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Has the Government Lowered Hours Worked? the Evidence from Japan

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Abstract

Why did hours of work show a decreasing pattern in the postwar Japanese economy? This paper answers to this question in light of the changing pattern of government spending and tax-imposing behaviors. I construct and simulate a standard optimal growth model with the following key features: various taxes and subsidies. Our main findings are as follows. First, we quantitatively find that the increasing pattern of taxes on labor income played a crucial role to influence the declining pattern of hours worked in Japan. Second, consumption tax and subsidy have a limited role to explain the labor supply because they cancel out each other. Third, pension benefit may influence the retirement of 60s but has a minor effect on hours worked. Fourth, legal reduction of workweek length in 1990 can explain low level of hours worked since 1990. Fifth, the subsistence consumption can account for the slope of hours worked but cannot explain the long run level.

Keywords: marginal tax rate, subsidy, hours worked, pension benefit

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