

*Who Has to Pay More, Health Service Sectors, the  
Pharmaceutical Industry, or Future Generations? A  
Computable General Equilibrium Approach*

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# Who Has to Pay More, Health Service Sectors, the Pharmaceutical Industry, or Future Generations? A Computable General Equilibrium Approach

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## Abstract

This paper presents a computable general equilibrium (CGE) framework to numerically examine the effect of tax/subsidy reforms of health related sectors. The generalized framework with the latest Japanese input-output table of year 2005 with 108 different production sectors provides the following results: A 50 percent tax cut of the pharmaceutical industry, or a 50 percent subsidy increase for the hospitals sector induces a welfare gain of 95.6 billion or 72.3 billion Japanese yen, respectively, when the government budget is not balanced. However, such an unbalanced budget policy also generates new deficits of 9.26 billion and 5.58 billion Japanese yen, respectively. Even if the government budget is balanced, welfare enhancing reforms are still possible but only with sacrifices of the pharmaceutical industry. If the pharmaceutical industry is also compensated with the balanced budget, then welfare enhancing reforms only within health related sectors seem implausible. While the best reform with a compensation policy results in a welfare gain of 61 billion Japanese yen, such a reform still generates deficits of 4.4 billion Japanese yen. If the government tries to minimize deficits with a compensation policy, then deficits can be reduced to 0.62 billion Japanese yen, but a welfare gain completely vanishes.

**Keywords:** Computable General Equilibrium (CGE) Model, Tax Reform, Health, Pharmaceutical Industry, Taxation, Subsidy, Simulation

**JEL Classification:** C68, H51, and H53

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# 1 Introduction

This paper examines the effect of tax reforms of health service sectors and the pharmaceutical industry within a computable general equilibrium (CGE) framework<sup>1</sup>.

Rapid population aging in Japan urges the Japanese government to reform the public pension scheme and public health services. The Japanese government has been taxing and subsidizing health service sectors and the pharmaceutical industry, and population aging would also make the government to get more concerned with the current tax and subsidy policy for health service sectors and the pharmaceutical industry in the near future.

A tax reform or changes in tax and/or subsidy rates of health related sectors obviously involve a very touchy subject: Which sector or industry would gain and suffer from the reform, and how much would a gain and/or a loss be? This paper tries to answer this question by using the latest Input-Output table of Japan of year 2005 with 108 different production sectors within a static computable general equilibrium framework. The main concern of this paper is to explore the effect of several tax and subsidy policies for health related sectors based on economic efficiency in comparison with the current economy, and this paper tries to numerically examine the effect of piecemeal reform policies in economic efficiency, rather than to numerically present the optimal tax rates, in a CGE framework.

The pharmaceutical industry and other three health service sectors including hospitals, nursing care services, and the long-term care for the elderly are particularly considered in this paper. Since a general equilibrium model is employed, all possible linkages of economic activities are taken into account, and the effect of any change in a tax and/or subsidy rate for a health service sector on the whole economy as well as all other health service sectors can be explored. By using the actual input-output table in order to specify parameter values, the paper has successfully realized the real Japanese economy within the model, and all scenario policies can be examined in comparison with the successfully made benchmark case. Another purpose of this paper is also to develop a general framework to numerically explore several

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<sup>1</sup>FORTRAN programmes have been used for the numerical calculation in this paper.

government policies related to health care services, and it is thus applicable to any other countries, although the Japanese input-output table has been used in this paper.

As Lipsey and Lancaster (1956) pointed out, any policy change towards the first best outcome does necessarily not improve welfare if any of the conditions for the first best outcome is not fulfilled. This implies it is possible to result in a welfare loss even when tax burdens on a sector are reduced in a second best situation. Furthermore, if the reduction of tax burdens is followed by an increase in another tax in order to fulfil the budget constraint of the government, the overall effect on welfare of the whole economy becomes more complicated, and the overall effect is usually identified by using a numerical model. In fact, several taxes and subsidies have already existed in our real economy, and the effect of any tax reforms on welfare should be investigated under the assumption of second best<sup>2</sup>. While the optimal taxation theory presented several polished formulas with respect to the optimal conditions of commodity tax and direct tax rates, it was criticized by Feldstein (1976) in a sense that it is not realistic, since the reform in order to satisfy optimal conditions is nearly implausible in a real economy<sup>3</sup>. Then, the literature called the marginal tax reform has emerged, in which the effect of tax reforms on efficiency as well as equity is considered under a more realistic assumption, namely the condition that it is impossible to completely abolish the current tax system. The literature considers the marginal or piecemeal tax reforms from the current situation<sup>4</sup>.

This paper can be categorized in the literature of the marginal tax reform in a sense

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<sup>2</sup>Excellent theoretical contributions include Foster and Sonnenschein (1970), Bertrand and Vanek (1971), and Hatta (1977). See also Fukushima (1993), which summarizes the literature.

<sup>3</sup>See also Salanie (2003) for the discussion. Regarding the optimal taxation theory itself, Atkinson and Stiglitz (1980) is still an excellent book. See also Fukushima (1993), which elegantly summarizes the theory by the duality approach. On the numerical calculation of optimal tax rates based on a rigorous economic model, see Atkinson and Stiglitz (1972), and Fukushima and Hatta (1989) for the commodity tax rate, and Stern (1976) for the linear income tax rate. On the Japanese case, Kaneko and Tajika (1989), Oshio (1990), Murasawa, Yuda, and Iwamoto (2005), and Asano and Fukushima (2006) empirically calculate the optimal rates.

<sup>4</sup>The marginal tax reform literature includes Ahmad and Stern (1984), Decoster and Shokkaert (1990), Madden (1995), Makdissi and Wodon (2002), Ray (1997), Ray (1999), Santoro (2007), Yitzhaki and Slemrod (1991), and Yitzhaki and Thirsk (1990). Santoro (2007) surveys the literature. See also Oshio (2010) for a brief introduction of the literature.

that the current tax and subsidy scheme is taken as given so that the effect of several scenario policies on welfare is investigated in comparison with the current welfare level. However, rather than conventional indicators to measure the welfare effect, this paper directly calculates equivalent variation of each of scenario policies based on the current welfare level. This is because the main concern of this paper is not only to rank several policies by efficiency, but also to numerically present the financial value of the welfare effect caused by a policy change. Since the main purpose of this paper is concerned with financial calculation of the welfare cost of tax reforms of health related sectors, the equity concern is ignored, and thus the assumption of a representative consumer is employed for simplicity.

Simulation results are as follows. First of all, since the pharmaceutical industry has currently been taxed most heavily among all considered health related sectors, the reduction of its net tax rate achieves the highest welfare gain. When its net tax rate is reduced by 50% from the current level, a welfare gain is estimated to be around 95.6 billion Japanese yen when the budget constraint of the government is not considered explicitly. No consideration of the current budget constraint implies that the government can freely reduce the net tax rate of the pharmaceutical industry without fulfilling its current budget constraint. This also implies that the reduction of the net tax rate of the pharmaceutical industry should be followed by a decrease in the total revenue, and such a reform generates new deficits of 9.26 billion Japanese yen, if the government maintains its expenditure level unchanged. If the deficits are financed by issuing government bonds, the deficits of 9.26 billion Japanese yen is paid by future generations. Secondly, since the size of economic activities of the hospitals sector is the largest among all considered health related sectors and its net tax rate is negative (subsidized in the net value), an increase in its net 'subsidy' rate achieves the second largest improvement in welfare if the budget constraint is not taken into account explicitly. A 50% increase in the net subsidy rate of the hospitals sector from the current level results in a welfare gain of 72.3 billion Japanese yen. Such a reform also generates new deficits of 5.58 billion Japanese yen. Thirdly, the welfare gains are more than 10 times

as much as newly generated deficits in these two policies. Fourthly, the pharmaceutical industry highly depends on the hospitals sector, so that it obtains benefits not only from the reduction of its own net tax but also from an increase in the subsidy to the hospitals sector. Fifthly, even if the budget constraint of the government is explicitly considered, welfare enhancing reforms are still plausible by adjusting distortionary tax/subsidy rates. The government can indeed improve welfare of the whole economy with its balanced budget, but any welfare enhancing reform always generates sacrifices of the pharmaceutical industry; reduced income of the pharmaceutical industry. Sixthly, furthermore, any welfare enhancing policy involves an increase in the tax on the pharmaceutical industry. The reduction of the tax on the pharmaceutical industry with the balanced budget always induces a welfare loss. This implies that as long as a reform to favor the health related sectors is followed by a heavier tax on the pharmaceutical industry with the balanced budget, such a reform can always improve welfare. An increase in the subsidy to the hospitals sector financed by an increase in the tax on the pharmaceutical industry always induces the best outcome in terms of the effect on welfare. A welfare gain by a 50 increase in the subsidy to the hospitals sector financed by an increase in the tax on the pharmaceutical industry is estimated to be 22.2 billion Japanese yen, but the net tax rate of the pharmaceutical industry should increase by 3.44 % from the current level, and it is also estimated that income of the pharmaceutical industry unavoidably decreases by 0.576% from the current level. Finally, if the government tries to compensate the pharmaceutical industry by maintaining its income unchanged within its balanced budget, then welfare enhancing reforms only within health related sectors seem implausible. While the best reform with a compensation policy for the pharmaceutical industry results in a welfare gain of 61 billion Japanese yen, such a reform still generates deficits of 4.4 billion Japanese yen, and thus the government budget cannot be balanced. If the government tries to minimize deficits and it still compensates the pharmaceutical industry, then the government can reduce deficits to 0.62 billion (620 million) Japanese yen by increasing a nondistortionary wage income tax rate. However, a welfare gain to the

current economy completely vanishes, and thus no welfare gain can be obtained, while only income of the hospitals sector increases.

These simulation results imply that some particular sectors of the current economy have to suffer from reforms if the government budget is balanced. If the government is quite concerned with economic efficiency, then the pharmaceutical industry has to suffer in exchange for a welfare gain *and* increasing income of the hospitals sector. In this case the government can implement such a policy without generating any deficit. However, if the government also tries to offset the negative effect on the pharmaceutical industry, then there should be a trade-off between a welfare gain and new deficits. If deficits are financed by issuing government bonds, then future generations have to suffer from new deficits, and the trade-off could be interpreted as that between current generations and future generations. If the government is still concerned with economy efficiency of the current economy with a compensation policy for the pharmaceutical industry, more deficits cannot be avoidable. To the extent how much future generations have to suffer from new deficits obviously depends on how much the government is concerned with economic efficiency of the current economy. If the government tries to minimize deficits, then a welfare gain to the current economy should be reduced. As the extreme case, the government can reduce deficits to 0.62 billion (620 million) Japanese yen by increasing a nondistortionary wage income tax rate, but there is no welfare gain left to the whole current economy. In this reform, only the hospitals sector obtains benefits among all health related sectors, while a welfare gain to the whole economy completely vanishes.

The paper is organized as follows. The next section explains the data and benchmark model, and Section 3 simulates several scenarios with results and evaluations. Section 4 concludes the paper.

## 2 Numerical Analysis

In order to obtain numerical effects of tax and subsidy policies, this paper uses the latest input-output table of Japan within a general equilibrium framework, in order to make the simulation analysis realistic. By using the actual input-output table of Japan, the paper has successfully realized the real economy within the model. This paper employs the conventional static computable general equilibrium (CGE) model with the actual input-output table of Japan of year 2005. Note that all parameter values in the model are calculated by using the actual data, so that the calculated values of endogenous variables obtained within the model also become quite realistic.

### 2.1 Data

The latest input-output table of Japan of year 2005 with 108 different intermediate sectors has been used in order to construct the social accounting matrix (SAM). The SNA data has also been used to obtain the amount of aggregate private savings. The last sector, namely the 108th sector, includes all unclassified items. Since the value of its factor payments of some intermediate sectors becomes negative<sup>5</sup>, this paper has integrated the 108th sector with the 106th sector which includes all other services. The integration makes the actual input-output table data consistent to the model, and it is assumed that there are 107 different production sectors, all of which are allowed to have intermediate production processes. Based on this simplification, the social accounting matrix (SAM) has been made, which is given in Appendix 2. Note that the following production sectors are particularly relevant to this paper; Medicaments ( $i = 26$ ), Medical Service and Health ( $i = 94$ ), Social Security ( $i = 95$ ), and Nursing Care ( $i = 96$ ). The economic activities of the pharmaceutical industry is shown in Medicaments ( $i = 26$ ), and hospitals are categorized in Medical Service and Health ( $i = 94$ ). The medical sample analyzing industry<sup>6</sup> is also categorized in Medical

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<sup>5</sup>Labor income and capital income are factor payments.

<sup>6</sup>A typical firm categorized in this industry is a blood test examination firm.



Service and Health ( $i = 94$ ). Nursing Care ( $i = 96$ ) shows the economic activities of the industry of the long-term care for the elderly. Social Security ( $i = 95$ ) includes activities of nurseries, and nursing homes. Figure 1 shows economic values of domestic final consumption goods of these four sectors in the latest input-output table of year 2005. The sector of Medical Service and Health ( $i = 94$ ), which includes hospitals, is much larger than other sectors, and its value of the domestic final consumption goods is 37 thousands billion Japanese yen, while the economic values of other three sectors are between 6.3 thousands billion and 7.3 thousands billion Japanese yen.

## 2.2 Benchmark Calibration

The general equilibrium model consists of 107 different production sectors, a representative consumer, and the government. Each of 107 production sectors uses labor, capital, and intermediate production goods in its production in order to maximize its profits. Each production sector optimally determines how much it exports its own good, how much it imports goods for its production, and how much it sells its own good domestically. A representative consumer maximizes his/her utility which is defined over 107 different goods produced by 107 different production sectors. His/her disposal income consists of after tax labor and capital income. The government imposes taxes and tariffs on and gives subsidies to 107 different production sectors. The government also imposes a labor income tax on the representative consumer. The total tax revenue is used for its expenditure. 107 different commodity markets, and factor markets are all fully competitive, so that all prices are determined at the fully competitive level. 107 different production sectors and the representative consumer take all prices, tax rates, and subsidy rates as given. The detailed explanation about the employed model is given in Appendix 1.

The benchmark case should reflect the real Japanese economy in order to make the subsequent simulation scenarios realistic. Thus, the benchmark model should carefully be calibrated until the calculated values of all endogenous variables within the model become

close to the actual values. Table 1-1 to 1-4 show the calculated model values as well as the corresponding actual values in year 2005. Note that the tax rates and the subsidy rates shown in Table 2-1 to 2-4 have been calculated by using the actual amount of taxes collected and subsidies, so that they can be interpreted as the average proportional rates. Table 2-3 particularly shows the net rate, which is defined as the difference between the production tax rate and the subsidy rate, and the negative value of the net rate implies that the industry is subsidized by a certain amount<sup>7</sup>. As Table 2-3 shows, only Medical Service and Health ( $i = 94$  : hospitals sector) is subsidized (net subsidy rate: 0.3432%) among all relevant 4 sectors, while Medicaments ( $i = 26$  : pharmaceutical industry) pays a net tax most (net tax rate: 2.7140%).

### 3 Simulation Analysis

Since the benchmark case successfully re-produces the actual Japanese economy, it is now used to compare the current Japanese economy with possible situations caused by several policy changes. Since the main concern is with the health related sectors, the above mentioned 4 sectors are only targeted when tax and subsidy rates are changed in the following simulations. As Table 2-3 shows, the net rate of three sectors ( $i = 26, 95,$  and  $96$ ) is positive, while it is negative for the sector of  $i = 94$  (hospitals sector). Thus, in the following simulations, the net 'tax' rate of  $i = 26, 95,$  and  $96$  is decreased, and the net 'subsidy' rate of  $i = 94$  is increased. Furthermore, the government expenditure is assumed to be unchanged, so that only the effects of revenue changes caused by reforms of tax and subsidy rates can be investigated.

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<sup>7</sup>A tariff is differently treated, so that the net rate is defined above.

### 3.1 Simulation I

In this simulation, the government budget constraint is not considered explicitly. While it is not realistic, this simulation can exclude the secondary effect caused by a following policy in order to fulfill the budget constraint. Thus, this simulation can numerically present the amount of government deficits to implement the marginal reform if the government did not change any other tax and subsidy rates of all sectors including a wage income tax rate. The effects of the reduction of the net 'tax' rate of  $i = 26, 95,$  and  $96$  by 5, 10, 30, and 50% from the current level are simulated. In the case of  $i = 94$ , the effects of an increase in the net 'subsidy' rate by 5, 10, 30, and 50% from the current level are simulated. Obviously, the reduction of the net 'tax' rate or an increase in the net 'subsidy' rate induces a decrease in the total amount of revenue, and thus the government has to face the shortage in revenue, since the government is assumed to maintain its expenditure. In this simulation, taxes are reduced or a subsidy is increased, and thus welfare should increase. Since a welfare gain is measured by equivalent variation (EV), the amount of the gain is financially measured. Table 3-1 presents the financial value of a welfare gain as well as the government deficits, which is the amount needed for the implementation of a policy. Table 3-2 also shows relative changes in income of each sector. As Table 2-3 shows, the net 'tax' rate of the pharmaceutical industry ( $i = 26$ ) is the highest (2.7140%) so that the 50% reduction of it from the current level induces the largest welfare gain, which is estimated to be around 95.6 billion Japanese yen. Furthermore, since the economic value of  $i = 94$  (hospitals) is much larger than the pharmaceutical industry ( $i = 26$ ), a 50% increase in its net 'subsidy' rate results in the second largest effect on welfare, which amounts to 72.3 billion Japanese yen, although its net 'subsidy' rate is only 0.3432%. If the government implements such policies, it has to bear new financial burdens (government deficits) of 9.26 billion Japanese yen when it reduces the net 'tax' rate of the pharmaceutical industry by 50% from the current level, while the amount of new financial burdens would be 5.58 billion Japanese yen when the government increases the net 'subsidy' rate of the hospitals sector by 50%. However, note that the welfare gains

are more than 10 times as much as newly generated financial burdens for the government in both cases.

Table 3-2 also shows high dependency of the pharmaceutical industry ( $i = 26$ ) on the hospitals sector ( $i = 94$ ). While income of  $i = 26$  increases most when its own net 'rate' is reduced, it also increases much even when the net 'subsidy' rate of  $i = 94$  increases. For instance, when the net 'subsidy' rate of  $i = 94$  increases by 50%, income of  $i = 26$  also increases by 0.166% from the current level.

### 3.2 Simulation II

Simulation I seems unrealistic, even though it shows the pure effect without introducing a secondary policy to finance a gap between revenue and expenditure. Thus, in Simulation II, the budget constraint of the government is explicitly taken into account, and it is assumed that the budget constraint is always fulfilled even after a policy change. It is also assumed that the government maintains its expenditure level, so that any gap between revenue and expenditure is financed by a secondary policy only on the revenue side. In Simulation II, a wage income tax is used to finance the gap, and its tax rate is endogenously determined in order to fulfill the budget constraint. Note that labor supply is assumed to be completely inelastic, and a wage tax rate is proportional. This implies that Simulation II always results in a welfare loss, since a nondistortionary tax (wage income tax) is used to finance a gap, which was caused by a change in a distortionary tax or subsidy<sup>8</sup>. Table 4-1 shows welfare losses caused by such policies. The table also shows relative changes in the endogenously determined wage income tax rate, which achieves the balanced budget. As Table 4-1 shows, the welfare loss is not negligible. For instance, a 50% decrease in the net 'tax' rate of the pharmaceutical industry ( $i = 26$ ) induces a welfare loss of 52.65 billion Japanese yen. Thus, a policy in which only the wage income tax is used to finance the gap might not be realistic, and it seems difficult to be supported politically. Then, such a policy can slightly be modified so

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<sup>8</sup>This was kindly pointed out by Joe Chen at the Japan-Taiwan Workshop on Public Economics.

that an increase in the wage income tax rate is adjusted up to the level at which the increase has no effect on welfare. If there is still a financial gap between revenue and expenditure even after the government increases the wage income tax rate up to the welfare-neutral level, then deficits are generated. The result is shown in Table 4-2. Obviously, an increase in the wage income tax rate is smaller than the case where only the wage income tax is used to finance the gap, which is shown in Table 4-1. However, economic efficiency remains unchanged. Deficits are also smaller in comparison with Simulation I. By comparing Table 4-2 with Table 3-1, the effect on the difference in deficits be examined. For instance, While a 50% decrease in the net 'tax' rate of the pharmaceutical industry ( $i = 26$ ) induces new government deficits of 9.26 billion Japanese yen, the same decrease in the net 'tax' rate only generates new deficits of 3.3 billion Japanese yen. If a net 'subsidy rate of the hospitals sector ( $i = 94$ ) increases by 50% from the current level, then new deficits is only 1 billion Japanese yen, while the same policy induces new deficits of 5.6 billion Japanese yen in Simulation I.

### 3.3 Simulation III

While Simulation II uses a nondistortionary tax (a wage income tax), Simulation III uses distortionary taxes to fulfill the budget constraint. As mentioned in the previous section, it is obvious to result in a welfare loss when a nondistortionary tax is used to finance deficits caused by a decrease in some distortionary tax rates and/or an increase in the distortionary subsidy rate. Then Simulation III uses distortionary net 'taxes' or 'subsidy' to fulfill the budget constraint. Figure 2-1 to 2-4 show the effect of such policies on welfare. There are three striking results: The first result is that an exogenous decrease in the net 'tax' rate of the pharmaceutical industry ( $i = 26$ ) followed by an endogenous increase in the net 'tax' rate of any other sectors ( $i = 95, 96$ ) or an endogenous decrease in the net 'subsidy' rate of  $i = 94$  always reduces welfare as shown in Figure 2-1. The second result is that an endogenous increase in the net 'tax' rate of the pharmaceutical industry ( $i = 26$ ) in order to finance deficits always induces the best achievement in welfare in all policies as shown

in Figure 2-2 to 2-4. These two interesting results imply that if the government tries to favor health related sectors by reducing net taxes or subsidizing the sectors but its reform is limited within the health related sectors, then the government should impose a heavier tax on the pharmaceutical industry in order to finance the shortage in revenue caused by the reform. The last result is that the largest welfare gain is obtained when the hospitals sector ( $i = 94$ ) is subsidized more with an increase in the net tax on the pharmaceutical industry ( $i = 26$ ). A welfare gain becomes largest when an increasing subsidy to the hospitals sector is financed by imposing a heavier tax on the pharmaceutical industry.

However, imposing a heavier tax obviously implies that the pharmaceutical industry suffers from it, and while such a reform could be justified based on efficiency of the whole economy, economic efficiency within the pharmaceutical industry is reduced, and its income decreases. Thus, any compensation policy should be implemented at the same time, otherwise only the pharmaceutical industry suffers from such a reform. Then the next simulations are considered.

### **3.4 Simulation IV**

Simulation IV explicitly considers a compensation policy for the pharmaceutical industry when the government imposes a heavier tax on the pharmaceutical industry in order to fulfil its budget constraint. In Simulation IV, an increasing subsidy policy for  $i = 94$  (hospitals) is only considered, since a welfare gain becomes largest when such a policy is followed by imposing a heavier tax on the pharmaceutical industry. In Simulation IV, the pharmaceutical industry is completely compensated so that its income remains unchanged even after a reform is implemented. Its net 'tax' rate is endogenously adjusted to keep its income unchanged. Then Simulation IV is further divided into the following three cases: The first case (Case 1) is that the government does not consider its budget constraint explicitly, and this case is a modified version of Simulation I. Government expenditure is assumed to remain unchanged. The second case (Case 2) considers the budget constraint of the government explicitly. The

government endogenously adjusts the wage income tax rate to fulfill its budget constraint when a reform with a compensation policy for the pharmaceutical industry is conducted. In the second case, both of the net 'tax' rate of the pharmaceutical industry and the wage income tax rate are endogenously determined in order not only to keep income of the pharmaceutical industry unchanged but also to fulfil the budget constraint of the government. The second case corresponds to a modified version of the first part of Simulation II. Note that the second case reduces welfare, since it uses a non-distortionary tax (wage income tax) to fulfil the budget constraint. Then, the last case takes into account the negative effect on welfare. The third case (Case 3) endogenously increases the wage income tax rate until its increase starts to reduce welfare. This last case corresponds to the other part of Simulation II, but the pharmaceutical industry is completely compensated when a reform is implemented. Both of the net 'tax' rate of the pharmaceutical industry and the wage income tax rate are also endogenously determined and the welfare level remains unchanged in the last case.

Table 5-1 to 5-3 show the results of Case 1, 2, and 3, respectively. Note that all three cases of Simulation IV only investigate the effect of exogenous increases in the net 'subsidy' rate of the hospitals sector ( $i = 94$ ). When the government budget constraint is not explicitly considered, the effect of an introduction of a compensation policy for the pharmaceutical industry can be explored by comparing Table 5-1 with Table 3-1. For instance, when the net 'subsidy' rate of  $i = 94$  exogenously increases by 50% from the current level, a welfare gain (EV) and the government deficits are both slightly smaller when a compensation policy is introduced. This is because the net 'tax' rate of the pharmaceutical industry ( $i = 26$ ) can be increased up to the level at which its income remains unchanged. As Table Table 3-2 shows, the pharmaceutical industry highly depends on the hospitals sector. This implies that an increase in the net 'subsidy' rate of the hospitals sector stimulates not only the hospitals sector itself but also the pharmaceutical industry as well. This stimulation effect induces an increase in income of the pharmaceutical industry, and it is possible to increase the net 'tax' rate of the pharmaceutical industry up to the level at which its income remains unchanged.

It is estimated that the net 'tax' rate of  $i = 26$  can be increased by 5.9551% from the current level. If the budget constraint of the government is explicitly taken into account with an endogenous adjustment by a wage income tax, then the comparison between Table 5-2 and Table 4-1 shows the effect of an introduction of a compensation policy. While the effect on welfare is negative, its effect is weaker. This is because an increment of the wage income tax rate can be smaller to fulfil the gap between revenue and expenditure, since the net 'tax' rate of  $i = 26$  can also be increased. Finally, if the government tries to minimize deficits as well as to neutralize the effect on welfare of the current economy with a compensation policy, then the comparison between Table 5-3 and Table 4-2 can answer this question. For instance, when the net 'subsidy' rate of  $i = 94$  exogenously increases by 50% from the current level, the government can reduce deficits from 1.06 billion Japanese yen to 0.62 billion (620 million) Japanese yen, which corresponds to more than a 40% reduction of deficits. Note that the hospitals sector should be better off by the Case 3 policy. Indeed, as Table 5-4 shows, its income increases.

## 4 Concluding Remarks

This paper has presented a computable general equilibrium (CGE) framework to numerically examine the effect of tax and subsidy policies on the health related sectors. This paper has used the latest Input-Output table of Japan of year 2005 with 108 different production sectors, and it has particularly targeted four health related sectors in order to explore the effect of marginal reforms of tax and subsidy structure.

While this paper has used the Japanese input-output table, it would be notable to mention that it is applicable to all other countries in order to investigate the effect of several policies related to the medical services sector. Furthermore, the model can easily be generalized by incorporating any other instruments than an income tax on individuals in order to finance the shortage of the government revenue caused by policy changes into the model. If other



distortionary taxes are used to finance the shortage, then the effect on welfare would be different.

Finally drawbacks of this paper should be mentioned: It has been assumed that labor supply is completely inelastic so that the effect of an increase in the wage income tax can not properly be investigated. While the negative effect of an increase in the wage income tax on welfare has been obtained in this paper, the result might be different. If labor supply is not completely inelastic, then a wage income tax becomes distortionary. If a financial gap between revenue and expenditure is financed by an increase in a distortionary wage income tax, then a substitution effect between labor supply (leisure) and other goods might be able to reduce distortion. When a subsidy for the hospitals sector increases, a positive income effect stimulates demand for leisure as long as leisure is normal. Thus, an increase in a subsidy reduces labor supply. Since an increase in the wage income tax rate implies a decrease in the pretax price of leisure, the increase in the wage income tax rate reduces demand for leisure by a substitution effect. This implies that it could be possible to increase economic efficiency by increasing a wage income tax rate if labor supply is not completely inelastic. Another drawback of this paper is that any equity concern cannot be examined, since a representative consumer has been assumed. Obviously, an equity concern is quite important when a tax reform is explored. The literature of the marginal tax reform and/or of the optimal taxation is also concerned with equity issues. The effect of tax reforms on income distribution should be examined. These issues should be taken into account for an expansion of this paper.

However, by explicitly considering the budget constraint within a computable general equilibrium framework, this paper has thrown light on the importance of the explicit consideration of the government budget constraint when simulations on tax and subsidy policies are conducted. Since the benchmark model has successfully reproduced the real Japanese economy within the model, the numerical results also seem realistic.

## Appendix 1: Model

The computable general equilibrium model of this paper employs the conventional static model<sup>9</sup>. The Japanese economy is assumed to consist of 107 different sectors, a representative consumer, the government, and the investment firm sector. All 107 industries are allowed to have intermediate production processes, and they are assumed to maximize their profit. Households are assumed to maximize their utility over 107 different consumption goods. The government is assumed to determine its tax revenue, the amount of subsidies, and its consumption in order to satisfy its budget constraint. The economy is assumed to be fully competitive, so that all prices are determined in the relevant markets in order to equate the amount of demand to the amount of supply at its fully competitive price level in equilibrium. Note that the model is static and thus the short-run effect is only investigated. Thus, it is assumed for simplicity that factor inputs are not mobile among different sectors in the short-run. All parameter values are presented in Table 6.

### <Consumer>

Utility of a representative consumer is given by:

$$U(X_1, X_2, \dots, X_{107}) = \prod_{i=1}^{107} X_i^{\alpha_i}, \quad (1)$$

where  $X_i$  denotes consumption of good  $i$ .  $\sum_{i=1}^{107} \alpha_i = 1$  is assumed.  $i$  denotes each sector. The parameter value of each  $\alpha_i$  is determined by using the actual social accounting matrix.

A representative consumer is assumed to maximize (1) with respect to her/his consumption goods subject to her/his budget constraint such that:

$$\sum_{i=1}^{107} p_i X_i = I(1 - \tau^I) - S^I,$$

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<sup>9</sup>In terms of the conventional static model, see Ballard, Fullerton, Shoven, and Whalley (1985), Shoven and Whalley (1992), and Scarf and Shoven (2008). In particular, the model used in this paper is similar to Hosoe, Ogawa, and Hashimoto (2004). Regarding the dynamic model, it is conventional to employ an overlapping generations model. In terms of computable overlapping generations model within a general equilibrium framework, see Auerbach and Kotlikoff (1987). Kato (1998), Kato (2002b), Kato (2002a), and Ihori, Kato, Kawade, and Bessho (2006) also apply the dynamic model to several policies in Japan.

where  $p_i$  and  $I$  denote the price of good  $i$  and income, respectively.  $\tau^I$  is the proportional income tax rate, and it is calculated by using the actual social accounting matrix.  $S^I$  denotes savings, and a representative consumer is assumed to save the constant amount relative to her/his disposal income. Savings are assumed to be given by

$$S^I = s^I (1 - \tau^I) I,$$

where the constant ratio,  $s^I$ , is given exogenously<sup>10</sup>. The value of  $s^I$  has been calculated by using the actual SAM. Then income is given by

$$I = \sum_{i=1}^{107} r_i \bar{K}_i + \sum_{i=1}^{107} w_i \bar{L}_i,$$

where  $r$  and  $w$  denote the rental cost and the wage rate, respectively.  $\bar{K}$  and  $\bar{L}$  are endowments of capital and labour, respectively. The factor payments change as  $r$  or  $w$  changes. Note that the amounts of  $r_i \bar{K}_i$  and  $w_i \bar{L}_i$  are both obtained from the actual social accounting matrix.

The first order conditions yield the demand functions such that:

$$X_i = X_i(p_i, Y; \alpha_i) = \frac{\alpha_i I (1 - \tau^I) (1 - s^I)}{p_i}, \quad i = 1, 2, \dots, 107. \quad (2)$$

Note that  $\alpha_i$  can be calculated by using (2) and the actual social accounting matrix so that:

$$\alpha_i = \frac{p_i X_i}{I (1 - \tau^I) (1 - s^I)} = \frac{p_i X_i}{(1 - s^I) (1 - \tau^I) \left( \sum_{j=1}^{107} r_j \bar{K}_j + \sum_{j=1}^{107} w_j \bar{L}_j \right)}, \quad i = 1, 2, \dots, 107,$$

where both the values of the denominator and the numerator can be obtained from the actual

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<sup>10</sup>The assumption that the ratio is exogenously given is made only for the model to be consistent to the actual social accounting matrix, and this assumption is very common in the literature.

social accounting matrix.

### <Production Sector>

Following the conventional assumption, the multiple decisions by each firm are described by the tree structure, where each firm is assumed to make a decision over several different items. In the tree structure, the optimal behavior of each firm which makes a decision over different items is described as if the firm always makes a decision over two different items at different steps. Each firm makes a decision over different items; exports of its own product, the amount of imported goods and intermediate goods used for its production, and labor and capital. This assumption simplifies a complicated decision over several items by each firm. Each step is also shown in Figure 3.

At step 1, a private firm,  $i$ , is assumed to use labor and capital to produce its composite goods,  $Y_i$ . Then, the firm is assumed to produce its domestic goods,  $Z_i$ , by using its own  $Y_i$  and  $X_{i,j}$  at the second step.  $X_{i,j}$  denotes the final consumption goods produced by firm  $j$  used by firm  $i$  for its production. Thus,  $X_{i,j}$  is the amount of the final consumption goods produced by firm  $j$  for the intermediate production process of firm  $i$ . At the third step, the firm is assumed to decompose its domestic goods,  $Z_i$ , into exported goods,  $E_i$ , and final domestic goods,  $D_i$ . This step is concerned about its optimal decision over the amount of its product to be exported. At the final step (the fourth step), the firm is assumed to produce its final consumption goods,  $Q_i$ , by using its final domestic goods,  $D_i$ , and imported goods,  $M_i$ . This step corresponds to its optimal decision over how much it uses imported goods,  $M_i$ , and its own goods,  $D_i$ , to produce its final consumption goods,  $Q_i$ , which are consumed by domestic households. The assumption of this tree structure in terms of different decisions can incorporate firm's complicated decisions over exports of its own product, the amount of imported goods and intermediate goods which the firm uses in its production process, and the amount of factor inputs into the model in a tractable way.

Note that all market clearing conditions are used to determine all prices endogenously in their corresponding markets, and also that at each step the private firm is assumed to

determine the amount of relevant variables in order to maximize its profit.

By the assumption of the above tree structure, all decision making processes can be simplified, and the optimal behavior about all different decisions can be incorporated as follows:

**Step 1: The production of composite goods**

Each firm is assumed to produce its composite goods by using capital and labor. Each firm is assumed to maximize its profit given by:

$$\pi_i = p_i^Y Y_i(K_i, L_i) - r_i K_i - w_i L_i, \quad (3)$$

where  $Y_i$  and  $p_i^Y$  denote the composite goods produced by firm  $i$  and its price, respectively.  $K_i$  and  $L_i$  denote capital and labor used by firm  $i$  in order to produce its composite goods, respectively. The production technology is given by:

$$Y_i(K_i, L_i) = K_i^{\beta_{K,i}} L_i^{\beta_{L,i}}, \quad i = 1, 2, \dots, 107, \quad (4)$$

where  $\beta_{K,i} + \beta_{L,i} = 1$  is assumed for all  $i = 1, 2, \dots, 107$ . Each firm is assumed to maximize (3) with respect to labor and capital subject to (4), and the first order conditions yield the demand functions such that:

$$K_i = K_i(p_i^Y, r_i, w_i; \beta_{K,i}, \beta_{L,i}) = \frac{\beta_{K,i}}{r_i} p_i^Y Y_i, \quad (5a)$$

$$L_i = L_i(p_i^Y, r_i, w_i; \beta_{K,i}, \beta_{L,i}) = \frac{\beta_{L,i}}{w_i} p_i^Y Y_i, \quad i = 1, 2, \dots, 107. \quad (5b)$$

Note that  $\beta_{K,i}$  and  $\beta_{L,i}$  can be calculated by using (5a), (5b), and the actual social accounting matrix so that:

$$\beta_{K,i} = \frac{r_i K_i}{p_i^Y Y_i},$$

$$\beta_{L,i} = \frac{w_i L_i}{p_i^Y Y_i}, \quad i = 1, 2, \dots, 107,$$

where  $r_i K_i$ ,  $w_i L_i$ , and  $p_i^Y Y_i$  can be obtained from the actual social accounting matrix. The estimated values of  $\beta_{K,i}$  and  $\beta_{L,i}$  are given in Table 6.

### Step 2: The production of domestic goods

Each firm is assumed to produce domestic goods,  $Z_i$ , by using intermediate goods and its own composite goods, which production has been described at step 1. The optimal behavior of each firm in terms of the production of domestic goods can be described such that:

$$\begin{aligned} \underset{Y_i, X_{i,j}}{\text{Max}} \pi_i &= p_i^Z Z_i - \left( p_i^Y Y_i - \sum_j^{107} p_j^X X_{i,j} \right), \\ \text{st} \quad Z_i &= \min \left( \frac{X_{i,j}}{ax_{i,j}}, \frac{Y_i}{ay_i} \right), \quad i = 1, 2, \dots, 107, \end{aligned}$$

where  $X_{i,j}$  and  $p_j^X$  denote intermediate good  $j$  used by firm  $i$  and its price, respectively.  $p_i^Z$  is the price of  $Z_i$ .  $ax_{i,j}$  denotes the amount of intermediate good  $j$  used for producing one unit of a domestic good of firm  $i$ , and  $ay_i$  denotes the amount of its own composite good for producing one unit of its domestic good. The estimated values of  $ay_i$  are given in Table 6<sup>11</sup>. Note that the production function at this step is assumed to be the Leontief type. Using  $ax_{i,j}$  and  $ay_i$ , and assuming that the market is fully competitive, the zero-profit condition can be written by:

$$p_i^Z = p_i^Y ay_i + \sum_j^{107} p_j^X ax_{i,j}, \quad i = 1, 2, \dots, 107.$$

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<sup>11</sup>The estimated values of  $ax_{i,j}$  are not presented in Table 6, since the number of the estimated values reach 11,449. The estimated values are given upon request.

### Step 3: Decomposition of Domestic Goods into Exported Goods and Final Domestic Goods

The optimal decision made by firm  $i$  in terms of the amount of exports of its own goods is described as the decomposition of  $Z_i$  ( $i = 1, 2, \dots, 107$ ) into exported goods,  $E_i$ , and final domestic goods,  $D_i$ . Each firm is assumed to maximize its profit such that:

$$\pi_i = p_i^e E_i + p_i^d D_i - (1 + \tau_i^p - \tau_i^s) p_i^Z Z_i, \quad (6)$$

where  $p_i^e$  and  $p_i^d$  denote the price when the domestic goods are sold abroad, and the price when the domestic goods are sold domestically, respectively. Note that  $p_i^e$  is measured in the domestic currency.  $\tau_i^p$  and  $\tau_i^s$  are the tax rates of a production tax imposed on the production of  $Z_i$  and the subsidy rate, respectively. The values of  $\tau_i^p$  and  $\tau_i^s$  are calculated by using the actual social accounting matrix, and the calculated values are given in Table 2-1 and 2-2. The decomposition is assumed to follow the Cobb-Douglas technology such that:

$$Z_i = E_i^{\kappa_i^e} D_i^{\kappa_i^d}, \quad i = 1, 2, \dots, 107, \quad (7)$$

where  $\kappa_i^d + \kappa_i^e = 1$  ( $i = 1, 2, \dots, 107$ ) is assumed. Each firm is assumed to maximize (6) with respect to  $E_i$  and  $D_i$  subject to (7), and the first order conditions yield

$$E_i = E_i(p_i^e, p_i^d, p_i^Z; \tau_i^p, \tau_i^s, \kappa_i^d, \kappa_i^e) = \frac{\kappa_i^e (1 + \tau_i^p - \tau_i^s) p_i^Z Z_i}{p_i^e}, \quad (8a)$$

$$D_i = D_i(p_i^e, p_i^d, p_i^Z; \tau_i^p, \tau_i^s, \kappa_i^d, \kappa_i^e) = \frac{\kappa_i^d (1 + \tau_i^p - \tau_i^s) p_i^Z Z_i}{p_i^d}, \quad i = 1, 2, \dots, 107. \quad (8b)$$

Note that  $\kappa_i^e$  and  $\kappa_i^d$  can be calculated by using (8a), (8b), and the actual social accounting matrix so that:

$$\begin{aligned}\kappa_i^e &= \frac{p_i^e E_i}{(1 + \tau_i^p - \tau_i^s) p_i^Z Z_i}, \\ \kappa_i^d &= \frac{p_i^d D_i}{(1 + \tau_i^p - \tau_i^s) p_i^Z Z_i}, \quad i = 1, 2, \dots, 107,\end{aligned}$$

where  $p_i^e E_i$ ,  $p_i^d D_i$ ,  $p_i^Z Z_i$ ,  $\tau_i^s p_i^Z Z_i$ , and  $\tau_i^p p_i^Z Z_i$  can be obtained from the actual social accounting matrix. The estimated values of  $\kappa_i^e$  and  $\kappa_i^d$  are given in Table 2.

#### Step 4: The Production of the final goods

Denote the final consumption goods by  $Q_i$  ( $i = 1, 2, \dots, 107$ ). The final consumption goods are assumed to be produced by using the final domestic goods,  $D_i$ , and the imported goods,  $M_i$ . This step corresponds to the optimal decision making behavior of each firm in terms of the amount of imported goods which are used in its production process. The production technology at this final step is given by the following Cobb-Douglas function:

$$Q_i = M_i^{\gamma_i^m} D_i^{\gamma_i^d}, \quad i = 1, 2, \dots, 107, \quad (9)$$

where  $\gamma_i^m + \gamma_i^d = 1$  ( $i = 1, 2, \dots, 107$ ) is assumed. Each firm is assumed to maximize its profit with respect to  $M_i$  and  $D_i$  subject to (9). Its profit is given by:

$$\pi_i = p_i^Q Q_i - (1 + \tau_i^m) p_i^m M_i - p_i^d D_i, \quad i = 1, 2, \dots, 107,$$

where  $p_i^Q$  and  $\tau_i^m$  denote the price of its final consumption goods,  $Q_i$ , and the import tariff rate, respectively. The import tariff rate is calculated by using the actual social accounting matrix, and it is given in Table 2-4. Then, the first order conditions yield



$$M_i = M_i \left( p_i^m, p_i^d, p_i^Q; \tau_i^m, \gamma_i^m, \gamma_i^d \right) = \frac{\gamma_i^m p_i^Q Q_i}{(1 + \tau_i^m) p_i^m}, \quad (10a)$$

$$D_i = D_i \left( p_i^m, p_i^d, p_i^Q; \tau_i^m, \gamma_i^m, \gamma_i^d \right) = \frac{\gamma_i^d p_i^Q Q_i}{p_i^d}, \quad i = 1, 2, \dots, 107. \quad (10b)$$

Note that  $\gamma_i^m$  and  $\gamma_i^d$  can be calculated by using (10a), (10b), and the actual social accounting matrix so that:

$$\gamma_i^m = \frac{(1 + \tau_i^m) p_i^m M_i}{p_i^Q Q_i},$$

$$\gamma_i^d = \frac{p_i^d D_i}{p_i^Q Q_i}, \quad i = 1, 2, \dots, 107,$$

where  $p_i^m M_i$ ,  $p_i^d D_i$ ,  $p_i^Q Q_i$  and  $\tau_i^m p_i^m M_i$  can be obtained from the actual social accounting matrix. The estimated values of  $\gamma_i^m$  and  $\gamma_i^d$  are given in Table 6.

### <The Government>

The government is assumed to impose several taxes to satisfy its budget constraint. Its budget constraint is given by:

$$\sum_{i=1}^{107} p_i^Q X_i^g + S^g + Sub = T^I + T^p + T^m,$$

where the left hand side is the total government expenditure, and the right hand side is the total government revenue.  $X_i^g$  and  $S^g$  denote government consumption of final consumption good  $i$ , and government savings, respectively.  $Sub$  denotes the total amount of subsidies such that:

$$Sub = \sum_{i=1}^{107} \tau_i^s (p_i^Z Z_i).$$

The total tax revenue is given by:

$$T^I = \tau^I I = \tau^I \left( \sum_{i=1}^{107} r_i \bar{K}_i + \sum_{i=1}^{107} w_i \bar{L}_i \right),$$

$$T^p = \sum_{i=1}^{107} \tau_i^p (p_i^Z Z_i),$$

$$T^m = \sum_{i=1}^{107} \tau_i^m (p_i^m M_i),$$

where  $T^I$ ,  $T^p$ , and  $T^m$  denote the total income tax revenue, the total production tax revenue, and the total import tariff revenue, respectively. The government is assumed to save the constant amount relative to the total amount of tax revenue, and the government savings are assumed to be given by

$$S^g = s^g (T^I + T^p + T^m),$$

where the constant ratio,  $s^g$ , is given exogenously, and its value has been calculated by using the actual SAM.

#### <Equilibrium Conditions>

There are two factor inputs, labour and capital. Since the model is static and thus the short-run effect is explored, it is assumed that each factor cannot move among different sectors (industries) in the short-run. This implies the equilibrium conditions of factor markets such that

$$\bar{K}_i = K_i, \tag{11a}$$

$$\bar{L}_i = L_i, \quad i = 1, 2, \dots, 107, \tag{11b}$$

where the total amount of endowments is given by:

$$\bar{K} = \sum_{i=1}^{107} \bar{K}_i,$$

$$\bar{L} = \sum_{i=1}^{107} \bar{L}_i.$$

Note that  $r_i$  and  $w_i$  ( $i = 1, 2, \dots, 107$ ) are determined in order to satisfy (11a) and (11b), respectively.

In terms of the market clearing condition of good  $i$  ( $i = 1, 2, \dots, 107$ ), a private investment sector is introduced in order to close the economy in this paper<sup>12</sup>. Denoting the amount of good  $i$  consumed by the private investment sector by  $X_i^s$ , the market clearing condition of good  $i$  is given by:

$$Q_i = X_i + X_i^g + X_i^s + \sum_j X_{i,j}, \quad i = 1, 2, \dots, 107, \quad (12)$$

where the left hand side is the total supply, and the right hand side is the total demand for good  $i$ .  $p_i^Q$  ( $i = 1, 2, \dots, 107$ ) is determined in order to satisfy (12). Note that the budget constraint of the private investment sector is given by:

$$\sum_{i=1}^{107} p_i^Q X_i^s = S^g + S^I + S^f,$$

where the left hand side is the total amount of its consumption, and the right hand side is the total amount of its income.  $S^f$  denotes the total amount of savings by the foreign sector, or the deficits in the current account, and it is given by subtracting exports from imports<sup>13</sup>. Since both the amount of exports and the amount of imports can be obtained from the actual social accounting matrix,  $S^f$  can be calculated from the actual social accounting matrix, and thus it is exogenously given in the model. Furthermore, the foreign trade balance is given

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<sup>12</sup>This is also the conventional assumption in the literature.

<sup>13</sup>The FDI is assumed to be negligible in this paper.

by

$$\sum_{i=1}^{107} p_i^{w,e} E_i + S^f = \sum_{i=1}^{107} p_i^{w,m} M_i,$$

where  $p_i^{w,e}$  and  $p_i^{w,m}$  denote the world price of export goods, and import goods of good  $i$ , respectively, and both of them are assumed to be given exogenously. Since  $p_i^e$  and  $p_i^m$  are both measured in the domestic currency, they are also expressed such that:

$$p_i^e = \varepsilon p_i^{w,e},$$
$$p_i^m = \varepsilon p_i^{w,m}, \quad i = 1, 2, \dots, 107,$$

where  $\varepsilon$  denotes the exchange rate. Note that the exogeneity assumption on the world prices implies that the exchange rate is endogenously determined within the model.

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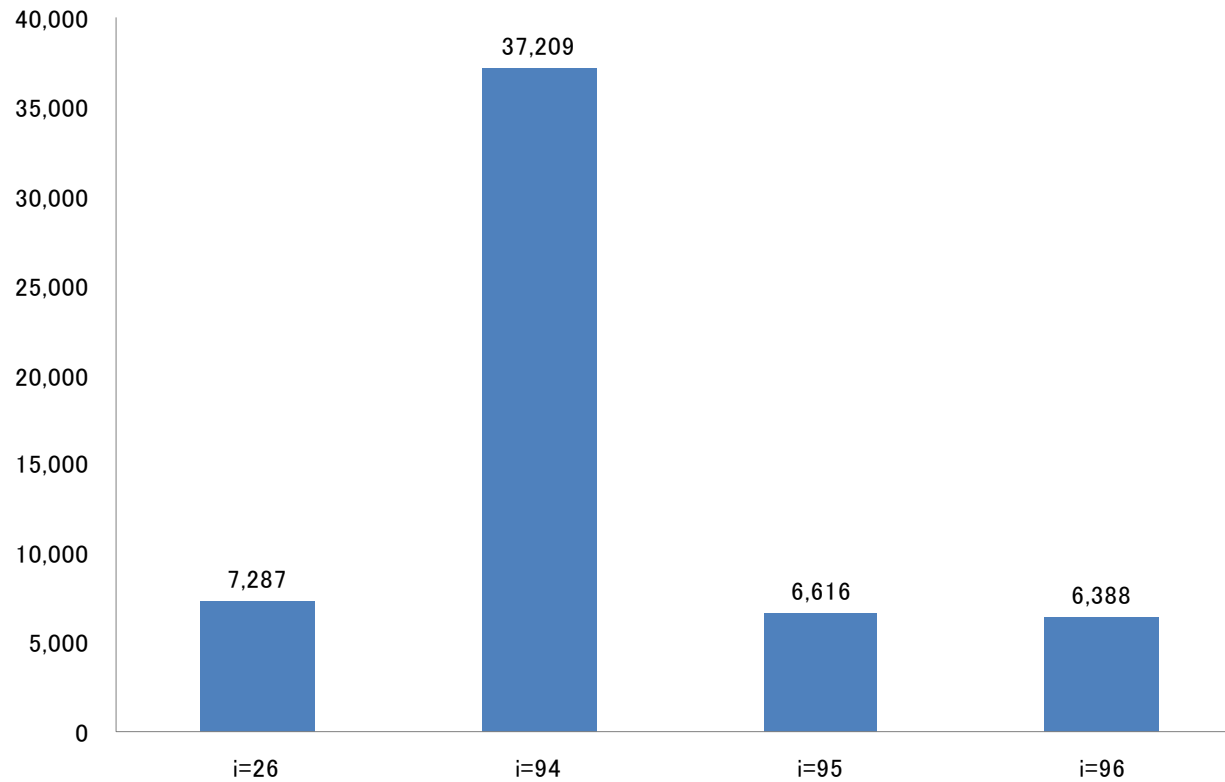
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**Figure 1: Economic Values of the Domestic Final Consumption Goods in the IO Table of Year 2005**

Unit: One billion Japanese yen



- i=26: Medicaments Sector (incl. the pharmaceutical industry)
- i=94: Medical Service and Health Sector (incl. private hospitals)
- i=95: Social Security Sector (incl. private nurseries and nursing homes)
- i=96: Nursing Care Sector (incl. private long term care for the elderly)



**Table 1-1: Economic Values of the Benchmark Model**  
**Final Consumption Goods,  $P_i^Q Q_i$ ;  $i = 1, 2, \dots, 107$**

Unit: One million Japanese yen

$i$	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
model	7992445	3076453	867591	1507966	1889503	1673551	997155	13666806	28226829	8448175	1528645	3087907	2024194	5403523	3545906	2864489	4718832	3383067	6295844	388535
actual	7992445	3076453	867591	1507966	1889503	1673551	997155	13666806	28226829	8448175	1528645	3087907	2024194	5403523	3545906	2864489	4718832	3383067	6295844	388535
$i$	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
model	2014268	2646909	5170128	2438742	417929	7287054	6308055	17484729	1289256	10137398	2776993	1249173	1559315	2988851	716762	1675103	7818878	11656182	1901806	2113988
actual	2014268	2646909	5170128	2438742	417929	7287054	6308055	17484729	1289256	10137398	2776993	1249173	1559315	2988851	716762	1675103	7818878	11656182	1901806	2113988
$i$	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
model	3624169	5085451	4791626	7716325	7736765	9649963	3346489	3968133	5585456	1924973	2445823	2919353	6776294	4409610	4075496	9563708	7856948	2718049	25319384	1004116
actual	3624169	5085451	4791626	7716325	7736765	9649963	3346489	3968133	5585456	1924973	2445823	2919353	6776294	4409610	4075496	9563708	7856948	2718049	25319384	1004116
$i$	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
model	3563331	3809563	5232559	648298	30715358	9119713	16205999	7196254	15754107	2893277	4549749	3745112	98358600	41431380	8595547	11913778	45678819	6638078	16293277	9960768
actual	3563331	3809563	5232559	648298	30715358	9119713	16205999	7196254	15754107	2893277	4549749	3745112	98358600	41431380	8595547	11913778	45678819	6638078	16293277	9960768
$i$	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
model	3554235	3512957	489752	1786627	6506596	16367961	3678393	17614538	1214895	7440836	38537877	23178561	13371738	37209390	6616330	6387536	5044458	9175582	11969164	12657970
actual	3554235	3512957	489752	1786627	6506596	16367961	3678393	17614538	1214895	7440836	38537877	23178561	13371738	37209390	6616330	6387536	5044458	9175582	11969164	12657970
$i$	101	102	103	104	105	106	107													
model	30319697	10129655	21613601	7671606	6337175	12761623	1517809													
actual	30319697	10129655	21613601	7671606	6337175	12761623	1517809													

- i=26: Medicaments Sector (incl. the pharmaceutical industry)
- i=94: Medical Service and Health Sector (incl. private hospitals)
- i=95: Social Security Sector (incl. private nurseries and nursing homes)
- i=96: Nursing Care Sector (incl. private long term care for the elderly)

**Table 1-2: Economic Values of the Benchmark Model (Continued)**  
**Capital Income,  $rK_i$ ;  $i = 1, 2, \dots, 107$**

Unit: One million Japanese yen

<i>i</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
model	3013193	619764	196982	729575	522992	4630	105212	21743	2970822	1565909	238849	402011	93908	122904	354057	147044	692022	323586	1100374	43932
actual	3013193	619764	196982	729575	522992	4630	105212	21743	2970822	1565909	238849	402011	93908	122904	354057	147044	692022	323586	1100374	43932
<i>i</i>	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
model	348142	171629	401898	261535	43896	1438660	727686	221319	152394	640925	367357	59695	349608	426126	91958	273911	778178	1758911	294256	97254
actual	348142	171629	401898	261535	43896	1438660	727686	221319	152394	640925	367357	59695	349608	426126	91958	273911	778178	1758911	294256	97254
<i>i</i>	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
model	143678	377406	368039	709631	930517	1384756	375474	322166	352810	170457	506256	306073	427506	301195	428739	526290	601345	172999	1211068	207040
actual	143678	377406	368039	709631	930517	1384756	375474	322166	352810	170457	506256	306073	427506	301195	428739	526290	601345	172999	1211068	207040
<i>i</i>	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
model	332438	377004	433360	42930	1674911	443521	1341333	571988	4231709	403822	1540735	503561	2.5E+07	1.3E+07	3894961	8303863	3.8E+07	2135328	1216237	0
actual	332438	377004	433360	42930	1674911	443521	1341333	571988	4231709	403822	1540735	503561	2.5E+07	1.3E+07	3894961	8303863	3.8E+07	2135328	1216237	0
<i>i</i>	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
model	605096	246642	54476	316483	2092779	5289614	835932	3579498	229693	967790	1.2E+07	3190946	1238479	4579116	283558	807134	366078	1127663	6291773	763930
actual	605096	246642	54476	316483	2092779	5289614	835932	3579498	229693	967790	1.2E+07	3190946	1238479	4579116	283558	807134	366078	1127663	6291773	763930
<i>i</i>	101	102	103	104	105	106	107													
model	5863257	3249479	2501464	1084820	1975728	1549710	0													
actual	5863257	3249479	2501464	1084820	1975728	1549710	0													

- i=26: Medicaments Sector (incl. the pharmaceutical industry)
- i=94: Medical Service and Health Sector (incl. private hospitals)
- i=95: Social Security Sector (incl. private nurseries and nursing homes)
- i=96: Nursing Care Sector (incl. private long term care for the elderly)

**Table 1-3: Economic Values of the Benchmark Model (Continued)**  
**Labor Income,  $wL_i$ ;  $i = 1, 2, \dots, 107$**

Unit: One million Japanese yen

<i>i</i>	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
model	435559	159785	324614	194298	320754	6254	196860	34609	3937017	934570	98389	100053	519501	593274	533880	640107	494854	852997	2212473	46512
actual	435559	159785	324614	194298	320754	6254	196860	34609	3937017	934570	98389	100053	519501	593274	533880	640107	494854	852997	2212473	46512
<i>i</i>	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40
model	251076	58033	445681	303412	87151	1046236	1032481	213753	90498	2451248	716890	109334	377955	700852	197407	420682	651357	1066983	415523	329327
actual	251076	58033	445681	303412	87151	1046236	1032481	213753	90498	2451248	716890	109334	377955	700852	197407	420682	651357	1066983	415523	329327
<i>i</i>	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
model	175601	784184	1174627	2746319	2197655	2985889	1352278	472061	1771645	568377	660530	381689	1221040	516848	1078927	2065088	1160290	348384	4307408	405285
actual	175601	784184	1174627	2746319	2197655	2985889	1352278	472061	1771645	568377	660530	381689	1221040	516848	1078927	2065088	1160290	348384	4307408	405285
<i>i</i>	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80
model	677728	985003	976858	271545	1.2E+07	3319718	5612059	2778276	1914977	453536	797235	2009988	4.4E+07	1.3E+07	1722796	588194	0	1633166	9598060	0
actual	677728	985003	976858	271545	1.2E+07	3319718	5612059	2778276	1914977	453536	797235	2009988	4.4E+07	1.3E+07	1722796	588194	0	1633166	9598060	0
<i>i</i>	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100
model	921774	416659	288537	739983	1998002	4994099	759999	6466088	254219	2154436	1.7E+07	1.6E+07	6022563	1.6E+07	4407172	3816420	2825959	1464649	1474520	3734524
actual	921774	416659	288537	739983	1998002	4994099	759999	6466088	254219	2154436	1.7E+07	1.6E+07	6022563	1.6E+07	4407172	3816420	2825959	1464649	1474520	3734524
<i>i</i>	101	102	103	104	105	106	107													
model	1.5E+07	2492172	6489054	1883934	2351357	2914220	0													
actual	1.5E+07	2492172	6489054	1883934	2351357	2914220	0													

i=26: Medicaments Sector (incl. the pharmaceutical industry)  
i=94: Medical Service and Health Sector (incl. private hospitals)  
i=95: Social Security Sector (incl. private nurseries and nursing homes)  
i=96: Nursing Care Sector (incl. private long term care for the elderly)

**Table 1-4: Economic Values of the Benchmark Model (Continued)**

Unit: One million Japanese yen

savings							
private sector		government sector		foreign sector			
model	actual	model	actual	model	actual		
27265700	27265700	70847256	70847256	-6059608	-6059608		

tax and subsidy							
income tax		production tax		import tax		subsidy	
model	actual	model	actual	model	actual	model	actual
146907949	146907949	34024445	34024445	4774091	4774091	3506668	3506668

The above figures indicate the total amount.

**Table 2-1: Calculated Production Tax Rates**

$$TAUP(i) = \tau_i^P; i = 1, 2, \dots, 107 \text{ (Production Tax Rate)}$$

TAUP( 1)	TAUP( 2)	TAUP( 3)	TAUP( 4)	TAUP( 5)	TAUP( 6)	TAUP( 7)	TAUP( 8)	TAUP( 9)	TAUP(10)	TAUP(11)	TAUP(12)	TAUP(13)	TAUP(14)	TAUP(15)
5.9867%	2.5114%	6.1820%	1.2527%	4.3722%	3.8090%	6.3187%	12.9820%	1.8945%	27.6149%	1.1470%	162.3026%	3.8493%	3.4444%	2.8209%
TAUP(16)	TAUP(17)	TAUP(18)	TAUP(19)	TAUP(20)	TAUP(21)	TAUP(22)	TAUP(23)	TAUP(24)	TAUP(25)	TAUP(26)	TAUP(27)	TAUP(28)	TAUP(29)	TAUP(30)
3.1706%	3.6937%	3.3152%	3.6528%	2.9897%	1.8001%	1.7417%	2.1078%	1.3484%	6.8352%	2.7184%	2.7862%	38.7680%	1.8750%	2.2056%
TAUP(31)	TAUP(32)	TAUP(33)	TAUP(34)	TAUP(35)	TAUP(36)	TAUP(37)	TAUP(38)	TAUP(39)	TAUP(40)	TAUP(41)	TAUP(42)	TAUP(43)	TAUP(44)	TAUP(45)
3.5739%	2.2774%	3.3468%	5.0663%	5.5992%	4.0437%	5.2686%	1.1492%	4.0811%	2.1405%	4.2144%	2.4866%	3.2158%	3.4331%	2.2434%
TAUP(46)	TAUP(47)	TAUP(48)	TAUP(49)	TAUP(50)	TAUP(51)	TAUP(52)	TAUP(53)	TAUP(54)	TAUP(55)	TAUP(56)	TAUP(57)	TAUP(58)	TAUP(59)	TAUP(60)
1.7931%	1.8188%	2.0160%	1.6598%	1.3144%	1.7305%	1.4357%	1.5851%	1.4624%	1.6600%	1.3251%	1.2068%	1.3410%	1.6146%	2.4806%
TAUP(61)	TAUP(62)	TAUP(63)	TAUP(64)	TAUP(65)	TAUP(66)	TAUP(67)	TAUP(68)	TAUP(69)	TAUP(70)	TAUP(71)	TAUP(72)	TAUP(73)	TAUP(74)	TAUP(75)
1.4796%	2.6985%	2.7755%	7.2375%	3.3239%	3.7016%	3.8125%	3.9683%	7.6883%	3.0249%	4.5282%	5.5395%	3.7119%	4.6608%	9.9487%
TAUP(76)	TAUP(77)	TAUP(78)	TAUP(79)	TAUP(80)	TAUP(81)	TAUP(82)	TAUP(83)	TAUP(84)	TAUP(85)	TAUP(86)	TAUP(87)	TAUP(88)	TAUP(89)	TAUP(90)
5.9533%	5.1196%	5.8426%	6.2693%	0.0000%	2.0770%	5.2643%	2.8005%	6.7776%	6.6531%	3.2352%	3.5600%	4.4300%	2.4485%	2.7756%
TAUP(91)	TAUP(92)	TAUP(93)	TAUP(94)	TAUP(95)	TAUP(96)	TAUP(97)	TAUP(98)	TAUP(99)	TAUP(100)	TAUP(101)	TAUP(102)	TAUP(103)	TAUP(104)	TAUP(105)
0.2775%	0.4211%	1.5446%	1.7759%	0.6563%	1.9178%	3.0825%	3.2853%	2.0742%	1.7716%	3.8589%	10.2152%	2.4778%	3.8533%	5.0795%
TAUP(106)	TAUP(107)													
8.6114%	0.0000%													

- i=26: Medicaments Sector (incl. the pharmaceutical industry)
- i=94: Medical Service and Health Sector (incl. private hospitals)
- i=95: Social Security Sector (incl. private nurseries and nursing homes)
- i=96: Nursing Care Sector (incl. private long term care for the elderly)

**Table 2-2: Calculated Subsidy Rates**

$$SUBR(i) = \tau_i^s; i = 1, 2, \dots, 107 \text{ (Subsidy Rate)}$$

SUBR( 1)	SUBR( 2)	SUBR( 3)	SUBR( 4)	SUBR( 5)	SUBR( 6)	SUBR( 7)	SUBR( 8)	SUBR( 9)	SUBR(10)	SUBR(11)	SUBR(12)	SUBR(13)	SUBR(14)	SUBR(15)
0.7094%	1.7234%	0.0459%	3.0764%	0.2472%	0.0369%	0.0096%	1.6950%	0.8771%	0.0045%	0.5283%	0.0053%	0.0165%	0.0110%	0.0153%
SUBR(16)	SUBR(17)	SUBR(18)	SUBR(19)	SUBR(20)	SUBR(21)	SUBR(22)	SUBR(23)	SUBR(24)	SUBR(25)	SUBR(26)	SUBR(27)	SUBR(28)	SUBR(29)	SUBR(30)
0.0079%	0.0035%	0.0061%	0.0085%	0.0037%	0.0038%	0.0009%	0.0027%	0.0030%	0.0056%	0.0044%	0.0044%	0.4716%	0.0016%	0.0054%
SUBR(31)	SUBR(32)	SUBR(33)	SUBR(34)	SUBR(35)	SUBR(36)	SUBR(37)	SUBR(38)	SUBR(39)	SUBR(40)	SUBR(41)	SUBR(42)	SUBR(43)	SUBR(44)	SUBR(45)
0.0089%	0.0694%	0.0069%	0.0073%	0.0102%	0.0079%	0.0028%	0.0042%	0.0079%	0.0036%	0.0042%	0.0051%	0.0078%	0.0102%	0.0068%
SUBR(46)	SUBR(47)	SUBR(48)	SUBR(49)	SUBR(50)	SUBR(51)	SUBR(52)	SUBR(53)	SUBR(54)	SUBR(55)	SUBR(56)	SUBR(57)	SUBR(58)	SUBR(59)	SUBR(60)
0.0068%	0.0091%	0.0047%	0.0066%	0.0053%	0.0058%	0.0049%	0.0050%	0.0034%	0.0064%	0.0062%	0.0022%	0.0025%	0.0049%	0.0130%
SUBR(61)	SUBR(62)	SUBR(63)	SUBR(64)	SUBR(65)	SUBR(66)	SUBR(67)	SUBR(68)	SUBR(69)	SUBR(70)	SUBR(71)	SUBR(72)	SUBR(73)	SUBR(74)	SUBR(75)
0.0682%	0.0087%	0.0113%	0.0085%	0.0163%	0.0165%	0.2631%	3.5499%	0.0130%	2.9362%	3.7943%	0.0077%	0.0716%	2.7243%	0.0071%
SUBR(76)	SUBR(77)	SUBR(78)	SUBR(79)	SUBR(80)	SUBR(81)	SUBR(82)	SUBR(83)	SUBR(84)	SUBR(85)	SUBR(86)	SUBR(87)	SUBR(88)	SUBR(89)	SUBR(90)
0.6671%	0.0000%	0.9291%	0.4615%	0.0000%	0.4080%	0.0063%	0.0244%	0.0202%	0.3951%	0.0080%	0.0074%	0.0289%	0.0026%	0.0189%
SUBR(91)	SUBR(92)	SUBR(93)	SUBR(94)	SUBR(95)	SUBR(96)	SUBR(97)	SUBR(98)	SUBR(99)	SUBR(100)	SUBR(101)	SUBR(102)	SUBR(103)	SUBR(104)	SUBR(105)
0.0000%	0.0007%	0.4221%	2.1191%	0.0118%	0.7001%	2.5735%	0.0073%	0.0040%	0.0076%	0.1523%	0.0072%	0.0033%	0.0118%	0.0137%
SUBR(106)	SUBR(107)													
0.0140%	0.0000%													

- i=26: Medicaments Sector (incl. the pharmaceutical industry)
- i=94: Medical Service and Health Sector (incl. private hospitals)
- i=95: Social Security Sector (incl. private nurseries and nursing homes)
- i=96: Nursing Care Sector (incl. private long term care for the elderly)

**Table 2-3: Calculated Net Rates  
(Production Tax Rate minus Subsidy Rate)**

i=1	i=2	i=3	i=4	i=5	i=6	i=7	i=8	i=9	i=10	i=11	i=12	i=13	i=14	i=15
5.2772%	0.7881%	6.1362%	-1.8236%	4.1251%	3.7721%	6.3091%	11.2870%	1.0174%	27.6104%	0.6188%	162.2973%	3.8328%	3.4334%	2.8056%
i=16	i=17	i=18	i=19	i=20	i=21	i=22	i=23	i=24	i=25	i=26	i=27	i=28	i=29	i=30
3.1627%	3.6902%	3.3091%	3.6442%	2.9860%	1.7964%	1.7408%	2.1051%	1.3454%	6.8296%	2.7140%	2.7819%	38.2964%	1.8735%	2.2002%
i=31	i=32	i=33	i=34	i=35	i=36	i=37	i=38	i=39	i=40	i=41	i=42	i=43	i=44	i=45
3.5650%	2.2081%	3.3398%	5.0591%	5.5890%	4.0358%	5.2657%	1.1451%	4.0732%	2.1369%	4.2102%	2.4815%	3.2080%	3.4229%	2.2366%
i=46	i=47	i=48	i=49	i=50	i=51	i=52	i=53	i=54	i=55	i=56	i=57	i=58	i=59	i=60
1.7863%	1.8097%	2.0113%	1.6532%	1.3091%	1.7247%	1.4308%	1.5801%	1.4590%	1.6536%	1.3190%	1.2046%	1.3385%	1.6097%	2.4676%
i=61	i=62	i=63	i=64	i=65	i=66	i=67	i=68	i=69	i=70	i=71	i=72	i=73	i=74	i=75
1.4114%	2.6898%	2.7642%	7.2290%	3.3077%	3.6851%	3.5494%	0.4184%	7.6753%	0.0887%	0.7338%	5.5319%	3.6403%	1.9365%	9.9416%
i=76	i=77	i=78	i=79	i=80	i=81	i=82	i=83	i=84	i=85	i=86	i=87	i=88	i=89	i=90
5.2861%	5.1196%	4.9135%	5.8078%	0.0000%	1.6689%	5.2580%	2.7762%	6.7574%	6.2580%	3.2272%	3.5526%	4.4011%	2.4459%	2.7567%
i=91	i=92	i=93	i=94	i=95	i=96	i=97	i=98	i=99	i=100	i=101	i=102	i=103	i=104	i=105
0.2775%	0.4205%	1.1226%	-0.3432%	0.6446%	1.2177%	0.5090%	3.2780%	2.0702%	1.7640%	3.7066%	10.2081%	2.4745%	3.8415%	5.0658%
i=106	i=107													
8.5974%	0.0000%													

i=26: Medicaments Sector (incl. the pharmaceutical industry)  
i=94: Medical Service and Health Sector (incl. private hospitals)  
i=95: Social Security Sector (incl. private nurseries and nursing homes)  
i=96: Nursing Care Sector (incl. private long term care for the elderly)

**Table 2-4: Calculated Import Tariff Rates**

$$TAUM(i) = \tau_i^m; i = 1, 2, \dots, 107 \text{ (Import Tariff Rate)}$$

TAUM( 1)	TAUM( 2)	TAUM( 3)	TAUM( 4)	TAUM( 5)	TAUM( 6)	TAUM( 7)	TAUM( 8)	TAUM( 9)	TAUM(10)	TAUM(11)	TAUM(12)	TAUM(13)	TAUM(14)	TAUM(15)
6.8081%	15.5478%	0.0000%	5.6808%	8.7406%	5.0000%	5.0004%	9.8945%	14.4770%	25.5089%	5.3134%	109.5661%	9.3138%	12.6582%	7.9865%
TAUM(16)	TAUM(17)	TAUM(18)	TAUM(19)	TAUM(20)	TAUM(21)	TAUM(22)	TAUM(23)	TAUM(24)	TAUM(25)	TAUM(26)	TAUM(27)	TAUM(28)	TAUM(29)	TAUM(30)
5.1066%	4.9944%	5.5484%	4.9737%	5.0410%	6.1612%	5.0006%	6.0696%	7.6112%	10.8256%	5.0446%	5.8942%	5.7067%	5.2018%	6.7533%
TAUM(31)	TAUM(32)	TAUM(33)	TAUM(34)	TAUM(35)	TAUM(36)	TAUM(37)	TAUM(38)	TAUM(39)	TAUM(40)	TAUM(41)	TAUM(42)	TAUM(43)	TAUM(44)	TAUM(45)
9.9136%	14.9538%	5.7152%	5.8357%	5.5806%	5.4506%	7.2644%	5.0002%	5.0047%	4.9999%	5.1549%	5.9397%	5.2741%	5.6103%	5.0002%
TAUM(46)	TAUM(47)	TAUM(48)	TAUM(49)	TAUM(50)	TAUM(51)	TAUM(52)	TAUM(53)	TAUM(54)	TAUM(55)	TAUM(56)	TAUM(57)	TAUM(58)	TAUM(59)	TAUM(60)
5.1301%	4.9999%	4.9994%	4.9999%	5.0000%	8.9702%	4.9828%	4.9800%	5.2524%	5.0000%	4.9998%	4.9557%	4.9848%	5.0001%	2.7342%
TAUM(61)	TAUM(62)	TAUM(63)	TAUM(64)	TAUM(65)	TAUM(66)	TAUM(67)	TAUM(68)	TAUM(69)	TAUM(70)	TAUM(71)	TAUM(72)	TAUM(73)	TAUM(74)	TAUM(75)
4.8217%	4.9596%	5.1917%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TAUM(76)	TAUM(77)	TAUM(78)	TAUM(79)	TAUM(80)	TAUM(81)	TAUM(82)	TAUM(83)	TAUM(84)	TAUM(85)	TAUM(86)	TAUM(87)	TAUM(88)	TAUM(89)	TAUM(90)
0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.4634%	0.0000%	1.8618%
TAUM(91)	TAUM(92)	TAUM(93)	TAUM(94)	TAUM(95)	TAUM(96)	TAUM(97)	TAUM(98)	TAUM(99)	TAUM(100)	TAUM(101)	TAUM(102)	TAUM(103)	TAUM(104)	TAUM(105)
0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.1495%	0.0000%	0.0000%	0.0000%	0.0000%
TAUM(106)	TAUM(107)													
0.1669%	0.0000%													

- i=26: Medicaments Sector (incl. the pharmaceutical industry)
- i=94: Medical Service and Health Sector (incl. private hospitals)
- i=95: Social Security Sector (incl. private nurseries and nursing homes)
- i=96: Nursing Care Sector (incl. private long term care for the elderly)



**Table 3-1: Welfare Changes and Government Deficits (Simulation I)**  
**(Welfare changes are measured by equivalent variation; EV)**

Unit: One million Japanese yen

	net tax rate of i=26 only changes by				net tax rate of i=95 only changes by			
	5% decrease	10% decrease	30% decrease	50% decrease	5% decrease	10% decrease	30% decrease	50% decrease
EV	9341.591936	18815.73145	56976.87832	95569.00562	2288.803556	4683.303092	14283.10104	23907.60713
Gov. Deficits	1062.775152	2023.285615	5741.551054	9257.094256	267.4011125	446.4262398	1154.6368	1858.77653

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	net subsidy rate of i=94 only changes by				net tax rate of i=96 only changes by			
	5% increase	10% increase	30% increase	50% increase	5% decrease	10% decrease	30% decrease	50% decrease
EV	7124.909115	14358.92751	43320.33496	72324.86477	4215.359733	8542.776562	25904.06523	43349.24007
Gov. Deficits	642.2169313	1193.502767	3391.445033	5575.592552	415.8709735	740.5163504	2031.259788	3308.730479

**Table 3-2: Relative Changes in the Total Income (Simulation I)**

		net tax rate of i=26 only changes by				net tax rate of i=95 only changes by			
		5% decrease	10% decrease	30% decrease	50% decrease	5% decrease	10% decrease	30% decrease	50% decrease
total income of	i=26	0.1391%	0.2786%	0.8405%	1.4087%	0.0006%	0.0013%	0.0039%	0.0065%
	i=94	0.0010%	0.0019%	0.0058%	0.0098%	0.0002%	0.0005%	0.0015%	0.0025%
	i=95	0.0030%	0.0062%	0.0187%	0.0313%	0.0328%	0.0656%	0.1972%	0.3291%
	i=96	0.0005%	0.0009%	0.0029%	0.0048%	0.0001%	0.0002%	0.0007%	0.0012%

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		net subsidy rate of i=94 only changes by				net tax rate of i=96 only changes by			
		5% increase	10% increase	30% increase	50% increase	5% decrease	10% decrease	30% decrease	50% decrease
total income of	i=26	0.0165%	0.0330%	0.0992%	0.1655%	0.0010%	0.0021%	0.0063%	0.0106%
	i=94	0.0184%	0.0367%	0.1104%	0.1841%	0.0004%	0.0009%	0.0027%	0.0046%
	i=95	0.0023%	0.0047%	0.0142%	0.0237%	0.0014%	0.0028%	0.0085%	0.0142%
	i=96	0.0003%	0.0007%	0.0022%	0.0036%	0.0604%	0.1209%	0.3635%	0.6073%

**Table 4-1: Simulation II with the balanced budget**

Unit: One million Japanese yen (EV & Gov Deficits), relative changes in the wage income tax rate

	net tax rate of i=26 only changes by				net tax rate of i=95 only changes by			
	5% decrease	10% decrease	30% decrease	50% decrease	5% decrease	10% decrease	30% decrease	50% decrease
EV	-6284.369315	-12541.19007	-34583.5513	-52653.9318	-494.4165971	-1114.171669	-3300.37742	-5240.10878
income tax rate	0.0063%	0.0126%	0.0368%	0.0596%	0.0012%	0.0024%	0.0071%	0.0117%
Gov Deficits	0	0	0	0	0	0	0	0

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	net tax rate of i=94 only changes by				net tax rate of i=96 only changes by			
	5% increase	10% increase	30% increase	50% increase	5% decrease	10% decrease	30% decrease	50% decrease
EV	-2067.301182	-3951.082969	-10712.3681	-16871.39	-1007.337826	-2092.243163	-5903.44577	-9151.57673
income tax rate	0.0037%	0.0074%	0.0217%	0.0359%	0.0021%	0.0043%	0.0128%	0.0211%
Gov Deficits	0	0	0	0	0	0	0	0

**Table 4-2: Simulation II with the effect neutral on welfare**

Unit: One million Japanese yen (EV & Gov Deficits), relative changes in the wage income tax rate

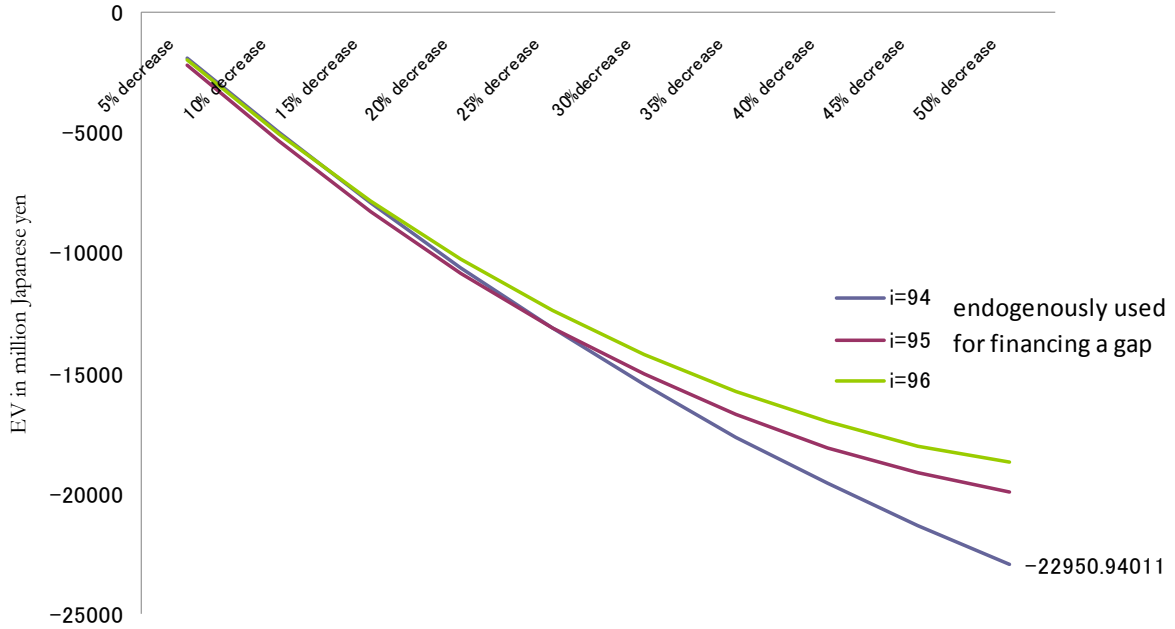
	net tax rate of i=26 only changes by				net tax rate of i=95 only changes by			
	5% decrease	10% decrease	30% decrease	50% decrease	5% decrease	10% decrease	30% decrease	50% decrease
EV	0	0	0	0	0	0	0	0
income tax rate	0.0038%	0.0076%	0.0229%	0.0384%	0.0009%	0.0019%	0.0057%	0.0096%
Gov Deficits	469.7243995	843.9616242	2183.593602	3294.01655	88.90242586	135.3234587	257.6478266	362.4760135

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	net tax rate of i=94 only changes by				net tax rate of i=96 only changes by			
	5% increase	10% increase	30% increase	50% increase	5% decrease	10% decrease	30% decrease	50% decrease
EV	0	0	0	0	0	0	0	0
income tax rate	0.0029%	0.0058%	0.0174%	0.0291%	0.0017%	0.0034%	0.0104%	0.0174%
Gov Deficits	184.0279382	291.2148008	684.7289558	1058.606048	131.2158838	196.6291478	410.687111	598.8093794

The benchmark wage income tax rate: 31.1345%

**Figure 2-1: Welfare Effect**  
 when the net rate of  $i=26$  exogenously changed  
 by



**Figure 2-2: Welfare Effect**

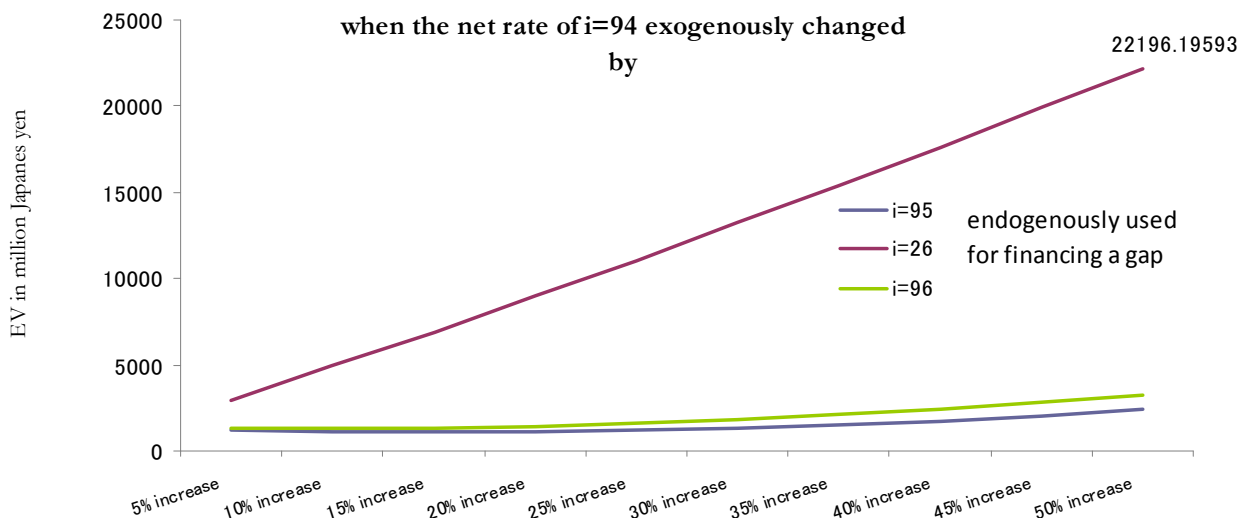


Figure 2-3: Welfare Effect

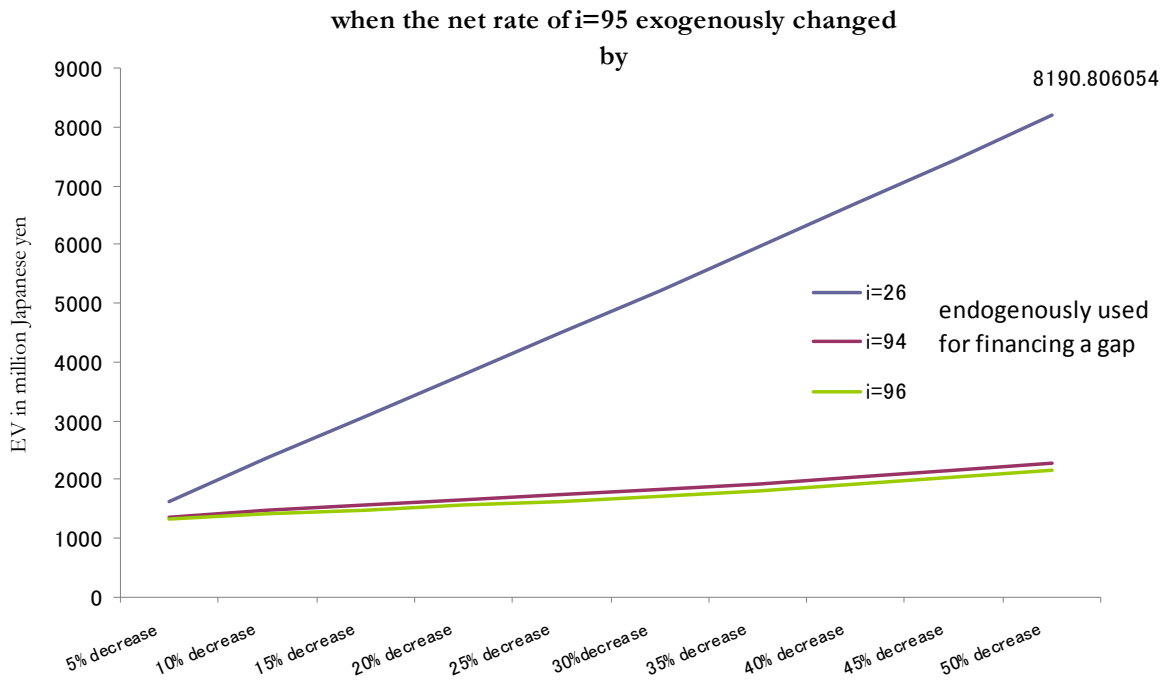
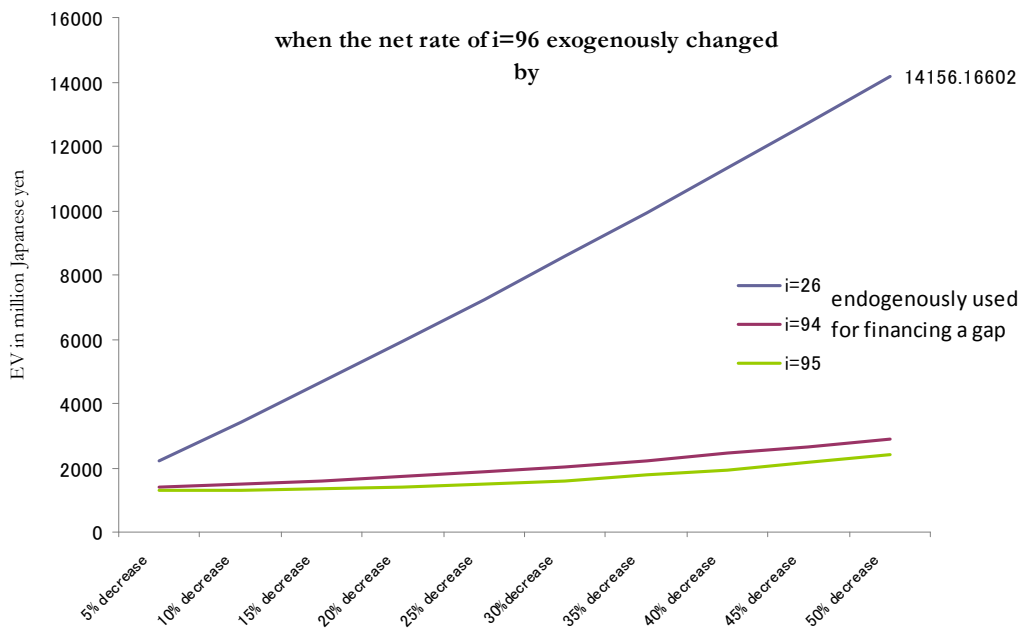


Figure 2-4: Welfare Effect



**Table 5-1: Case 1 in Simulation IV**

Unit: One million Japanese yen (EV &amp; Gov Deficits), relative changes in the tax rate from the benchmark level

	net tax rate of $i=94$ only changes exogenously by			
	5% increase	10% increase	30% increase	50% increase
EV	6007.586115	12118.5502	36585.09635	61087.42953
Gov Deficits	526.0892746	961.2087251	2692.376894	4409.522345
net tax rate of $i=26$	0.5922%	1.1872%	3.5694%	5.9551%

Benchmark tax rate:  
Net tax rate of  $i=26$ : 2.7139%  
Wage income tax rate: 31.1345%

**Table 5-2: Case 2 in Simulation IV**

Unit: One million Japanese yen (EV &amp; Gov Deficits), relative changes in the tax rate from the benchmark level

	net tax rate of $i=94$ only changes exogenously by			
	5% increase	10% increase	30% increase	50% increase
EV	-1383.79985	-2596.04276	-6559.89375	-9900.22355
Gov Deficits	0	0	0	0
net tax rate of $i=26$	0.5569%	1.1140%	3.3489%	5.5903%
income tax rate	0.0030%	0.0060%	0.0175%	0.0288%

Benchmark tax rate:  
Net tax rate of  $i=26$ : 2.7139%  
Wage income tax rate: 31.1345%

**Table 5-3: Case 3 in Simulation IV**

Unit: One million Japanese yen (EV & Gov Deficits), relative changes in the tax rate from the benchmark level

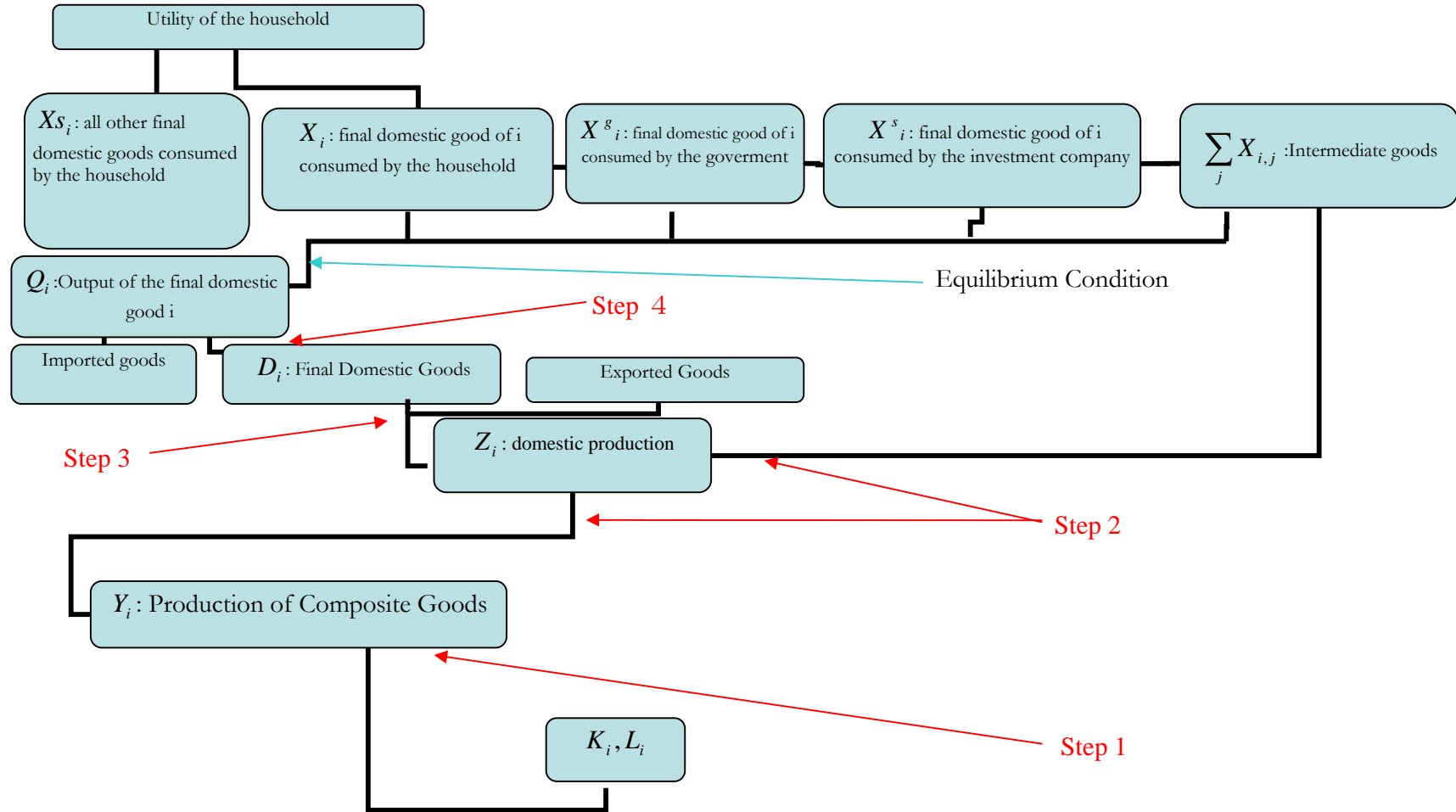
		net tax rate of i=94 only changes exogenously by			
		5% increase	10% increase	30% increase	50% increase
EV		0	0	0	0
Gov Deficits		136.4935926	203.1625997	421.6587762	618.9668086
net tax rate of i=26		0.5635%	1.1266%	3.3809%	5.6400%
income tax rate		0.0024%	0.0049%	0.0148%	0.0248%
Benchmark tax rate:					
Net tax rate of i=26:	2.7139%				
Wage income tax rate:	31.1345%				

**Table 5-4: Total Income in Case 3 of Simulation IV**

Unit: One million Japanese yen

		net tax rate of i=94 only changes exogenously by			
		5% increase	10% increase	30% increase	50% increase
total income of	i=26	2,484,895	2,484,896	2,484,896	2,484,896
	i=94	20,850,328	20,854,006	20,868,733	20,883,480
	i=95	4,690,729	4,690,729	4,690,729	4,690,729
	i=96	4,623,554	4,623,554	4,623,553	4,623,553
		Relative changes from their benchmark level (%)			
		5% increase	10% increase	30% increase	50% increase
total income of	i=26	0.0000%	0.0000%	0.0000%	0.0000%
	i=94	0.0176%	0.0353%	0.1059%	0.1767%
	i=95	0.0000%	0.0000%	0.0000%	0.0000%
	i=96	0.0000%	0.0000%	0.0000%	0.0000%

Figure 3:



**Table 6: Parameter Values**  
 $ALPHA(i) = \alpha_i; i = 1, 2, \dots, 107$

ALPHA( 1)	ALPHA( 2)	ALPHA( 3)	ALPHA( 4)	ALPHA( 5)	ALPHA( 6)	ALPHA( 7)	ALPHA( 8)	ALPHA( 9)	ALPHA(10)	ALPHA(11)	ALPHA(12)	ALPHA(13)	ALPHA(14)	ALPHA(15)
0.008454	0.000697	0.000958	0.000563	0.001298	0.000000	-0.000051	0.000000	0.061399	0.020494	0.000777	0.010540	0.000647	0.012440	0.000165
ALPHA(16)	ALPHA(17)	ALPHA(18)	ALPHA(19)	ALPHA(20)	ALPHA(21)	ALPHA(22)	ALPHA(23)	ALPHA(24)	ALPHA(25)	ALPHA(26)	ALPHA(27)	ALPHA(28)	ALPHA(29)	ALPHA(30)
0.000860	-0.000143	0.001110	0.000310	0.000021	0.000047	0.000000	0.000001	0.000000	0.000000	0.002072	0.007346	0.019774	0.000005	0.001354
ALPHA(31)	ALPHA(32)	ALPHA(33)	ALPHA(34)	ALPHA(35)	ALPHA(36)	ALPHA(37)	ALPHA(38)	ALPHA(39)	ALPHA(40)	ALPHA(41)	ALPHA(42)	ALPHA(43)	ALPHA(44)	ALPHA(45)
0.001304	0.003456	0.000226	0.000005	0.000202	0.000427	-0.000110	0.000000	0.000000	0.000000	0.000315	0.000048	0.000131	0.001049	0.000057
ALPHA(46)	ALPHA(47)	ALPHA(48)	ALPHA(49)	ALPHA(50)	ALPHA(51)	ALPHA(52)	ALPHA(53)	ALPHA(54)	ALPHA(55)	ALPHA(56)	ALPHA(57)	ALPHA(58)	ALPHA(59)	ALPHA(60)
0.000099	0.000001	0.000152	0.000082	0.000000	0.002079	0.007615	0.013658	0.003033	0.000005	0.000803	0.015434	0.002895	0.000037	0.000035
ALPHA(61)	ALPHA(62)	ALPHA(63)	ALPHA(64)	ALPHA(65)	ALPHA(66)	ALPHA(67)	ALPHA(68)	ALPHA(69)	ALPHA(70)	ALPHA(71)	ALPHA(72)	ALPHA(73)	ALPHA(74)	ALPHA(75)
0.000304	0.003085	0.005440	0.000086	0.000000	0.000000	0.000000	0.000000	0.015339	0.004461	0.006358	0.000813	0.163165	0.040117	0.001186
ALPHA(76)	ALPHA(77)	ALPHA(78)	ALPHA(79)	ALPHA(80)	ALPHA(81)	ALPHA(82)	ALPHA(83)	ALPHA(84)	ALPHA(85)	ALPHA(86)	ALPHA(87)	ALPHA(88)	ALPHA(89)	ALPHA(90)
0.040023	0.153327	0.013895	0.021978	0.000000	0.000848	0.007116	0.000420	0.000817	0.006671	0.024290	0.003689	0.004204	0.000372	0.005041
ALPHA(91)	ALPHA(92)	ALPHA(93)	ALPHA(94)	ALPHA(95)	ALPHA(96)	ALPHA(97)	ALPHA(98)	ALPHA(99)	ALPHA(100)	ALPHA(101)	ALPHA(102)	ALPHA(103)	ALPHA(104)	ALPHA(105)
0.002643	0.024685	0.000874	0.025467	0.014922	0.002219	0.013087	0.000018	0.002299	0.010085	0.003110	0.031930	0.072608	0.025772	0.017842
ALPHA(106)	ALPHA(107)													
0.025222	0.000000													



**Table 6: Parameter Values (continued)**  
 $TETA(i) = ; i = 1, 2, \dots, 107$

TETA( 1)	TETA( 2)	TETA( 3)	TETA( 4)	TETA( 5)	TETA( 6)	TETA( 7)	TETA( 8)	TETA( 9)	TETA(10)	TETA(11)	TETA(12)	TETA(13)	TETA(14)	TETA(15)
0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.002854	0.000000	0.000000	0.000000	0.000005	0.000000	0.000015
TETA(16)	TETA(17)	TETA(18)	TETA(19)	TETA(20)	TETA(21)	TETA(22)	TETA(23)	TETA(24)	TETA(25)	TETA(26)	TETA(27)	TETA(28)	TETA(29)	TETA(30)
0.000125	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000037
TETA(31)	TETA(32)	TETA(33)	TETA(34)	TETA(35)	TETA(36)	TETA(37)	TETA(38)	TETA(39)	TETA(40)	TETA(41)	TETA(42)	TETA(43)	TETA(44)	TETA(45)
0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	-0.000231	0.000000	0.000000	0.000000	0.000000	0.000000	0.000007	0.000015	0.000930
TETA(46)	TETA(47)	TETA(48)	TETA(49)	TETA(50)	TETA(51)	TETA(52)	TETA(53)	TETA(54)	TETA(55)	TETA(56)	TETA(57)	TETA(58)	TETA(59)	TETA(60)
0.000659	0.000033	0.000241	0.000536	0.001528	0.000354	0.000025	0.000893	0.001975	0.000000	0.000000	0.000188	0.000312	0.000000	0.000541
TETA(61)	TETA(62)	TETA(63)	TETA(64)	TETA(65)	TETA(66)	TETA(67)	TETA(68)	TETA(69)	TETA(70)	TETA(71)	TETA(72)	TETA(73)	TETA(74)	TETA(75)
0.000320	0.001057	0.000936	0.000000	0.023000	0.000000	0.139914	0.015876	0.000000	0.000000	-0.003126	0.008649	0.003668	0.000000	0.000000
TETA(76)	TETA(77)	TETA(78)	TETA(79)	TETA(80)	TETA(81)	TETA(82)	TETA(83)	TETA(84)	TETA(85)	TETA(86)	TETA(87)	TETA(88)	TETA(89)	TETA(90)
0.000000	0.000323	0.000001	0.000251	0.000000	0.000009	0.000001	0.000009	0.000016	-0.000682	0.000000	0.000000	0.009389	0.000000	0.000312
TETA(91)	TETA(92)	TETA(93)	TETA(94)	TETA(95)	TETA(96)	TETA(97)	TETA(98)	TETA(99)	TETA(100)	TETA(101)	TETA(102)	TETA(103)	TETA(104)	TETA(105)
0.319013	0.133885	0.012411	0.250054	0.018932	0.049862	0.000000	0.000000	0.000000	0.000000	0.004877	0.000000	0.000000	0.000000	0.000000
TETA(106)	TETA(107)													
0.000000	0.000000													

**Table 6: Parameter Values (continued)**

$$AY(i) = ay_i; i = 1, 2, \dots, 107$$

AY( 1)	AY( 2)	AY( 3)	AY( 4)	AY( 5)	AY( 6)	AY( 7)	AY( 8)	AY( 9)	AY(10)	AY(11)	AY(12)	AY(13)	AY(14)	AY(15)
0.569112	0.259441	0.638091	0.714903	0.545627	0.502516	0.372137	0.509977	0.288914	0.399620	0.243640	0.558255	0.302586	0.326348	0.364356
AY(16)	AY(17)	AY(18)	AY(19)	AY(20)	AY(21)	AY(22)	AY(23)	AY(24)	AY(25)	AY(26)	AY(27)	AY(28)	AY(29)	AY(30)
0.335517	0.269011	0.365120	0.545367	0.300808	0.313485	0.079872	0.158423	0.196041	0.282342	0.383997	0.266826	0.038388	0.198565	0.297147
AY(31)	AY(32)	AY(33)	AY(34)	AY(35)	AY(36)	AY(37)	AY(38)	AY(39)	AY(40)	AY(41)	AY(42)	AY(43)	AY(44)	AY(45)
0.374181	0.363061	0.439348	0.394900	0.416436	0.421920	0.198469	0.206669	0.388615	0.217738	0.154559	0.229930	0.340688	0.457585	0.335708
AY(46)	AY(47)	AY(48)	AY(49)	AY(50)	AY(51)	AY(52)	AY(53)	AY(54)	AY(55)	AY(56)	AY(57)	AY(58)	AY(59)	AY(60)
0.342878	0.453480	0.202632	0.315002	0.281943	0.323336	0.263178	0.228452	0.225449	0.292368	0.239345	0.121935	0.128995	0.195727	0.257239
AY(61)	AY(62)	AY(63)	AY(64)	AY(65)	AY(66)	AY(67)	AY(68)	AY(69)	AY(70)	AY(71)	AY(72)	AY(73)	AY(74)	AY(75)
0.319016	0.375707	0.335744	0.387335	0.445074	0.427856	0.444292	0.467505	0.419332	0.296537	0.516646	0.707740	0.673664	0.630237	0.718393
AY(76)	AY(77)	AY(78)	AY(79)	AY(80)	AY(81)	AY(82)	AY(83)	AY(84)	AY(85)	AY(86)	AY(87)	AY(88)	AY(89)	AY(90)
0.784767	0.885020	0.605151	0.671504	0.000000	0.303933	0.243508	0.669003	0.600236	0.636452	0.648946	0.449275	0.602636	0.407587	0.440701
AY(91)	AY(92)	AY(93)	AY(94)	AY(95)	AY(96)	AY(97)	AY(98)	AY(99)	AY(100)	AY(101)	AY(102)	AY(103)	AY(104)	AY(105)
0.735921	0.851534	0.558195	0.558358	0.713532	0.732654	0.637750	0.294748	0.655198	0.361597	0.735262	0.631194	0.439779	0.470239	0.717599
AY(106)	AY(107)													
0.399887	0.000000													

**Table 6: Parameter Values (continued)**

$$GSAI(i) = \rho_i; i = 1, 2, \dots, 107$$

GSAI( 1)	GSAI( 2)	GSAI( 3)	GSAI( 4)	GSAI( 5)	GSAI( 6)	GSAI( 7)	GSAI( 8)	GSAI( 9)	GSAI(10)	GSAI(11)	GSAI(12)	GSAI(13)	GSAI(14)	GSAI(15)
0.000418	0.001846	0.000000	0.007704	0.000023	0.000009	0.000378	-0.001540	0.001904	0.001241	0.000105	-0.000541	0.000953	0.001007	0.001002
GSAI(16)	GSAI(17)	GSAI(18)	GSAI(19)	GSAI(20)	GSAI(21)	GSAI(22)	GSAI(23)	GSAI(24)	GSAI(25)	GSAI(26)	GSAI(27)	GSAI(28)	GSAI(29)	GSAI(30)
0.003683	0.000401	-0.000053	0.000015	0.000003	0.000119	-0.000029	0.000069	0.000388	-0.000063	-0.000118	0.000100	-0.001943	0.000210	0.000776
GSAI(31)	GSAI(32)	GSAI(33)	GSAI(34)	GSAI(35)	GSAI(36)	GSAI(37)	GSAI(38)	GSAI(39)	GSAI(40)	GSAI(41)	GSAI(42)	GSAI(43)	GSAI(44)	GSAI(45)
0.000078	-0.000038	0.000057	0.000003	0.000154	0.000419	-0.001777	0.002139	0.000111	0.000180	-0.001248	0.002241	0.000520	0.003091	0.041242
GSAI(46)	GSAI(47)	GSAI(48)	GSAI(49)	GSAI(50)	GSAI(51)	GSAI(52)	GSAI(53)	GSAI(54)	GSAI(55)	GSAI(56)	GSAI(57)	GSAI(58)	GSAI(59)	GSAI(60)
0.071786	0.018354	0.029925	0.024607	0.015242	0.002979	0.002122	0.019012	0.032610	0.000412	-0.000317	0.035209	0.019425	0.001465	0.002726
GSAI(61)	GSAI(62)	GSAI(63)	GSAI(64)	GSAI(65)	GSAI(66)	GSAI(67)	GSAI(68)	GSAI(69)	GSAI(70)	GSAI(71)	GSAI(72)	GSAI(73)	GSAI(74)	GSAI(75)
0.014186	0.018706	0.011439	0.000000	0.304971	0.000000	0.001472	0.058366	0.000000	0.000000	0.000000	0.000000	0.136365	0.000000	0.000000
GSAI(76)	GSAI(77)	GSAI(78)	GSAI(79)	GSAI(80)	GSAI(81)	GSAI(82)	GSAI(83)	GSAI(84)	GSAI(85)	GSAI(86)	GSAI(87)	GSAI(88)	GSAI(89)	GSAI(90)
0.000000	0.000000	0.000015	0.007806	0.000000	0.000501	0.000020	0.000294	0.000577	0.000000	0.000000	0.000000	0.078944	0.000000	0.000560
GSAI(91)	GSAI(92)	GSAI(93)	GSAI(94)	GSAI(95)	GSAI(96)	GSAI(97)	GSAI(98)	GSAI(99)	GSAI(100)	GSAI(101)	GSAI(102)	GSAI(103)	GSAI(104)	GSAI(105)
0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.024440	0.000000	0.000000	0.000000	0.000000
GSAI(106)	GSAI(107)													
0.000000	0.000000													

**Table 6: Parameter Values (continued)**

$$GAMMAM(i) = \gamma_i^M; i = 1, 2, \dots, 107$$

GAMMAM( 1)	GAMMAM( 2)	GAMMAM( 3)	GAMMAM( 4)	GAMMAM( 5)	GAMMAM( 6)	GAMMAM( 7)	GAMMAM( 8)	GAMMAM( 9)	GAMMAM(10)	GAMMAM(11)	GAMMAM(12)	GAMMAM(13)	GAMMAM(14)	GAMMAM(15)
0.204213	0.015883	0.000000	0.159696	0.169359	0.989016	0.161561	0.991011	0.151897	0.057352	0.092149	0.244285	0.205769	0.588887	0.296517
GAMMAM(16)	GAMMAM(17)	GAMMAM(18)	GAMMAM(19)	GAMMAM(20)	GAMMAM(21)	GAMMAM(22)	GAMMAM(23)	GAMMAM(24)	GAMMAM(25)	GAMMAM(26)	GAMMAM(27)	GAMMAM(28)	GAMMAM(29)	GAMMAM(30)
0.178307	0.078185	0.031427	0.007000	0.228893	0.166364	0.015279	0.262157	0.150654	0.139844	0.130729	0.132632	0.151774	0.065853	0.059744
GAMMAM(31)	GAMMAM(32)	GAMMAM(33)	GAMMAM(34)	GAMMAM(35)	GAMMAM(36)	GAMMAM(37)	GAMMAM(38)	GAMMAM(39)	GAMMAM(40)	GAMMAM(41)	GAMMAM(42)	GAMMAM(43)	GAMMAM(44)	GAMMAM(45)
0.174788	0.634839	0.133737	0.005358	0.134695	0.126247	0.046285	0.038267	0.010569	0.057458	0.518190	0.143344	0.030947	0.067039	0.090442
GAMMAM(46)	GAMMAM(47)	GAMMAM(48)	GAMMAM(49)	GAMMAM(50)	GAMMAM(51)	GAMMAM(52)	GAMMAM(53)	GAMMAM(54)	GAMMAM(55)	GAMMAM(56)	GAMMAM(57)	GAMMAM(58)	GAMMAM(59)	GAMMAM(60)
0.159450	0.094953	0.057172	0.167955	0.392915	0.159768	0.164382	0.199346	0.671938	0.587932	0.147661	0.120402	0.027670	0.026757	0.039290
GAMMAM(61)	GAMMAM(62)	GAMMAM(63)	GAMMAM(64)	GAMMAM(65)	GAMMAM(66)	GAMMAM(67)	GAMMAM(68)	GAMMAM(69)	GAMMAM(70)	GAMMAM(71)	GAMMAM(72)	GAMMAM(73)	GAMMAM(74)	GAMMAM(75)
0.299314	0.389652	0.289767	0.000000	0.000000	0.000000	0.000000	0.000000	0.000068	0.000063	0.000318	0.000072	0.007164	0.012048	0.000000
GAMMAM(76)	GAMMAM(77)	GAMMAM(78)	GAMMAM(79)	GAMMAM(80)	GAMMAM(81)	GAMMAM(82)	GAMMAM(83)	GAMMAM(84)	GAMMAM(85)	GAMMAM(86)	GAMMAM(87)	GAMMAM(88)	GAMMAM(89)	GAMMAM(90)
0.000123	0.000000	0.030748	0.011163	0.000000	0.453834	0.394777	0.000000	0.000000	0.043256	0.005262	0.000000	0.022020	0.002268	0.031897
GAMMAM(91)	GAMMAM(92)	GAMMAM(93)	GAMMAM(94)	GAMMAM(95)	GAMMAM(96)	GAMMAM(97)	GAMMAM(98)	GAMMAM(99)	GAMMAM(100)	GAMMAM(101)	GAMMAM(102)	GAMMAM(103)	GAMMAM(104)	GAMMAM(105)
0.000000	0.002954	0.042848	0.000056	0.000000	0.000000	0.006711	0.022928	0.002069	0.000019	0.026586	0.018407	0.041963	0.220840	0.000424
GAMMAM(106)	GAMMAM(107)													
0.058544	0.000000													

**Table 6: Parameter Values (continued)**

$$GAMMAD(i) = \gamma_i^D; i = 1, 2, \dots, 107$$

GAMMAD( 1)	GAMMAD( 2)	GAMMAD( 3)	GAMMAD( 4)	GAMMAD( 5)	GAMMAD( 6)	GAMMAD( 7)	GAMMAD( 8)	GAMMAD( 9)	GAMMAD(10)	GAMMAD(11)	GAMMAD(12)	GAMMAD(13)	GAMMAD(14)	GAMMAD(15)
0.795787	0.984117	1.000000	0.840304	0.830641	0.010984	0.838439	0.008989	0.848103	0.942648	0.907851	0.755715	0.794231	0.411113	0.703483
GAMMAD(16)	GAMMAD(17)	GAMMAD(18)	GAMMAD(19)	GAMMAD(20)	GAMMAD(21)	GAMMAD(22)	GAMMAD(23)	GAMMAD(24)	GAMMAD(25)	GAMMAD(26)	GAMMAD(27)	GAMMAD(28)	GAMMAD(29)	GAMMAD(30)
0.821693	0.921815	0.968573	0.993000	0.771107	0.833636	0.984721	0.737843	0.849346	0.860156	0.869271	0.867368	0.848226	0.934147	0.940256
GAMMAD(31)	GAMMAD(32)	GAMMAD(33)	GAMMAD(34)	GAMMAD(35)	GAMMAD(36)	GAMMAD(37)	GAMMAD(38)	GAMMAD(39)	GAMMAD(40)	GAMMAD(41)	GAMMAD(42)	GAMMAD(43)	GAMMAD(44)	GAMMAD(45)
0.825212	0.365161	0.866263	0.994642	0.865305	0.873753	0.953715	0.961733	0.989431	0.942542	0.481810	0.856656	0.969053	0.932961	0.909558
GAMMAD(46)	GAMMAD(47)	GAMMAD(48)	GAMMAD(49)	GAMMAD(50)	GAMMAD(51)	GAMMAD(52)	GAMMAD(53)	GAMMAD(54)	GAMMAD(55)	GAMMAD(56)	GAMMAD(57)	GAMMAD(58)	GAMMAD(59)	GAMMAD(60)
0.840550	0.905047	0.942828	0.832045	0.607085	0.840232	0.835618	0.800654	0.328062	0.412068	0.852339	0.879598	0.972330	0.973243	0.960710
GAMMAD(61)	GAMMAD(62)	GAMMAD(63)	GAMMAD(64)	GAMMAD(65)	GAMMAD(66)	GAMMAD(67)	GAMMAD(68)	GAMMAD(69)	GAMMAD(70)	GAMMAD(71)	GAMMAD(72)	GAMMAD(73)	GAMMAD(74)	GAMMAD(75)
0.700686	0.610348	0.710233	1.000000	1.000000	1.000000	1.000000	1.000000	0.999932	0.999937	0.999682	0.999928	0.992836	0.987952	1.000000
GAMMAD(76)	GAMMAD(77)	GAMMAD(78)	GAMMAD(79)	GAMMAD(80)	GAMMAD(81)	GAMMAD(82)	GAMMAD(83)	GAMMAD(84)	GAMMAD(85)	GAMMAD(86)	GAMMAD(87)	GAMMAD(88)	GAMMAD(89)	GAMMAD(90)
0.999877	1.000000	0.969252	0.988837	1.000000	0.546166	0.605223	1.000000	1.000000	0.956744	0.994738	1.000000	0.977980	0.997732	0.968103
GAMMAD(91)	GAMMAD(92)	GAMMAD(93)	GAMMAD(94)	GAMMAD(95)	GAMMAD(96)	GAMMAD(97)	GAMMAD(98)	GAMMAD(99)	GAMMAD(100)	GAMMAD(101)	GAMMAD(102)	GAMMAD(103)	GAMMAD(104)	GAMMAD(105)
1.000000	0.997046	0.957152	0.999944	1.000000	1.000000	0.993289	0.977072	0.997931	0.999981	0.973414	0.981593	0.958037	0.779160	0.999576
GAMMAD(106)	GAMMAD(107)													
0.941456	1.000000													

**Table 6: Parameter Values (continued)**

$$KAPPAE(i) = \kappa_i^E; i = 1, 2, \dots, 107$$

KAPPAE( 1)	KAPPAE( 2)	KAPPAE( 3)	KAPPAE( 4)	KAPPAE( 5)	KAPPAE( 6)	KAPPAE( 7)	KAPPAE( 8)	KAPPAE( 9)	KAPPAE(10)	KAPPAE(11)	KAPPAE(12)	KAPPAE(13)	KAPPAE(14)	KAPPAE(15)
0.003039	0.000270	0.000000	0.001252	0.025258	0.182150	0.031150	0.001016	0.008845	0.002643	0.003551	0.010760	0.236228	0.021328	0.004348
KAPPAE(16)	KAPPAE(17)	KAPPAE(18)	KAPPAE(19)	KAPPAE(20)	KAPPAE(21)	KAPPAE(22)	KAPPAE(23)	KAPPAE(24)	KAPPAE(25)	KAPPAE(26)	KAPPAE(27)	KAPPAE(28)	KAPPAE(29)	KAPPAE(30)
0.027498	0.049164	0.015724	0.007009	0.032443	0.137034	0.109029	0.301676	0.290771	0.275001	0.046991	0.193032	0.053784	0.033542	0.103752
KAPPAE(31)	KAPPAE(32)	KAPPAE(33)	KAPPAE(34)	KAPPAE(35)	KAPPAE(36)	KAPPAE(37)	KAPPAE(38)	KAPPAE(39)	KAPPAE(40)	KAPPAE(41)	KAPPAE(42)	KAPPAE(43)	KAPPAE(44)	KAPPAE(45)
0.236375	0.041396	0.210679	0.008462	0.154667	0.145432	0.016499	0.189440	0.010059	0.004244	0.188856	0.158541	0.006420	0.078360	0.261322
KAPPAE(46)	KAPPAE(47)	KAPPAE(48)	KAPPAE(49)	KAPPAE(50)	KAPPAE(51)	KAPPAE(52)	KAPPAE(53)	KAPPAE(54)	KAPPAE(55)	KAPPAE(56)	KAPPAE(57)	KAPPAE(58)	KAPPAE(59)	KAPPAE(60)
0.374836	0.219185	0.064306	0.322125	0.559810	0.440164	0.079687	0.259846	0.607049	0.679630	0.256909	0.527340	0.354772	0.139857	0.604501
KAPPAE(61)	KAPPAE(62)	KAPPAE(63)	KAPPAE(64)	KAPPAE(65)	KAPPAE(66)	KAPPAE(67)	KAPPAE(68)	KAPPAE(69)	KAPPAE(70)	KAPPAE(71)	KAPPAE(72)	KAPPAE(73)	KAPPAE(74)	KAPPAE(75)
0.222479	0.375409	0.139016	0.255331	0.000000	0.000000	0.000000	0.000000	0.001922	0.000244	0.002235	0.000838	0.081116	0.015740	0.000207
KAPPAE(76)	KAPPAE(77)	KAPPAE(78)	KAPPAE(79)	KAPPAE(80)	KAPPAE(81)	KAPPAE(82)	KAPPAE(83)	KAPPAE(84)	KAPPAE(85)	KAPPAE(86)	KAPPAE(87)	KAPPAE(88)	KAPPAE(89)	KAPPAE(90)
0.001465	0.000000	0.015210	0.054490	0.000000	0.619934	0.258458	0.070603	0.049171	0.088519	0.004668	0.000010	0.010135	0.003421	0.010506
KAPPAE(91)	KAPPAE(92)	KAPPAE(93)	KAPPAE(94)	KAPPAE(95)	KAPPAE(96)	KAPPAE(97)	KAPPAE(98)	KAPPAE(99)	KAPPAE(100)	KAPPAE(101)	KAPPAE(102)	KAPPAE(103)	KAPPAE(104)	KAPPAE(105)
0.000000	0.001252	0.027012	0.000006	0.000000	0.000000	0.003981	0.013002	0.012756	0.000177	0.013158	0.008165	0.011575	0.088229	0.000147
KAPPAE(106)	KAPPAE(107)													
0.008925	0.000000													

**Table 6: Parameter Values (continued)**

$$KAPPAD(i) = \kappa_i^D; i = 1, 2, \dots, 107$$

KAPPAD( 1)	KAPPAD( 2)	KAPPAD( 3)	KAPPAD( 4)	KAPPAD( 5)	KAPPAD( 6)	KAPPAD( 7)	KAPPAD( 8)	KAPPAD( 9)	KAPPAD(10)	KAPPAD(11)	KAPPAD(12)	KAPPAD(13)	KAPPAD(14)	KAPPAD(15)
0.996961	0.999730	1.000000	0.998748	0.974742	0.817850	0.968850	0.998984	0.991155	0.997357	0.996449	0.989240	0.763772	0.978672	0.995652
KAPPAD(16)	KAPPAD(17)	KAPPAD(18)	KAPPAD(19)	KAPPAD(20)	KAPPAD(21)	KAPPAD(22)	KAPPAD(23)	KAPPAD(24)	KAPPAD(25)	KAPPAD(26)	KAPPAD(27)	KAPPAD(28)	KAPPAD(29)	KAPPAD(30)
0.972502	0.950836	0.984276	0.992991	0.967557	0.862966	0.890971	0.698324	0.709229	0.724999	0.953009	0.806968	0.946216	0.966458	0.896248
KAPPAD(31)	KAPPAD(32)	KAPPAD(33)	KAPPAD(34)	KAPPAD(35)	KAPPAD(36)	KAPPAD(37)	KAPPAD(38)	KAPPAD(39)	KAPPAD(40)	KAPPAD(41)	KAPPAD(42)	KAPPAD(43)	KAPPAD(44)	KAPPAD(45)
0.763625	0.958604	0.789321	0.991538	0.845333	0.854568	0.983501	0.810560	0.989941	0.995756	0.811144	0.841459	0.993580	0.921640	0.738678
KAPPAD(46)	KAPPAD(47)	KAPPAD(48)	KAPPAD(49)	KAPPAD(50)	KAPPAD(51)	KAPPAD(52)	KAPPAD(53)	KAPPAD(54)	KAPPAD(55)	KAPPAD(56)	KAPPAD(57)	KAPPAD(58)	KAPPAD(59)	KAPPAD(60)
0.625164	0.780815	0.935694	0.677875	0.440190	0.559836	0.920313	0.740154	0.392951	0.320370	0.743091	0.472660	0.645228	0.860143	0.395499
KAPPAD(61)	KAPPAD(62)	KAPPAD(63)	KAPPAD(64)	KAPPAD(65)	KAPPAD(66)	KAPPAD(67)	KAPPAD(68)	KAPPAD(69)	KAPPAD(70)	KAPPAD(71)	KAPPAD(72)	KAPPAD(73)	KAPPAD(74)	KAPPAD(75)
0.777521	0.624591	0.860984	0.744669	1.000000	1.000000	1.000000	1.000000	0.998078	0.999756	0.997765	0.999162	0.918884	0.984260	0.999793
KAPPAD(76)	KAPPAD(77)	KAPPAD(78)	KAPPAD(79)	KAPPAD(80)	KAPPAD(81)	KAPPAD(82)	KAPPAD(83)	KAPPAD(84)	KAPPAD(85)	KAPPAD(86)	KAPPAD(87)	KAPPAD(88)	KAPPAD(89)	KAPPAD(90)
0.998535	1.000000	0.984790	0.945510	1.000000	0.380066	0.741542	0.929397	0.950829	0.911481	0.995332	0.999990	0.989865	0.996579	0.989494
KAPPAD(91)	KAPPAD(92)	KAPPAD(93)	KAPPAD(94)	KAPPAD(95)	KAPPAD(96)	KAPPAD(97)	KAPPAD(98)	KAPPAD(99)	KAPPAD(100)	KAPPAD(101)	KAPPAD(102)	KAPPAD(103)	KAPPAD(104)	KAPPAD(105)
1.000000	0.998748	0.972988	0.999994	1.000000	1.000000	0.996019	0.986998	0.987244	0.999823	0.986842	0.991835	0.988425	0.911771	0.999853
KAPPAD(106)	KAPPAD(107)													
0.991075	1.000000													

**Table 6: Parameter Values (continued)**  
 $BETA(i, j) = \beta_j^i, i = 1(\text{capital}), 2(\text{labor}), j = 1, 2, \dots, 107$

BETA( 1 1)	BETA( 2 1)	BETA( 1 2)	BETA( 2 2)	BETA( 1 3)	BETA( 2 3)	BETA( 1 4)	BETA( 2 4)	BETA( 1 5)	BETA( 2 5)	BETA( 1 6)	BETA( 2 6)	BETA( 1 7)	BETA( 2 7)
0.873705	0.126295	0.795029	0.204971	0.377652	0.622348	0.789692	0.210308	0.619845	0.380155	0.425395	0.574605	0.348301	0.651699
BETA( 1 8)	BETA( 2 8)	BETA( 1 9)	BETA( 2 9)	BETA( 1 10)	BETA( 2 10)	BETA( 1 11)	BETA( 2 11)	BETA( 1 12)	BETA( 2 12)	BETA( 1 13)	BETA( 2 13)	BETA( 1 14)	BETA( 2 14)
0.385843	0.614157	0.430065	0.569935	0.626244	0.373756	0.708251	0.291749	0.800717	0.199283	0.153092	0.846908	0.171611	0.828389
BETA( 1 15)	BETA( 2 15)	BETA( 1 16)	BETA( 2 16)	BETA( 1 17)	BETA( 2 17)	BETA( 1 18)	BETA( 2 18)	BETA( 1 19)	BETA( 2 19)	BETA( 1 20)	BETA( 2 20)	BETA( 1 21)	BETA( 2 21)
0.398741	0.601259	0.186805	0.813195	0.583062	0.416938	0.275022	0.724978	0.332154	0.667846	0.485737	0.514263	0.580994	0.419006
BETA( 1 22)	BETA( 2 22)	BETA( 1 23)	BETA( 2 23)	BETA( 1 24)	BETA( 2 24)	BETA( 1 25)	BETA( 2 25)	BETA( 1 26)	BETA( 2 26)	BETA( 1 27)	BETA( 2 27)	BETA( 1 28)	BETA( 2 28)
0.747311	0.252689	0.474172	0.525828	0.462937	0.537063	0.334964	0.665036	0.578962	0.421038	0.413419	0.586581	0.508695	0.491305
BETA( 1 29)	BETA( 2 29)	BETA( 1 30)	BETA( 2 30)	BETA( 1 31)	BETA( 2 31)	BETA( 1 32)	BETA( 2 32)	BETA( 1 33)	BETA( 2 33)	BETA( 1 34)	BETA( 2 34)	BETA( 1 35)	BETA( 2 35)
0.627415	0.372585	0.207273	0.792727	0.338813	0.661187	0.353164	0.646836	0.480519	0.519481	0.378114	0.621886	0.317792	0.682208
BETA( 1 36)	BETA( 2 36)	BETA( 1 37)	BETA( 2 37)	BETA( 1 38)	BETA( 2 38)	BETA( 1 39)	BETA( 2 39)	BETA( 1 40)	BETA( 2 40)	BETA( 1 41)	BETA( 2 41)	BETA( 1 42)	BETA( 2 42)
0.394347	0.605653	0.544357	0.455643	0.622426	0.377574	0.414574	0.585426	0.227985	0.772015	0.450008	0.549992	0.324905	0.675095
BETA( 1 43)	BETA( 2 43)	BETA( 1 44)	BETA( 2 44)	BETA( 1 45)	BETA( 2 45)	BETA( 1 46)	BETA( 2 46)	BETA( 1 47)	BETA( 2 47)	BETA( 1 48)	BETA( 2 48)	BETA( 1 49)	BETA( 2 49)
0.238573	0.761427	0.205336	0.794664	0.297464	0.702536	0.316831	0.683169	0.217319	0.782681	0.405635	0.594365	0.166071	0.833929
BETA( 1 50)	BETA( 2 50)	BETA( 1 51)	BETA( 2 51)	BETA( 1 52)	BETA( 2 52)	BETA( 1 53)	BETA( 2 53)	BETA( 1 54)	BETA( 2 54)	BETA( 1 55)	BETA( 2 55)	BETA( 1 56)	BETA( 2 56)
0.230711	0.769289	0.433889	0.566111	0.445027	0.554973	0.259323	0.740677	0.368190	0.631810	0.284373	0.715627	0.203093	0.796907
BETA( 1 57)	BETA( 2 57)	BETA( 1 58)	BETA( 2 58)	BETA( 1 59)	BETA( 2 59)	BETA( 1 60)	BETA( 2 60)	BETA( 1 61)	BETA( 2 61)	BETA( 1 62)	BETA( 2 62)	BETA( 1 63)	BETA( 2 63)
0.341356	0.658644	0.331808	0.668192	0.219457	0.780543	0.338121	0.661879	0.329092	0.670908	0.276800	0.723200	0.307300	0.692700
BETA( 1 64)	BETA( 2 64)	BETA( 1 65)	BETA( 2 65)	BETA( 1 66)	BETA( 2 66)	BETA( 1 67)	BETA( 2 67)	BETA( 1 68)	BETA( 2 68)	BETA( 1 69)	BETA( 2 69)	BETA( 1 70)	BETA( 2 70)
0.136513	0.863487	0.126572	0.873428	0.117856	0.882144	0.192903	0.807097	0.170729	0.829271	0.688454	0.311546	0.471007	0.528993
BETA( 1 71)	BETA( 2 71)	BETA( 1 72)	BETA( 2 72)	BETA( 1 73)	BETA( 2 73)	BETA( 1 74)	BETA( 2 74)	BETA( 1 75)	BETA( 2 75)	BETA( 1 76)	BETA( 2 76)	BETA( 1 77)	BETA( 2 77)
0.659005	0.340995	0.200339	0.799661	0.356460	0.643540	0.507732	0.492268	0.693330	0.306670	0.933852	0.066148	1.000000	0.000000
BETA( 1 78)	BETA( 2 78)	BETA( 1 79)	BETA( 2 79)	BETA( 1 80)	BETA( 2 80)	BETA( 1 81)	BETA( 2 81)	BETA( 1 82)	BETA( 2 82)	BETA( 1 83)	BETA( 2 83)	BETA( 1 84)	BETA( 2 84)



0.566626	0.433374	0.112466	0.887534	0.000000	0.000000	0.396298	0.603702	0.371840	0.628160	0.158816	0.841184	0.299568	0.700432
BETA( 1 85)	BETA( 2 85)	BETA( 1 86)	BETA( 2 86)	BETA( 1 87)	BETA( 2 87)	BETA( 1 88)	BETA( 2 88)	BETA( 1 89)	BETA( 2 89)	BETA( 1 90)	BETA( 2 90)	BETA( 1 91)	BETA( 2 91)
0.511584	0.488416	0.514368	0.485632	0.523790	0.476210	0.356325	0.643675	0.474659	0.525341	0.309968	0.690032	0.408598	0.591402
BETA( 1 92)	BETA( 2 92)	BETA( 1 93)	BETA( 2 93)	BETA( 1 94)	BETA( 2 94)	BETA( 1 95)	BETA( 2 95)	BETA( 1 96)	BETA( 2 96)	BETA( 1 97)	BETA( 2 97)	BETA( 1 98)	BETA( 2 98)
0.162627	0.837373	0.170565	0.829435	0.219657	0.780343	0.060451	0.939549	0.174570	0.825430	0.114685	0.885315	0.435003	0.564997
BETA( 1 99)	BETA( 2 99)	BETA( 1100)	BETA( 2100)	BETA( 1101)	BETA( 2101)	BETA( 1102)	BETA( 2102)	BETA( 1103)	BETA( 2103)	BETA( 1104)	BETA( 2104)	BETA( 1105)	BETA( 2105)
0.810139	0.189861	0.169821	0.830179	0.276521	0.723479	0.565949	0.434051	0.278234	0.721766	0.365413	0.634587	0.456596	0.543404
BETA( 1106)	BETA( 2106)	BETA( 1107)	BETA( 2107)										
0.347163	0.652837	0.000000	0.000000										





