

Childcare and Measures Targeting Japan's Low Birth Rate: What Effect Can the Decentralization of Authority Have on the Birth Rate?

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Abstract The belief exists that the concentration of Japan's population in Tokyo is responsible for the nation's low birth rate, and that this issue should therefore be addressed by means of regional revitalization. This belief is based on a misreading of the facts. It will be essential to put into effect measures targeting the low birth rate in the cities where the population is concentrated. We identify two reasons for the failure of measures targeting the low birth rate to make progress in Japan's major cities: (1) a time lag between population influxes and the provision of public funding for childcare, and (2) the fact that surrounding municipalities are able to enjoy a free ride on a specific municipality's expenditure on childcare due to a spillover effect.

Keywords Regional revitalization • Childrearing support measures • Low birth rate • Spillover effect • Waiting list problem • Model benefit • Voucher

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1 ENSURING EMPLOYMENT OPPORTUNITIES IS ESSENTIAL FOR MEASURES ADDRESSING THE DECLINING BIRTH RATE

The important thing to bear in mind when considering the appropriate direction for measures targeting Japan's low birth rate and the nation's regional revitalization initiatives is that measures targeting the birth rate implemented by local municipalities cannot, in isolation, boost the declining birth rate or arrest the declining population in Japan's regional areas.

From an economic perspective, the choice on the part of a married couple to have children can be considered a type of joint investment in a consumer durable. However, this consumer durable is a private good that cannot be bought or sold, and one for which the utility of consumption (the joy of raising a child) is available only to that couple. Childrearing entails considerable cost over an extended period, and, particularly in Japan, it is normal for the wife to stop working and devote herself exclusively to the task. If, during the period of childrearing when the wife's income is interrupted, there are fears regarding the possibility of the husband losing his job, or a significant risk of the breakdown of the marriage due to economic problems, a "hold-up problem" can arise. Such fears that the carpet may be pulled out from under a couple make the initial decision to have children a difficult one. In Japan, where marriage and children are often considered inextricably linked, this can result in indecision with regard to getting married at all.

From this perspective, what is essential for strategies to genuinely respond to Japan's low birth rate is not merely measures to support childrearing (provision of childcare, etc.), but also the guarantee of employment opportunities for married couples, allowing them to be confident in their ability to maintain a stable married life over the long term.

2 CONCENTRATION ON CITY-BASED MEASURES IS THE PRACTICAL APPROACH

The Masuda Report published in 2014 by the Japan Policy Council (Japan Policy Council, 2014) had a considerable impact on Japanese society due to its claim that the outflow of population from Japan's regional areas to large cities would increase, and that as many as half of the nation's small municipalities were at risk of disappearing. However, from an economic perspective, there are problems with the report's judgment that the concentration of population in Tokyo and the flow of population to major

cities is promoting an accelerating decline in the birth rate in Japan as a whole, and its insistence that it will be necessary to halt this movement of the population in order to address the issue of the nation's low birth rate.

As Hatta (2015a, b) makes clear, the preconceptions behind the Masuda Report—that the nation's population is excessively concentrated in Tokyo, and that the birth rate in the Greater Tokyo Area is lower than the birth rate in the nation's regional areas—are both factual errors. Therefore, even if we ensure that young people stay in regional areas from which employment opportunities are disappearing, or promote migration from large cities, the birth rate will not improve.

It is natural that young people will move from regional areas marked by declining populations and economic decline to large cities in search of employment opportunities. Because the concentration of population in major cities such as Greater Tokyo and the government-designated cities creates an agglomeration advantage, it is desirable as a growth strategy for the nation as a whole. Regional revitalization measures, such as diverting city tax revenues to regional areas or unreasonably attempting to halt the flow of population towards big cities, run counter to this natural economic principle. Not only would these measures not function as growth strategies, but they can also be considered as having little effect as measures to address the problem of the low birth rate.¹

Assuming that the flow of population to large cities is allowed to continue unimpeded, if measures to address the birth rate issue are necessary from a policy perspective, it would be considerably more practical to concentrate resources on measures put into effect in the cities. Naturally, if couples who move to the city desire a limited number of children, and a low birth rate results from their rational choice, excessive policy intervention would not be justified. However, if policies in the cities create obstacles that prevent couples from having their desired number of children, it would be necessary to correct this situation.

3 THE PROVISION OF MEASURES TO SUPPORT CHILDREARING IS LAGGING BEHIND URBAN POPULATION INCREASE

For example, in cities with a high degree of population influx, the provision of standard childrearing support measures is failing to keep pace with the continuously increasing population, and it is possible that this is

resulting in a reduced birth rate.² Figure 16.1 represents the relationship between the total fertility rate and the rate of population increase for government-designated cities and the Tokyo metropolitan area (the area covered by the 23 wards of Tokyo). Figure 16.1 shows a clear negative relationship between the two (coefficient of correlation: -0.38).

In other words, even in an individual city, the birth rate will decline as the rate of population increase becomes higher due to ongoing population influx. One reason for this is that the resources necessary for childrearing support measures do not keep pace with the population increase. From the policy perspective, there is scope for the realization of improvement in this area, and in fact measures implemented here could be expected to be effective in addressing the low birth rate.³ For example, national tax grants to local governments are calculated based on the situation two years

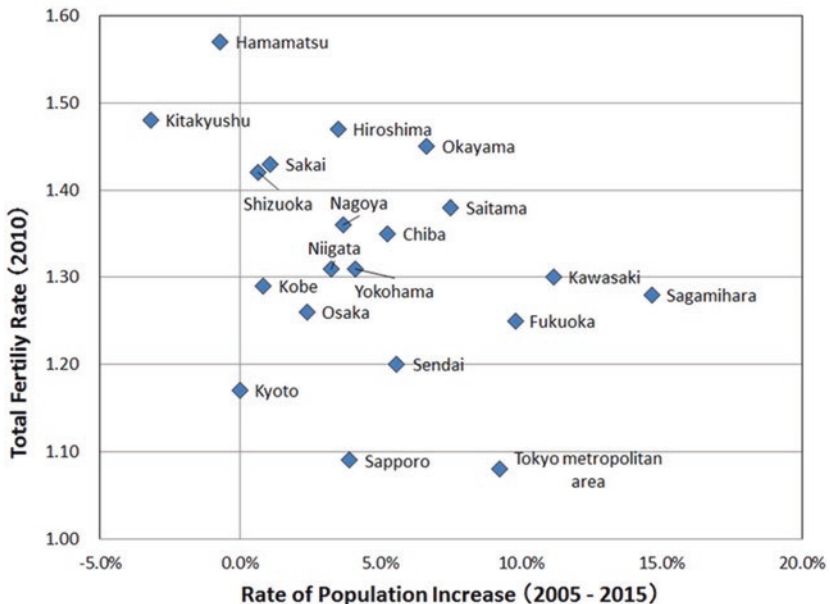


Fig. 16.1 Relationship between total fertility rate and rate of population increase in government-designated cities and the Tokyo metropolitan area. Source: Ministry of Health, Labour and Welfare, Vital Statistics (2010), Ministry of Internal Affairs and Communications, National Census (Various years)

previously. If a projected figure for the grant amount in the area of childrearing support were calculated for the present fiscal year, it would be possible to avoid any lag in the securing of fiscal resources for childrearing support.

4 EXTERNALITIES OF MEASURES TO RESPOND TO CHILDCARE WAITING LISTS

In addition, because childrearing support measures in cities with growing populations have externalities, measures in each municipality are under-supplied. For example, the problem of the waiting list for nursery schools is becoming severe in the Tokyo metropolitan area and government-designated cities. If a municipality were to actively institute measures to alleviate the problem while measures were not being advanced in other municipalities, then the surrounding municipalities might enjoy a free ride, and this is one factor that can be pointed to as lying behind this problem.

In the event that municipalities construct new licensed nursery schools, they are left with enormous financial burdens for operating expenses and other costs.⁴ The construction of a new licensed nursery school will immediately attract an influx of families raising children from surrounding municipalities in which the waiting list problem is severe, and the municipality will find itself back at square one, despite its expenditure of public funds on new construction. Given this, municipalities adopt a passive stance in relation to measures to address the wait for nursery schools, because they seek to take a free ride (or they do not wish to attract free riders). The same structural problems can be considered to affect childrearing support measures other than measures targeting the waiting list problem, fiscal expenditure on compulsory elementary and junior high school education, and after-school care.

Because of this, many municipalities give low scores to families moving from other municipalities in deciding on applications for entry to licensed nursery schools, offering preferential treatment to applicants who are longer-term residents of their own municipality. There are also examples, such as Setagaya Ward and Sugunami Ward in Tokyo, of municipalities which, despite the severity of the waiting list problem, independently establish additional standards far in advance of the minimum government standards for licensed nursery schools (standards for facility area and standards for

nursery school teachers), and offer preferential treatment to residents, who inherently possess easier access to licensed nursery schools (Suzuki 2014). Because of the severity of the waiting list problem, the excessive independent measures for the reduction and mitigation of childcare fees implemented by many municipalities in Tokyo also make it difficult for families raising children to move from other municipalities.

Some municipalities, such as Tokyo's Koto Ward, are also limiting the construction of new apartment complexes, in an attempt to prevent an influx of population which would increase childcare and education costs. These distortions of the system interfere with the freedom of individuals to choose where they live. In the sense that they impede the agglomeration advantage, they are also examples of misplaced priorities from the perspective of growth strategy. The following measures can be considered as means of correcting these systemic distortions.

5 TOWARDS THE INTRODUCTION OF "MODEL BENEFITS" FOR CHILDREARING

The first method would be the implementation of coordination across a wide area, straddling multiple municipalities. For example, because the wards of Yokohama City, unlike Tokyo's wards, are only administrative districts, they are unable to use their own discretion in relation to childcare measures. Because of this, if the Yokohama City mayor, at the top of the city administration, makes the appropriate decision, it is possible to introduce measures to upgrade and expand childcare across all the city's wards. This is a type of coordination of measures across a wide area, and it avoids the problem of externalities that arises when wards are able to act independently and at their own discretion. Yokohama City is famous for having reduced the number of children waiting to enter childcare to zero in 2013 under the leadership of Mayor Fumiko Hayashi, after recording the worst figures in the country in 2010. It can be considered that the ability to roll out measures across a wide area, not possible in Tokyo, lies behind this success.

The second method of correcting systemic distortion would be to introduce a method similar to the *jushochi tokurei* system applied in nursing care insurance to childcare support measures.⁵ Specifically, this would mean a system whereby expenses for the provision of childrearing support in the municipality to which a family moves would be borne by the

municipality from which the family has moved. This would make free riding impossible, and all municipalities would therefore implement childrearing support measures without hesitation. There would also be no lag in resources provision. However, using this method, it would be difficult to compel municipalities to bear the burden of subsidizing the construction of childcare facilities in addition to their operating expenses. In addition, complex adjustment of the system would be necessary in responding to households for which moving would be troublesome, for example due to the necessity for job relocation.

The third and most radical method would be to establish a system in which the government pays a “model benefit” for childcare support to each municipality, as proposed by Hatta (2015b) as a reform of the National Health Insurance system. This would entail the government providing to municipalities the full basic necessary amount (i.e., the model benefit) for the minimum standard of childcare and education that should be guaranteed by the government. The expense of establishing facilities, in addition to facility operating expenses, would be calculated in the model benefit for each child, and provided to the municipality. Because this method would reduce the burden on municipalities for standard childcare measures to zero, it would enable the problem of insufficient supply to be avoided. It would be possible to provide an amount estimated to ensure that there were no lag in resources, and adjust any excess or shortfall the following year.

Naturally, there would be an additional burden of expense on municipalities which sought to implement measures in excess of the basic standard. But in the case of municipalities making up cities, for which the influx of population would produce economies of scale enabling childcare support measures to be provided more cheaply than the standard amount, a fiscal surplus would be produced, and the amount of the surplus could be invested in further measures.

6 THE ISSUING OF VOUCHERS WOULD ALSO BE AN EFFECTIVE MEASURE

It would also be possible to provide such model benefits directly to households raising children, as government vouchers for operating expenses and facility upkeep, bypassing the municipality. Because these subsidies would be carried with the childrearing households, municipalities would not

obstruct the movement of households; municipalities in urban areas which were able to tailor low-cost childrearing support measures through economies of scale would actually welcome an influx of childrearing households. The use of vouchers would spark competition between licensed childcare facilities, and between licensed and unlicensed childcare facilities. Market principles would increase the supply of childcare and correct the problem of disparities in subsidies between childrearing households, making this a measure that would radically reform the childcare industry as a whole.

In fact, there has been considerable progress over the last ten years in the transfer of funds for childrearing support measures, including childcare, to regional municipalities via the local allocation tax. However, with no significant improvement in the waiting lists for childcare in cities, municipalities in urban areas experiencing an influx of population can be considered to have faced two problems: (1) the inability of childrearing support measures to keep pace with population increase, due to factors including a lag in the provision of government subsidies; and (2) a tendency towards undersupply, due to the effect of externalities on childrearing support measures. Addressing these issues via methods such as the introduction of a model benefits system is the appropriate direction for the decentralization of government authority and measures targeting Japan's low birth rate. Rather than implementing measures with unknown outcomes, we should begin by correcting the distortions in the system.

NOTES

1. As already indicated, the choice to have children is initially made possible by an expectation on the part of the parents of long-term employment opportunities and lifestyle stability. The short-term distribution of tax revenues to regional areas will not readily change this situation. In addition, as the author has previously argued in detail (Hatta 2015a, b), whether improvement of the birth rate actually functions as a growth strategy is open to question. There is scope for discussion regarding whether the improvement of the birth rate is appropriate as a policy target.
2. To take an example, in relation to the childcare measures implemented by regional municipalities, because market failures are occurring in the market for female labor, a certain degree of investment of public funds can be justified (Hatta 2008, p. 326). Because it is known that externalities occur in the area of preschool education, a certain degree of investment of public funds is rational. Given this, the implementation by municipalities of standard

basic childrearing support measures and measures to address the low birth rate can be justified economically.

3. This is to say that if the standard of the childrearing support measures implemented by cities of this type had been equivalent to that of other municipalities, the birth rate would have been higher. If policy obstacles result in couples producing fewer than their desired number of children, the correction of these policies would generate immediate results. Of course, it is also possible that other factors result in low birth rates in municipalities with a high rate of population influx, for example the higher cost of land and the lower amount of living space per household. In this case, there would be little scope to increase the birth rate by means of improvements in childrearing support measures.
4. For example, Itabashi Ward, an average municipality in the Tokyo metropolitan area, shoulders 74.2% of the burden of operating expenses for licensed childcare facilities. Parents cover 10.6%, the government funds 8.3%, the city funds 4.1%, and 2.7% is sourced elsewhere (Financial statements for FY 2014: Ratio of financial burden on parents). Theoretically, the government should provide half of the unit cost of childcare, and the city or prefecture a quarter. In practice, a variety of other expenses arise that must be covered by public expenditure, including supplementation of personnel costs for public childcare workers, the municipality's own reduction of childcare fees, and childcare fees for defaulters, with the result that 70–80% of operating expenses are covered by the municipality itself.
5. In the case of an insurance subscriber who moves from their original municipality to another because of a lack of special aged-care homes, the individual's expenses are paid by the nursing care insurance in the original municipality, and the individual pays insurance premiums to the original municipality. The same system is accepted in many nursing care facilities other than special aged-care homes.

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