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Fiscal Policies That Stimulate the Textile Industry Market - Whether They Are Beneficial in Reducing Income Disparities - An Empirical Study from Japan

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Article

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ABSTRACT

Different fiscal policies have significant differences in their impact on various industries. In 2008, Japan introduced a policy called "hometown tax"(Furusato Nozei), which had a notable effect on income disparity in the textile industry market. This policy utilized the local characteristic gift system—including high-quality textile crafts and agricultural products—to stimulate regional economies. Since the textile industry is a cornerstone of many rural Japanese economies, its revitalization through policy-driven consumption is crucial for balancing regional development. In this paper, the microdata of the 15 years since the implementation of the Japanese hometown tax have been extended by introducing the Theil Index, which has been expanded to study the effect of hometown tax on the income gap in urban and rural areas. The study found that the implementation of this policy regulates the problem of the income gap between urban and rural areas, which is based on the double difference method. This means that the policy or through the problem of reducing urban and rural income is effectively reduced. The results indicate that the fiscal stimulus, often channeled through the promotion of local textile and traditional industries, effectively reduces urban and rural income inequality.

KEYWORDS

income gap, Theil Index, Japan, Furusato Nozei, textile industry market

INTRODUCTION

In 2008, the Japanese government launched a policy called "Hometown Tax", which greatly stimulated the local economy in Japan. Among them, industries such as the textile industry and agricultural product industry, which represent the local economy, were most affected as their products became the primary ‘return gifts’

for urban donors. This mechanism created a direct market link between urban capital and rural manufacturing, particularly providing a survival path for traditional textile clusters. The urban-rural income gap is not only a problem for developing countries but also for developed countries. Therefore, this paper analyzes and studies Japan's hometown tax policy. On the kuznets framework, the relationship between income gap and economy is still consistent with the inverse curve. Although the concentration of capital and labor in the early stages of economic development will lead to an increased regional problem. In the end of the economic development, the regional income gap remains to be reversed because of the government's macro-control policy support to narrow the income gap in different regions [1-3].

In the 1990s, Japan's economic bubble exacerbated its population migration problem. Many young people, born in rural areas and receiving various services from local governments such as education and healthcare from a young age, flocked to core metropolitan areas like Tokyo, Osaka, and Nagoya after completing higher education or finding employment, paying taxes there [4,5]. Therefore, while these metropolitan areas generated substantial tax revenue, the local governments that nurtured them did not. Over time, the siphon effect of these core cities intensified, leading to a sharp decline in the population outside these metropolitan areas, with many regions becoming underdeveloped and remote. These remote areas, due to industrial decline and increased difficulty in tax collection, faced a vicious cycle of insufficient fiscal revenue and declining public services, resulting in unbalanced regional development [6-8].

Based on the above background, the first time in the city of Fukuoka, the advice of "the migrant people transferred some of the tax to their hometown" was proposed in October 2006. In October 2007, the government focused on reducing the financial scale of the financial resources among different regions, and finally officially passed the tax system in April 2008, with the Japanese "local tax law amendment" (No. 21 in 2008), which was detailed in the country's income tax, and the hometown tax was officially introduced [9-11]. After more than a decade of development, the tax on Japan's hometown has formed a more comprehensive donation system. AAs a tool for the willingness of a donor public product willingness to express, this policy has built new links for donors and municipal authorities to promote each other's development [12-14].

The voluntary donations spurred by the hometown tax primarily manifest as personal tax deductions and the return of donated goods to the recipient region. Data shows that despite a continuous upward trend in the

early stages of reform, participation rate lower is still lower than that in expected. In 2014, however, the Japanese government implemented several measures, such as reducing the complexity of declaration and optimizing the upper limit of the minimum tax burden, which led to a steady increase in the participation rate. The number of participants rose from 50,000 in 2008 to 1.91 million in 2014, and further to 58.95 million in 2023. This increase in the number of donations led to a surge in hometown tax revenue, growing from 8.144 billion yen in 2008 to 1.1175 trillion yen in 2023—a 136-fold increase. Geographically, Hokkaido had the highest number of donations and the highest amount received in 2023, at 9.74 million donations and 1.655 trillion yen.

With the prosperity of Japan's hometown tax, more and more taxpayers are participating in it. The amount donated will be transformed into a gift that can be returned. Therefore, making good use of return gift methods can support a large number of local industries and expand local tax sources. In particular, of the 13 trillion yen of resident tax in Japan in 2023, one trillion yen will be moved through this method. Its indirect effects are still increasing. As the types of returned items become more diverse, not only the rich areas can return high prices and cattle or other agricultural products, and some of the less economically weak cities, such as those specialized in weaving and dyeing, can also return some local characteristics hand-woven textile products. For example, in Hirado, a remote area of Nagasaki. which is selected by the donors through the characteristics of hand knitting products, and has formed the 'Hirado Seto' textile brand based on the local cultural heritage, and provides a large number of jobs for the local people. Such industrial revitalization in the textile sector serves as a microcosm of how fiscal policies can bridge the wealth gap. As well as a well-known animation Numazu City in Shizuoka Prefectur, the city is given a large number of fans' donation as a result the income tax is increased, the city image is significantly improved, and the local handicrafts are sold.

Bases on the above, this paper studies the financial policy path of the study of the micro data of the hometown tax in 2008 -2023. This work found that the impact coefficience of the income gap in the urban and rural income gap was 0.105, which meant that the policy could effectively reduce the problem of urban and rural income by supporting local characteristic industries like textiles.

DATA AND METHODS

An empirical identification of the impact of hometown tax revenue on the urban-rural income gap in Japan. Japanese municipalities, villages, and towns at the second-level administrative level (2008-2023) to assess the impact trend of hometown tax revenue on the urban-rural income gap in Japan using a multi-period difference-in-differences model. To explore the impact of hometown tax revenue on the urban-rural income gap in Japan, the following empirical model was constructed:

$$Y_{it} = \alpha + \beta X_{it} + \gamma Control_{it} + \mu_i + \eta_t + \varepsilon_{it} \quad (1)$$

Among them, i、t representative regions and years; α is a constant term; β is the regression coefficient of core policy effect. The explained Y_{it} variable corresponds to Japan's urban and rural income gap; Explain the variable X_{it} corresponding hometown tax ; To control variables; $Control_{it}$ is to control variables; μ_i is the urban fixation effect, which is used to control the influence of factors that are not at any time in the city level. η_t is a time-neutral fixed effect to rule out macro time trends.

This article is explained by the variable income gap(ntl). The formula is as follows:

$$theil_{it} = \sum_{j=1}^{2} \left[\frac{y_{ijt}}{y_{it}} \right] \ln \left[\frac{y_{ijt}}{y_{it}} / \frac{p_{ijt}}{p_{it}} \right] \quad (2)$$

In this formula, theil is Theil Index; j = 1, 2 represent counties/cities and towns/villages respectively; p_{it} is to represent the population of the region i of the year t; p_{ijt} represents the population of counties/cities or towns/villages; y_{it} means gross income; y_{ijt} represents the total income of residents of counties/cities or towns/villages,.

Since a higher Theil index indicates a greater income disparity, to make the empirical results more intuitive, the logarithm of the reciprocal of the Theil index is used as the measure of urban-rural income gap. This means that the larger the coefficient of the explanatory variable in this paper, the smaller the gap between

urban and rural incomes. The explanatory variable in this study is the actual hometown tax revenue received by each region. Due to the relatively large values, a logarithmic transformation is applied to reduce the impact of heteroscedasticity. To reduce omitted variable bias (OVB) and more accurately estimate the causal effect of the core explanatory variable, hometown tax revenue, on the urban-rural income gap: 1.the level of urbanization (urb); 2.Economic development level (pgdp); 3.The first production is more than (is); 4.Infrastructure(infra1); 5.Public construction expenditures(infra2); 6.Total fiscal expenditures(govern); 7.The number of manufacturing workers(nomw); 8.Aging(old) and 9.The central government's transfer of payment scale(tr) as a control variable. The specific calculation method is shown in Table 1.

Table 1. Variable specification

Variable type	Variable name and symbol	Computational mode
Explained variable	Urban and rural income gap(ntl)	In(1/ Theil Index)
Interpretation variable	Hometown tax (Intax)	In(Hometown tax income)
Control variable	Level of urbanization(urb)	Urban population/population
	Economic development level(pgdp)	In(Regional GDP/total population)
	The first production occupation ratio(is)	The output value of the first production/regional GDP
	Infrastructure level(infra1)	Per capita road area
	Public expenditure(infra2)	In(Total public construction expenditures)
	Total fiscal expenditure(govern)	In(Total fiscal expenditure)
	Number of manufacturing workers(nomw)	In(Manufacturing industry/population)
	Aging degree(old)	Aging rate
	The central government transfers the payment scale(tr)	In(The central government transfers total payments)
Mechanism variable	Net migration rate(pm)	(Displaced population)/ Annual population *100%
	Welfare expenditure(ben)	In(Fiscal expenditure)
	First production development(first)	In(The added value of agriculture and forestry husbandry and fishery)

Data Sources and Descriptive Statistics

This study covers the period from 2008 to 2023. The data used primarily comes from the e-Stat government statistics portal, the official websites of the Statistics Bureau of the Ministry of Internal Affairs and Communications and various local statistics bureaus, and the Ministry of Health, Labour and Welfare. After excluding municipalities with missing or outlier data (such as those severely affected by the 2011 Great East Japan Earthquake, government-designated cities (which have greater power than ordinary municipalities), and municipalities experiencing financial collapse), a final sample of 752 was obtained. Descriptive statistics of the variables are shown in Table 2.

Table 2. Sample descriptive statistics

variable	Sample size	mean	Standard error	Minimum value	Maximum value
ntl	752	8.077	1.323	3.338	15.975
lntax	752	15.769	3.100	10.181	24.910
urb	752	86.601	10.594	28.374	98.066
pgdp	752	2.180	0.145	1.832	2.797
is	752	1.632	1.208	0.016	5.350
infra1	752	3.095	1.402	0.328	6.729
tr	752	17.040	0.660	15.530	18.654
govern	752	20.304	0.803	18.283	22.658
nomw	752	-1.188	2.030	-3.420	4.843
infra2	752	16.460	2.261	0.000	20.167
old	752	28.146	4.018	17.200	39.000

RESULTS AND ANALYSIS

Resullt

As shown in Table 3, column (1) is the regression result without control variables, and column (2) is the regression result with control variables. Both columns show that hometown tax(lntax) has a significant positive impact on the urban-rural income gap (ntl). Based on the results in column (2), after controlling for other factors, the impact coefficient of hometown tax revenue on the urban-rural income gap is 0.105, which is significant at the 1% level. This means that an increase in hometown tax revenue will lead to a decrease in the urban-rural income gap. For every 100% increase in hometown tax revenue, the urban-rural income gap will decrease by 0.105 units.

Table 3. Benchmark regression

Variable	(1)	(2)
	ntl	ntl
lntax	0.167***	0.105***
	(4.86)	(2.99)
Control variable		Control
Constant term	5.445***	-38.31***
	(10.06)	(-2.79)
Urban fixation effect	Control	Control
Year fixed effect	Control	Control
Sample size	752	752
F value	23.666***	7.840***
R^2	0.784	0.799

t statistics in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

Robustness Test

In order to eliminate the bias in the estimation results caused by the selection of the explained variable, this paper replaces the explained variable with the urban-rural income ratio (per capita taxable income of urban residents/taxable income of rural residents), as shown in column (1) of Table 4. The hometown tax income still has a significant positive impact on the urban-rural income gap at the 1% level, indicating that the conclusion of this paper is basically robust. Second, since the hometown tax income increased significantly after 2015, the time period was shortened to 2015-2023, as shown in column (2), and the results are still robust. Finally, in the robustness test of the regression with a different time fixed effect, as shown in column (3), the regression results still show that the hometown tax has a significant positive impact on the urban-rural income gap variable, consistent with the baseline regression.

Table 4. Robustness test results

Variable	(1)	(2)	(3)
	Replace the interpreted variable	Reduction cycle	Replacement effect
lntax	0.183***	0.308***	0.232***
	(6.54)	(6.21)	(5.03)
Control variable	Control	Control	Control
Constant term	3.991	39.30*	-2.631
	(0.37)	(1.70)	(-0.90)
Urban fixation effect	Control	Control	Control
Year fixed effect	Control	Control	Control
Sample size	752	423	752
F value	7.368***	12.704***	21.784***
R^2	0.362	0.897	0.236

t statistics in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

Mechanism Check

Japan's growing tax scale has created favorable conditions for narrowing the urban and rural income gap, and we have passed three channels to check the system: fiscal transfer mechanism, population rebalance mechanism and industrial revitalization mechanism. Table 5 shows that the coefficients in all dimensions are significantly positive, which confirms their drivers.

As an innovative local fiscal adjustment tool, the Japanese hometown tax effectively alleviates the problem of urban and rural development imbalances through the three paths of fiscal transfer mechanism, population rebalance mechanism and industrial recovery mechanism. First, the hometown tax innovates the market competition mechanism to introduce financial transfer payments, implement the structural optimization of welfare expenditure, and improve the efficiency of fund allocation. In particular, the selection of donor push local governments to increase their efficiency and transparency, and to identify welfare needs and improve local welfare levels through real-time analysis of donated data. The results of the test effect test show that the effect of the income tax on welfare expenditure is 0.0237, which is significant in the 1% level, which indicates that the promotion of the income tax level of the hometown can increase the local financial and welfare expenditure. The regression results show that the income gap between hometown tax and financial welfare have effect on Japan's urban and rural income gap, which indicates that the mediation effect is established, indicating that the hometown tax will be able to promote the improvement of the financial welfare level and reduce the income gap between the urban and rural areas of Japan.

Second, the hometown tax is fully revitalized to the first production industry by opening the whole chain of "production and processing - consumption". In particular, the hometown tax return will allow local agricultural products and manufactured products to reach donors, reduce the loss of the middle, reduce the cost of circulation and raise the income of farmers. The results show that the influence of hometown tax in the development of the first production industry is 0.0179, which is significant in the 1% level, which indicates that the promotion of the tax level of the hometown can promote the development of the first production industry. The regression results show that the income gap between the tax entry and the first generation of the country have effect on the urban and rural income gap, which is the establishment of the intermediary effect, the hometown tax will promote the development of the first production industry, and reduce the income gap between the urban and rural areas of Japan.

Finally, the hometown tax reshapes the population migration decision function by constructing a dual attraction of " hometown affiliation and economic benefits." Specifically, donors form an emotional connection of "second hometown" by autonomously choosing their donation destination, prompting migration decisions to shift from purely economic rationality to a combined consideration of emotion and economy. Furthermore, the results of the above mechanism test indicate that local governments will increase welfare spending, develop primary industries, improve the quality life index of towns and villages, and reduce the opportunity cost of population outflow. The mediation effect test results show that column (population migration rate 1) reflects the impact of hometown tax revenue (Intax) on the net migration rate (pm), with an impact coefficient of 0.0196, which is significant at the 1% level. This indicates that an increase in hometown tax can increase the net migration rate and promote population inflow. Column (population migration rate 2) shows that both hometown tax revenue and net migration rate have an impact on the urban-rural income gap in Japan, indicating that the mediation effect is valid and that hometown tax can narrow the urban-rural income gap by promoting the net migration rate.

Table 5. Welfare expenditure, the development of the first production industry, the mechanism effect test of population migration rate

Variable	(Welfare expenditure 1)	(Welfare expenditure 2)	(First production development 1)	(First production development 2)	(Population mobility 1)	(Population mobility 2)
	ben	ntl	first	ntl	pm	ntl
lntax	0.0237***	0.0829***	0.0179***	0.0849***	0.0196***	0.0623***
	(5.04)	(2.33)	(3.95)	(2.41)	(4.57)	(1.81)
Control variable	Control	Control	Control	Control	Control	Control
Constant term	8.856***	-46.70***	3.482**	-42.29***	-0.829	-36.49***
	(4.83)	(-3.37)	(1.97)	(-3.10)	(-0.50)	(-2.76)
Urban fixation effect	Control	Control	Control	Control	Control	Control

Year fixed effect	Control	Control	Control	Control	Control	Control
Sample size	752	752	752	752	752	752
F value	38.627***	8.238***	69.804***	8.636***	3.344***	12.447***
R^2	0.991	0.803	0.988	0.804	0.523	0.814

t statistics in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

Heterogeneity Analysis

The effect of hometown tax on moderating the urban-rural income gap exhibits significant regional heterogeneity, with its policy effectiveness being particularly pronounced in densely populated areas, key industrial revitalization regions, and areas with high agricultural levels. This difference stems from the effect of regional resource endowment, industrial base, and policy adaptability. The specific mechanism can be analyzed through the following dimensions in Table 6. First, relying on the large population base in densely populated areas, their tax-paying capacity is stronger. Donating hometown tax to local towns or economically underdeveloped areas directly promotes the transfer of funds from cities to rural areas. Furthermore, high-density areas may face a greater urban-rural income gap; therefore, the effect is more significant when funds flow into towns through hometown tax. Column 1 shows the regression results for high-density areas, indicating that the impact coefficient of hometown tax revenue on the urban-rural income gap in Japan is 0.206, significant at the 1% level. Column 2 shows the regression results for low-density areas, indicating that the impact coefficient of hometown tax revenue on the urban-rural income gap is 0.0224, not significant. This demonstrates that the effect of hometown tax on reducing the urban-rural income gap is stronger in high-density areas.

In regions where hometown tax revenue is used for industrial revitalization, this portion of the funds is more directly used to support local industries, promote economic development, create more jobs and increase residents' income, thereby directly contributing to the reduction of the urban-rural income gap. Column 3 shows the regression results for regions where hometown tax revenue is used for industrial revitalization. The results show that the impact coefficient of hometown tax revenue on the urban-rural income gap in

Japan is 0.533, which is significant at the 1% level. Column 4 shows the regression results for regions where hometown tax revenue is not used for industrial revitalization. The results show that the impact coefficient of hometown tax(lntax) on urban and rural income gap(ntl) is 0.0955, which is significant at the 5% level. This indicates that the effect of hometown tax on reducing the urban-rural income gap is stronger in regions where hometown tax is used for industrial revitalization.

The effectiveness of high-agricultural-level regions in narrowing the urban-rural income gap stems from path dependence and institutional complementarity. Due to the historical cumulative effect of their agricultural infrastructure endowments, these regions have built specialized asset networks for the allocation of production factors, enabling more efficient use of funds. Column 5 shows the regression results for high-agricultural-level regions, indicating that the impact coefficient of hometown tax revenue on the urban-rural income gap in Japan is 0.201, significant at the 1% level. Column 6 shows the regression results for low-agricultural-level regions, indicating that the impact coefficient of hometown tax revenue on the urban-rural income gap in Japan is 0.0566, not significant. This demonstrates that the effect of hometown tax on reducing the urban-rural income gap is stronger in high-agricultural-level regions.

Table 6. Heterogeneity

Variable	(1)	(2)	(1)	(2)	(1)	(2)
	High level group	Low population	Industrial revitalization group	Non-industrial revitalization group	High agricultural level group	Low agricultural level group
lntax	0.206***	0.0224***	0.533***	0.0955**	0.201***	0.0566***
	(4.11)	(0.45)	(4.23)	(2.18)	(4.72)	(1.04)
Control variable	Control	Control	Control	Control	Control	Control
Constant term	-87.38***	-20.56	60.89	-43.53**	-112.7***	2.712
	(-3.61)	(-1.03)	(1.18)	(-2.55)	(-6.45)	(0.13)
Urban fixation	Control	Control	Control	Control	Control	Control

effect						
Year fixed effect	Control	Control	Control	Control	Control	Control
Sample size	368	384	159	589	368	384
F value	11.224***	4.761***	2.081***	6.828***	13.545***	6.459***
R^2	0.820	0.824	0.935	0.796	0.837	0.837

t statistics in parentheses

* p < 0.1, ** p < 0.05, *** p < 0.01

CONCLUSION

This article provides evidence that the income gap in rural urban and rural areas is reduced by the tax entry, which is still established after the stability test. This reduction is significantly driven by the revitalization of local traditional sectors, notably the textile and agricultural industries, which transform fiscal transfers into industrial productivity. The results of the mechanism test show that the income gap between urban and rural income is reduced by the influence of the net migration rate, the increase of financial welfare expenditure and the development of the first production industry. For the textile sector, this implies that the 'Hometown Tax' acts as a market-matching tool that retains skilled labor in rural areas and funds technological upgrades in local workshops. The results of heterogeneity test show that the effect of hometown tax in promoting the reduction of income gap in Japan's urban and rural income gap is more obvious in the high level of the high level of the country, and the taxation of the hometown of the country and the development of the high agricultural development area. This underscores the potential of fiscal policies to empower textile-producing regions, providing a valuable reference for other nations seeking to balance industrial urbanization with rural craft preservation.

Author Contributions

Shuanghua Jin designed and drafted the manuscript. Tianwen Mu collected, analyzed the data and gave final approval of the version to be published. Ranran Gao conducted the study, critically revised the manuscript

for important intellectual content. Jiahua He participated fully in the work, take public responsibility for appropriate portions of the content, and agreed to be accountable for all aspects of the work in ensuring that questions related to the accuracy or integrity of any part of the work are appropriately investigated and resolved.

Conflicts of Interest

The authors declare no conflict of interest.

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