Abstract

Fiscal sustainability is one of the most discussed policy issues in both the real economy and the academic world. This issue is particularly important after the increase in public debt during the Covid-19 pandemic. In this paper, we focus on the ratio of an economy's public debt to its output in order to explore the role of gender differences in labor market participation and its impacts on the economy's fiscal problems. We examine the effect of female labor supply on government debt by using Japanese data. By incorporating endogenously determined male and female labor choices into a standard growth model, this paper analyzes and measures the size of the fiscal burden and consequent tax requirement to stabilize the government debt. When fiscal sustainability is achieved solely by reducing government transfers (such as pensions), we find that people need to reduce their consumption by the order of 30-40% for about 30 years. If fiscal sustainability is achieved solely by raising the tax rate, our consumption tax adjustment experiments show that, the required tax rate can be as high as to 73% and last for more than 50 years. In the latter case, if we increase the female labor supply by 10%, the required tax rate can be reduced by 4%.

Keywords: Government Debt and Fiscal Sustainability, Female Labor Participation, Market and Home Labor, Growth Model, Japanese Economy.

JEL Classification Numbers: H60, J16, J21, J22, O40.