

Consideration of Keys to Solving Problems in Long-Term Fiscal Policy through Laboratory Research

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* Views on this paper are my own.

Profile

1. Government

Ministry of Finance

Summer 2021- Embassy of Japan in USA

2. Intergenerational issue (Today)

3. Distributive justice

Luck egalitarianism and social safety net

Health economics

4. Democracy and economics

Today' s topic

* Finding the ways to solving
confits of interests among generations
(Intergenerational Issue)

+ meaning of “ways”

No. Pigovian tax (carbon tax)

Yes. How the present generation to introduce Pigvian tax
(dominant in democratic procedures)

→ Necessity of internalize the harm on future generations
in decision making by the present generation

→ 1). Deliberation among present generation
2). Deliberation with the representative of future generation

Today' s topic

- * the representative of future generations

Imaginary Future Generations (IFGs)

people instructed to pretend to be future generations

Tradition of Iroquois (Native American)

Saijyo (2020), Kamiyo et al. (2017)

Today' s topic

Taking long-term fiscal policy as an example, we will conduct experiments and present keys to be considered in policy making involving multiple generations.

In particular, examine the functions of

- Deliberation among present generation (PG)
- Deliberation with IFG

Hypothesis: Taking brings about good conclusions...

Question (Fiscal Policy 1, 2)

Information of personal burden

	Fiscal policy 1 (FP1)		Fiscal policy 2 (FP2)
	2016–2045	2046–	2016–
<u>VAT</u>	<u>10%</u>	<u>25%</u>	<u>20%</u>
Income tax	20%	30%	25%
Social security premium (monthly)	40,000 JPY	60,000 JPY	50,000 JPY
Individual payment of medical expenses	30%	35%	35%
Pension benefits (monthly)	100,000 JPY	50,000 JPY	70,000 JPY
Example of personal burdens (monthly)			
VAT	15,000 JPY	37,500 JPY	30,000 JPY
Income tax	60,000 JPY	90,000 JPY	75,000 JPY
Social security premium	40,000 JPY	60,000 JPY	50,000 JPY
Medical expenses	3,000 JPY	3,500 JPY	3,500 JPY
Disposable income (monthly; nominal earnings 300,000 JPY)	180,000 JPY	110,000 JPY	140,000 JPY

Procedures

- Ask individual subjects, FP 1 or FP 2.

(individual selection)

- Deliberation by three, then group decision.

In deliberation, at some groups, instructions are given to one of the three to be IFG.

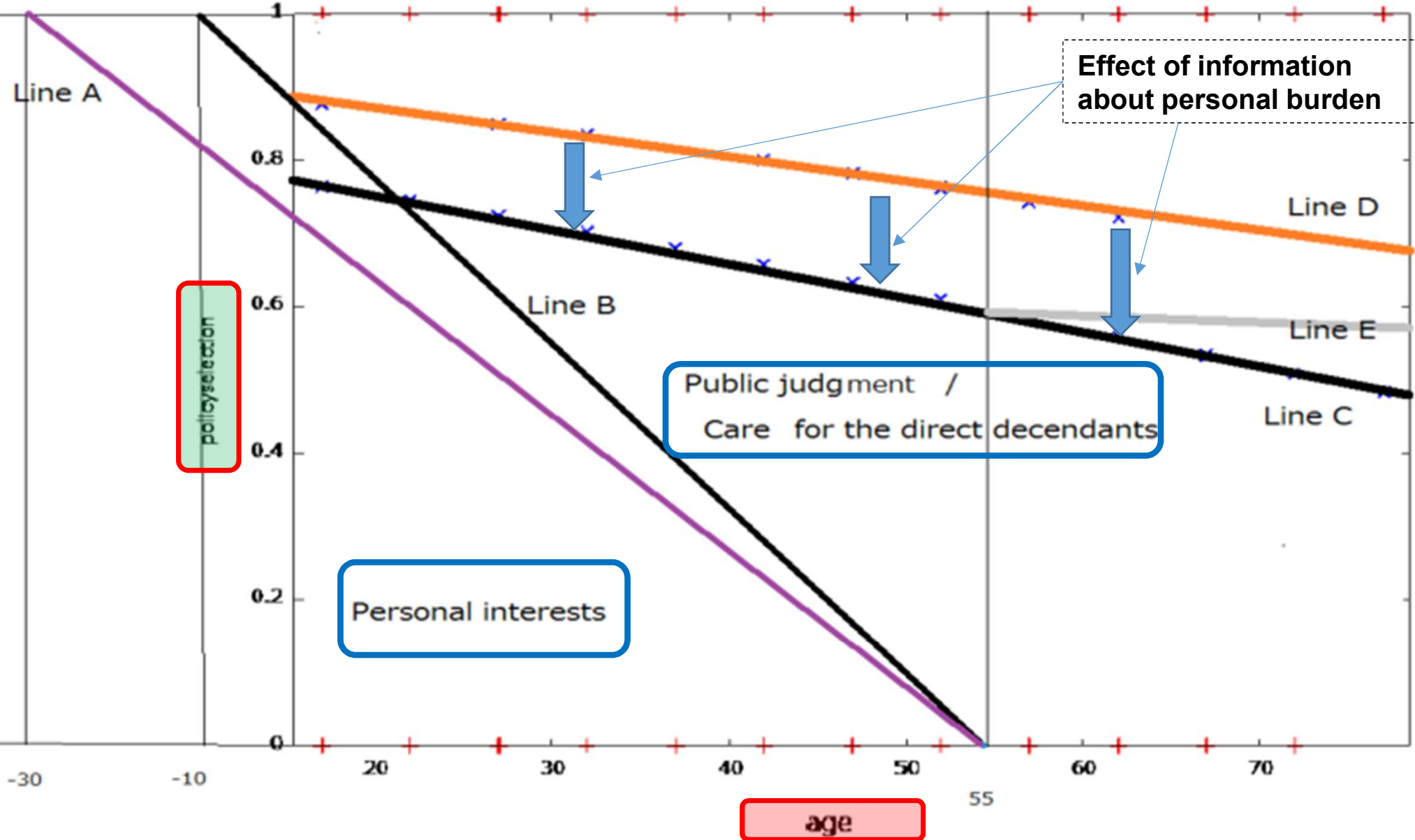
Results

1. Individual selections

2. Group decisions

Individual selections

Relationship between **support of FP 2** and **age**



Individual selections

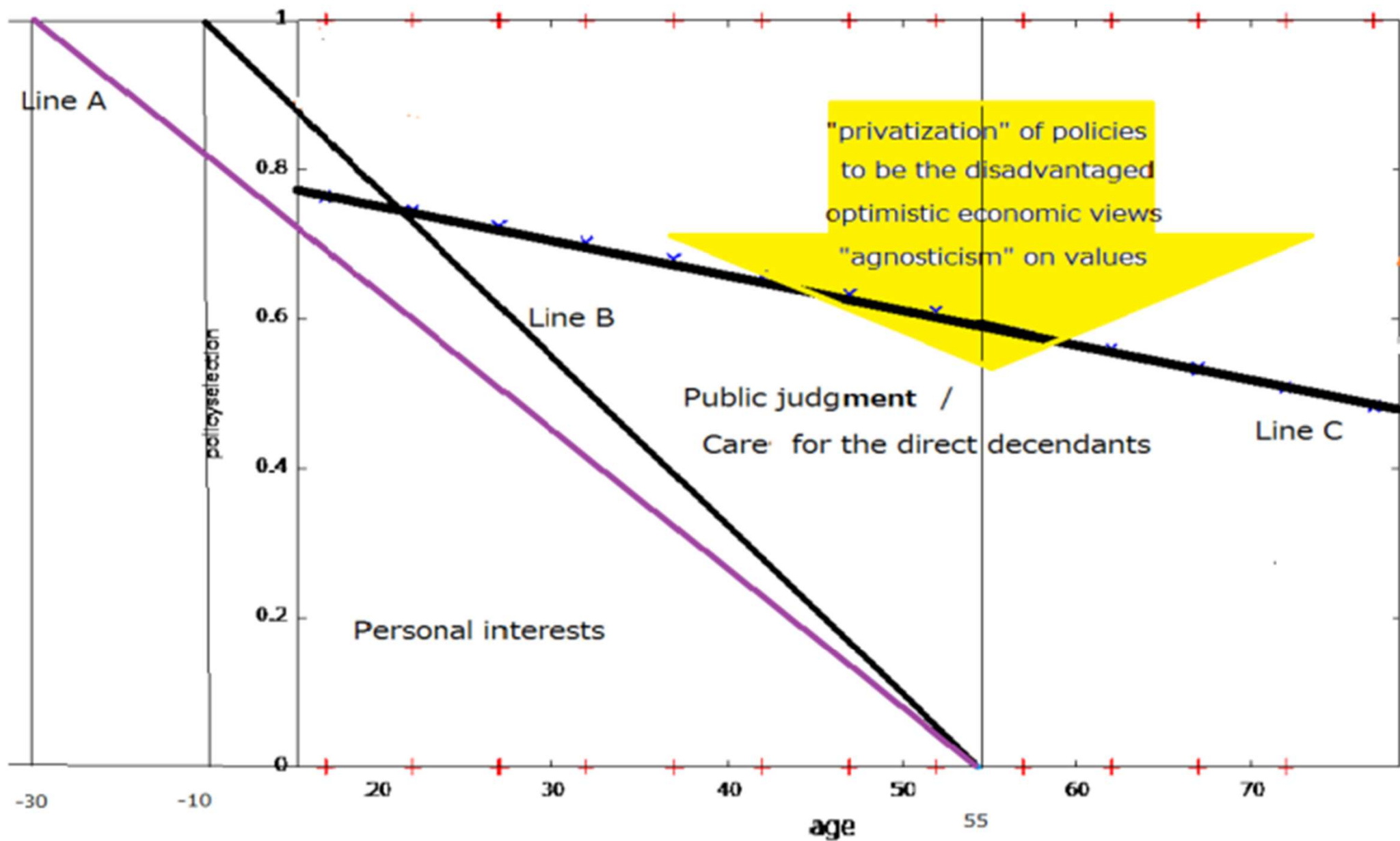
1. “Gray democracy theory” is overemphasized.
 - Judgement apart from individual interests
 - Concerns about the afterlife



2. Provision of information about personal burden decreases support of FP 2.

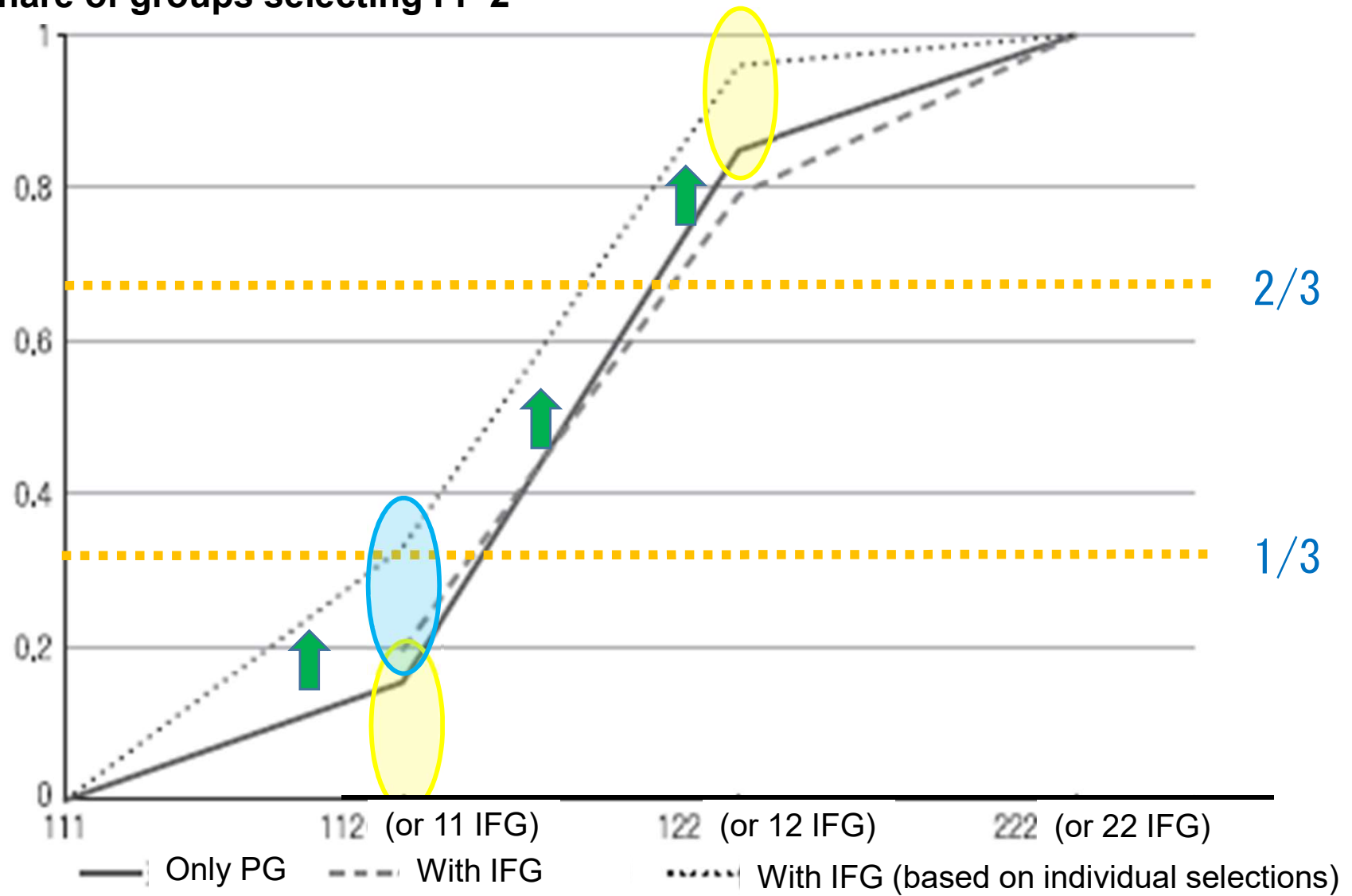
Privatization of public policy

Individual selection



Group decisions

Share of groups selecting FP 2



Group decisions

1. The pre-deliberative majority is not always a group decision. \Rightarrow Deliberation matters.

2. Deliberation does not always facilitate FP 2 decisions.

Disappointing!

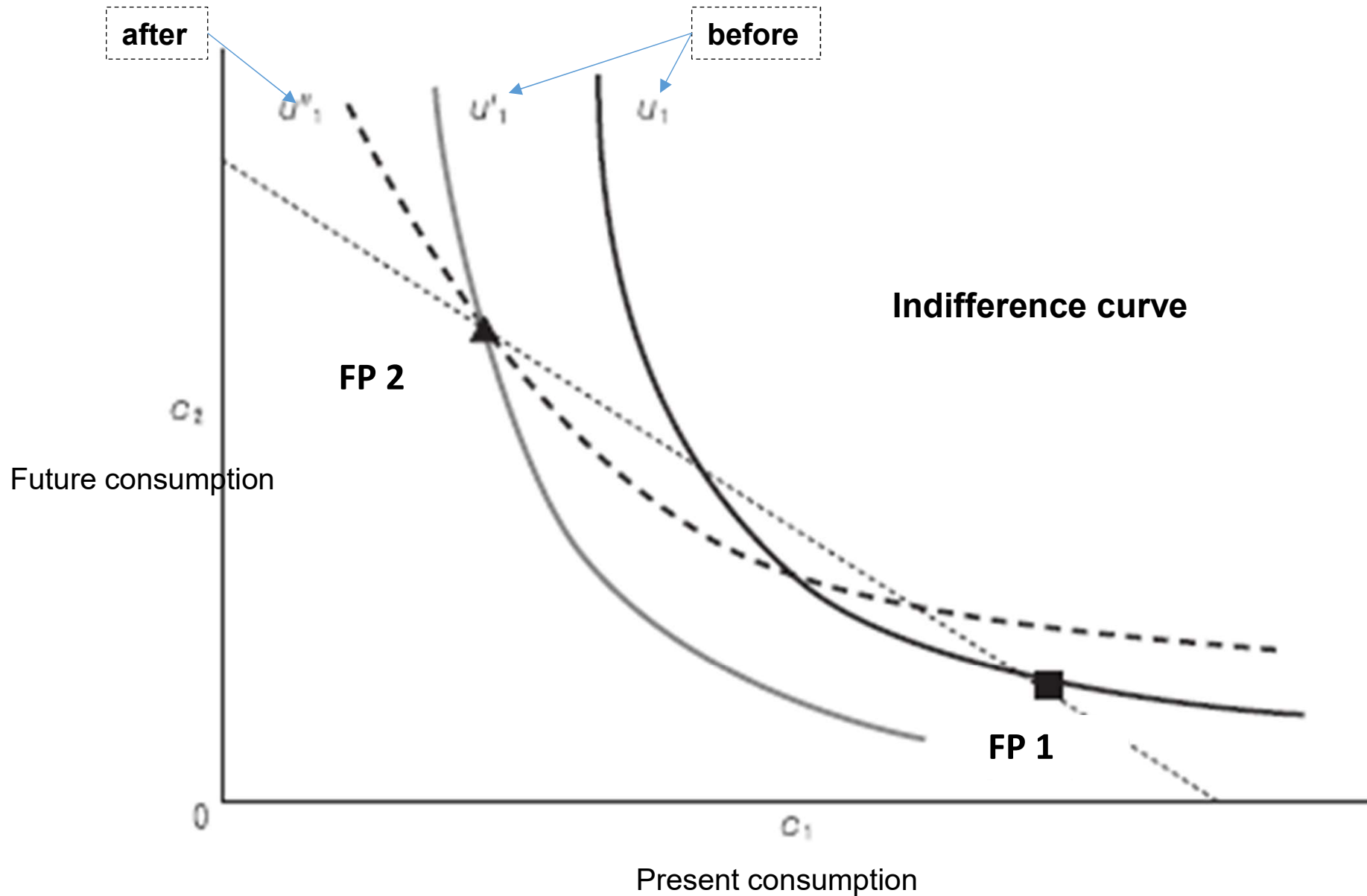
3. The introduction of the IFG encourages the decision of FP 2 through the change in the weight of opinions put into the process of deliberation.

Deliberation and individual opinions

Table 7 Participants who changed their opinions through opinion exchange

	Persons (①)	People who changed their opinions(②)	②/① (%)
Those who selected FP1 before opinion exchange	111 people	39 people (<u>Changed FP1 → FP2</u>)	35.1
Those who selected FP2 before opinion exchange	271 people	21 people (<u>Changed FP2 → FP1</u>)	7.7

Transformation of indifference curve (change in preference)



Opponents of those who change their opinions through deliberation

Table 9 Opponents of those who changed their opinions through opinion exchange

	Adaptive opinion change			Others		
Composition of opponents	2, 2	IFG, 2	2, 2, 1	2, 1	IFG, 1	1, 1
<u>People who changed FP1 → FP2</u> (39 people)	15 people	12 people	4 people	5 people	2 people	1 person
	Adaptive opinion change	Others				
Composition of opponents	1, 1	1, 2	1, IFG	1, 2, 2	2, IFG	2
<u>People who changed FP2 → FP1</u> (21 people)	7 people	6 people	3 people	2 people	2 people	1 person

“For example, “2, 1” means one supporter of FP2 and one supporter of FP1”

“Adaptive opinion change” means the adaptive opinion change to the majority of the group opponents

- Many of those who changed their opinion from FP 1 to FP 2 are simply adaptive.
- In the change from FP 2 to FP 1, there are conspicuous examples persuaded by a small number (i.e., one).

* Deliberation (rather) encourages choices that suit their individual interests!

Logic to encourage change of opinion to FP 1

Top 3

1. Depending on future population, economy, and science & technology, the future would be better than what is expected now.
2. Considering future generations is not productive, because it is not knowable what future generations will value nor what they will really want.
3. Considering my own life, a significant increase of burden after 30 years would be a major blow.

Seven keys to solving long-term fiscal problems

1) Basing the discussion on the trade-of between benefits and burdens is crucial

e. g. , pay as you go

2) There is a need for a mechanism to guide judgments that depart from personal interests. Deliberation has the power to change people's opinions, but mere deliberation does not prevail in judgments that depart from personal interests. A mechanism is needed to represent the interests of future generations that are not represented in the conventionally democratic & deliberative forum.

3) Persuading to support sustainable policies based on individual interests is effective.

Seven keys to solving long-term fiscal problems

4) It should be noted that the younger generation does not necessarily represent the voices of future generations.

5) Understanding the “privatization” of public policies as a dilemma in democracy is critically important, and it is necessary to come up with measures to mitigate its influence.

→ Legally programmed execution of policies

6) Considering problems which the disadvantaged face is important.

7) Sharing appropriate economic views is necessary to justify calling for sustainable choices. It is necessary to understand that fiscal policies are not problems of values but resources.

Generalization

3) Persuading to support sustainable policies based on personal interests is effective.

⇒ The closer the time of damage will occur, the more persuasive it will be based on personal interests (how about the climate change problem?)

6) Considering problems which the disadvantaged face is important.

⇒ Carbon tax regressiveness, developing countries

7) Sharing appropriate economic views is necessary to justify calling for sustainable choices. It is necessary to understand that fiscal policies are not problems of values but resources.

⇒ IPCC

- * We found a way called deliberation that changes the preferences of the present generation, but even that deliberation is rather harmful if it is done only by the present generation.
- * Deliberation + (plus) is required, and this time, empirical evidence was presented regarding the usefulness of IFG.



Consideration of keys to solving problems in long-term fiscal policy through laboratory research

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Abstract

People tend to think only about their immediate benefits, as well as to be extremely optimistic. Coupled with changes of generations due to limited lifespan, this becomes a source of problems in long-term fiscal policy. The hypothesis of “silver democracy”, based on the rational voter hypothesis, argues that elderly voters prevent sustainable policy choices. It is therefore urgent to discuss how to design a policy decision framework which ensures that sustainable policies can be socially selected. In a democracy, as well as voting, the role of deliberation is emphasized. Assessing the effectiveness of deliberation in promoting sustainable policy decisions, which is called the hypothesis of “deliberative democracy”, is necessary.