the aged, youth, women, single mothers, etc. Could you explain this diversification?**

**Tachibanaki:** This is an important point. In searching for the poor in Japan, we find three representative groups. One is the group of single elderly women who have lost their husbands and live alone. They are in the most miserable situation. The second is the group of single mothers who have divorced and are raising their kids by themselves — not unusual today in Japan. The third is the group of young people who cannot find jobs, though they want to work, or who can only find non-permanent ones. With the economy improving today, the third group of people are in a better situation, but the other two are still suffering from serious poverty.

**JS: There also seems to be a salient growing income gap between the rich and the poor among the elderly.**

**Tachibanaki:** Yes, there is unbelievable income inequality between wealthy aged people with billions in assets and poor ones without any assets.

**JS: How about children?**

**Tachibanaki:** I think poverty among kids should be attributed to the poverty of their parents. We should first of all help their poor parents.

## **Policies to Deal with Poverty**

**JS: What do you think about possible measures to reduce poverty? There could be a wide range of policies, including raising the minimum wage.**

**Tachibanaki:** The current Japanese government has just started mentioning about raising the minimum wage. I think this is a positive development. They are now thinking seriously about income inequality. It is truly a remarkable policy development. The government has also started talking about applying the same wages for the same job. This ought to lead to raising the wages of non-permanent employees.

**JS: In order to eliminate the causes of poverty, would economic growth be a solution?**

**Tachibanaki:** Yes, of course, economic growth would be good for poverty reduction. However, the Japanese have chosen to have fewer children and I think this would mean giving up economic growth. Today in Japan, we have been seeing a decrease in the number of births and this has resulted in labor shortages and also stagnant consumption growth among the young and middle aged. Such stagnation due to aging and the decline in the birth rate will mean that the nation has chosen no growth. So I believe it would be difficult to achieve 2% economic growth.

**JS: I think without 2% economic growth, if we increase social welfare expenditure to tackle poverty it could**



result in further expansion of the fiscal deficit, which has already reached an intolerable amount.

**Tachibanaki:** Yes, that is true. But I think we can allocate additional revenue by raising the consumption tax rate to boost social welfare. The notable merit of the consumption tax is that it would be collected widely and also thinly from among the whole nation. The current administration should raise this tax rate as scheduled in advance. In addition, I think we should raise taxes on wealthy people as well. Respecting wealthy people's incentive to work, the income tax rate on their earnings should not be prohibitively high, but we should raise it to around 60% and make it progressive as well.

**JS: How about raising inheritance tax?**

**Tachibanaki:** I agree with that. By raising inheritance tax, we would be able to correct inequalities inherited from the preceding generations. Once the hero of the Meiji Restoration, General Takamori Saigo, said, "We should not leave wealth to our children." I think that is true. Leaving wealth would not leave anything good but merely spoil our children.

**JS: What specific policy measures for strengthening the social welfare system do you think would be possible?**

**Tachibanaki:** Pensions, healthcare and caregiving would be the most important items to be consolidated. For example, among non-permanent workers, some are not working for sufficient hours to qualify them as recipients of social insurance. I think we should have a social insurance system covering all workers including non-permanent ones. We should also strengthen policies for supporting parents engaged in raising their children with measures such as child care allowances or providing more daycare facilities. However, I am a bit pessimistic about the Japanese, since I think today all Japanese are becoming selfish and would be reluctant to shoulder the burden of costs for such social welfare by themselves, though they know about the need to strengthen our social welfare system, in particular,

the need to spend more money to support raising children to stop depopulation.

**JS: There is strong opposition to a consumption tax hike among the public.**

**Tachibanaki:** You cannot say that because you yourself would not bear the burden of social welfare costs, someone else should. We need a national consensus that all the nation should bear the burden of social welfare expenditures. Otherwise, we cannot make progress in achieving a welfare state.

## Economic Growth by Reducing Income Inequality?

**JS: On another aspect of the relationship between economic growth and income inequality, do you think correction of income inequality by tax reform or social welfare system reform would encourage economic growth?**

**Tachibanaki:** Yes. The OECD has issued a report to that effect. In Japan, it seems to be still believed that reduced income inequality would lead to less economic growth. The assumption is that there would be nothing wrong if competent and hardworking people earn the highest income, as they would make a good contribution to economic growth. This can be partly true, but at this moment I believe raising the income of the poor would make a greater contribution to economic growth.

**JS: So without raising the income of poor people we cannot enhance the growth of personal consumption?**

**Tachibanaki:** Yes, that is correct. Raising poor people's income a little could lead to a higher increase in household consumption and that would lead to economic growth. The current government has also started to believe that raising the income of low-income people would lead to high economic growth, more so than increasing high-income people's income.

**JS: At this moment, unfortunately, the high profits of companies stemming from a pick-up in business are not being assigned to wage increases.**

**Tachibanaki:** Household consumption will not grow much without wage hikes. Since consumption accounts for more than 60% of total effective demand, we definitely need to increase it to achieve economic growth. Large business firms in Japan do not think about this and tend to keep their profits for internal reserves to prepare for future uncertainties and not to distribute them among their employees as wage increases.

**JS: In our policy discussions on economic welfare, the philosophy of pursuing only growth seems to be**

**rather outdated. Pursuing other values in our economic policies seems to be dominant.**

**Tachibanaki:** I have been continuing to say during this past decade that we should enjoy our lives not simply by pursuing economic growth. We do not have to be super rich to enjoy our pastimes. I enjoy watching baseball personally and love the Hanshin Tigers. By this, I am advocating that working hard is not the only value to be achieved in life.

**JS: That would probably bring us an increase in consumption and economic growth.**

**Tachibanaki:** Yes, of course. A baseball stadium full of spectators watching a game would contribute to growth of consumption.

## High Growth or Low Growth?

**JS: There is a strong conviction in METI that without economic growth we cannot achieve anything. This thought must have been inherited from the genes of the old boys at METI.**

**Tachibanaki:** I think METI people and Japanese businessmen are too preoccupied with memories of the glorious days when the Japanese economy enjoyed high growth. They are too eager to restore the glory they experienced in the past. But as I said, the Japanese chose not to aim for economic growth by accepting a society with a declining birth rate. So we should accept that reality and be happy with zero or little growth with our standard of living unchanged.

**JS: Would you say satisfaction with low growth would be good not only for reducing income inequality but also for amelioration of the global environment?**

**Tachibanaki:** Yes, that is correct. High economic growth would produce much more CO2 and thus be detrimental to the global environment. It would also require more energy resources and electricity and worsen global warming. But a low-growth economy would have an extremely positive impact upon energy and the environment.

**JS: In order to protect the environment, I think we will need a variety of new technologies such as development of renewable energy sources as a substitute for nuclear energy. To achieve this, we need more human resources and more funds. Without economic growth, how can we get those two?**

**Tachibanaki:** That is worth thinking about. Above all, we would certainly need competent engineers and workers to realize a secure welfare state. Japan will have no other choice but to enhance the quality of human resources. Human resources development as well as renewable energy sources development will be a key to achieving

sustainable economic growth. However, at this moment, the government's education expenditure's ratio to GDP is the lowest among OECD member countries. No matter how much economic growth a country may achieve, the key issue is how much the government will spend on high priority policy goals such as human resources development. This is truly crucial in thinking about the future of Japan.

How come the Japanese government has been so reluctant to increase expenditure on education? This is because there has been a dominant traditional view that parents should be responsible for bearing the burden of education costs for their children. In this situation, with the fixed income inequality in Japanese society today, only the children of rich families could have a good education and the children of poor families would have to give up pursuing advanced education. This could cause a decrease in competent human beings in the future, and that would be the worst thing for Japan.

## Other Points

**JS: On a different note, innovation will be a key to achieving a strong and sustainable economy. However, the new technologies such as Artificial Intelligence (AI) or the Internet of Things (IoT) could overhaul our world in the near future and may reduce job opportunities for the non-skilled workers to be replaced by those machines, and thus increase income inequality between non-skilled and skilled workers. What do you think about this?**

**Tachibanaki:** People who worry about this would think that only the smartest people working on developing such highly advanced technologies could earn high incomes, while ordinary workers would have to work for lower wages under the direction of AI. So they would believe that as AI prevails, income inequality will spread. I cannot say anything clear about this, since I am not an expert on technology. But I guess this would be a very long-term issue that could not be fixed within a few years.

**JS: Would it be possible to prevent new income inequality by enhancing the education system? If everybody is given an opportunity to be well educated to adjust to new technologies, all of us could enjoy the fruits of innovation, namely new job opportunities created by new technologies and the economic growth brought about by them. In this way we may be successful in reducing income inequality by innovation.**

**Tachibanaki:** That would be the best scenario. I hope it will be realized. Yes, there is a possibility this could be achieved by raising the level of education for all, not only for the best and brightest but for everyone. **JS**

*Written with the cooperation of Naoko Sakai who is a freelance writer.*