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Japan and the Crisis of Aging Reconsidered

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Introduction

Since the middle of the 1970s many of the industrially advanced nations have gone through "a crisis of the modern welfare state." In essence, part of the crisis was brought about by the increasing financial burden of an aging population at the time these nations experienced worldwide recession. The continuous increase in the size of the older population relative to the number of the working population, coupled with slower economic growth, has raised serious doubts about the ability of these nations to meet the future needs of their aging population. Throughout the decade of the 1980s this crisis mentality deepened, especially in the United States and Britain where the modern welfare state became the target of blame for a sluggish economic performance. All industrially advanced nations are going through rapid population aging (Table 1). It is projected that the proportion of older persons aged 65 and over will rise from 16 percent in 2000 to 19.6 percent in 2005, making Japan the oldest country of any industrialized nation. Further exacerbating the issue of aging is Japan's substantial increases in life expectancy.

Alarmed by the effects of this rapid population aging on future macroeconomic performance, Japanese policy makers have since the middle of the 1980s assessed budgetary priorities and reformed national pension and health care systems. However, Japan's prolonged recession and high unemployment rates during the 1990s have raised even more serious doubts about Japan's ability to produce the output necessary to support the baby-boom cohorts reaching retirement age in the early 21st century. Further exacerbating the issue, the Japanese labor force is expected to shrink rather than to expand in the near future. These concerns have led Japan to initiate a number of significant policy reforms in the decade of 1990s. They include a reduction of future public pension benefits, increases in the age at which public pension benefits become available, in public pension contributions, and in the corporate mandatory retirement age. This paper examines some of these policy initiatives, discusses problems, and assesses whether Japan should worry about the coming crisis of aging society. My thesis is that the issue has been incorrectly framed. It is the economy, not the population aging, that is the problem. More specifically, I examine the challenge of making the transition from a "Fordist" to a post-Fordist" economy in meeting the future demographic burdens.

The Dependency Ratio

The "aged dependency ratio" is one commonly measure for gauging the burden of the burden of the aged dependent population on society. It the number of actively working divided by the number of older population aged 65 and over. In Japan, there were 3.9 active workers supporting each person 65 years of age and older in 2000.

However, by 2010, there will be fewer than 3 workers, and by the year 2025 the figure is predicted to drop to 2 active workers for every dependent number of the older population (Table 2).

When policy makers use the aged dependency ratio to measure the demographic impact of population aging on society, they often focus exclusively on the aged dependent population and look for solutions that reduce the burden of this population. The dependent population is viewed in isolation with no possibility of making contributions to the society..³

The Japanese approach is no exception to this rule. Policy makers have argued that the solution to the aging of the population is to keep older workers in the labor force longer and guided corporations to raise the mandatory retirement age from 55 to 60 years of age. To extend older worker's employment, companies have often kept excess labor on their payrolls, often aided by government employment subsidies. Public pensions, which are intended to supplement worker's old age income, are currently available at age 60. Corporate pensions, on the other hand, are mostly paid in the form of lump sum payments. These two sources are often insufficient to support retirement life and a high proportion of older workers are economically compelled to continue work beyond age 60. Although the government intends to raise the mandatory retirement age further, from age 60 to age 65, older workers, in particular age 60-64, have the highest unemployment rates of any age group.

In addition to the future extension of mandatory retirement age intended to keep older workers longer in the labor force, Japan eliminated the "partial public pension benefits" that bridge from the age of retirement at 60 to the age of full public pension at 65 in 1994. Partial public pensions (equivalent to "early Social Security benefits" payable at age 62 in the U.S.) are currently available at age 60 but the entitlement age will gradually be raised to age 65 by 2025. This policy change is based on the idea that older workers (aged 60 to 64) would finance themselves with a combination of earnings from work, personal savings, and corporate lump sum pensions until they reach the age 65 when full public pension benefits become available. In addition, Japanese policy makers are considering the following changes: the abolishment of cost of living adjustments for public pensions benefits; older persons, working at ages 65-70, will be required to make public pension contributions; pension benefits will be reduced in accordance with earnings from work (similar to the U.S. Social Security stipulation); and pension contributions will be imposed on bonus payments of a worker. These proposals are designed to "encourage" older workers to stay active in the labor force longer and reduce the future costs of public pensions. Some older workers will undoubtedly benefit from job training, and corporations will be able to make use of these workers. However, many corporations will be reluctant to put their resources into job training of older workers, and older workers may not be suited for job training in expanding sectors of the market. As a corporate investment, job training for younger workers of the corporation has more years to pay off. The issue is not whether there will be more older workers but whether older workers can meet the changing demands of the future labor market. Trying to keep older workers in the labor force may simply increase unemployment and economic hardship.

Further, the burden of this policy may be excessive for the corporations. Keep in mind that Japanese companies are already retaining excess workers on their payrolls.

When this excess staffing is factored in, the Japanese unemployment rate is much higher than it appears to be on the surface. The Economic White Paper for 1999, for example, estimated excess staffing to be more than 3 percent of the labor force. Were this redundant staff let go, the unemployment rate would rise to 8 percent. It is doubtful if companies, already bloated with redundant labor, can hold on to older workers who are no longer needed. Yet, government officials are reluctant to allow the layoffs of such workers, because layoffs would spike up the “official” unemployment rate and higher unemployment invites social instability and social disintegration. They prefer keeping older workers on company payrolls by asking companies to give older workers make-work jobs rather than laying them off. Thus, the interests of the government and the individual corporations are at odds over how older workers should be treated in industrial policy.

Another limitation to current policies designed to keep older workers in the labor force is Japan’s lock step hiring system and seniority-based promotion system. These employment institutions inhibit the utilization of skilled older workers and do not allow for the mobility of human resources to more productive industries (i.e., the lack of labor market liquidity). Corporate job training and the education system have been geared to support life-long careers. Large companies have practiced a so-called life-time employment by hiring workers “fresh out of school” only once a year and promoted them through in-house training, experience and seniority. As workers become older, they are sent to the company’s subsidiaries or affiliates, making up a tiered employment system. Skills acquired through in-house training are “firm-specific” and not portable on the job market. This lock-step employment pattern makes lateral movements of workers between firms almost impossible. Job changes remain rare among large firms and portable corporate pensions were just introduced in 2001. In short, Japan’s existing patterns of rigid employment systems and corporate culture make it difficult for companies to make good use of redundant older workers.

The globalization of the world economy reveals another limitation to Japan’s ability to address the issue of an aging population. The regulated economy initially designed to foster domestic industry and protect them from external competition may stand as Japan’s major challenge in the 21st century. Industrial protection created an insulated economy, leading to relatively unique forms of economic organization and an insular corporate mentality. Mergers, acquisitions and corporate joint ventures represent tools for ensuring continued global competitiveness. Japanese companies are difficult potential partners for foreign firms (Nissan is one bright exception).

The issue, however, is not a problem of population aging but a problem of labor markets, corporations, the economy, and the ability of the government to assist the economy. This is not a demographic issue per se, but a problem with the structure of the Japanese economy and corporate culture and practice. It is as much the weakness of the economy that conditions population aging in a way that makes it a social problem.

The Post-Fordist Economy

Sociologists use the “Fordist” and “Post-Fordist” distinction to discuss the current transformation of modern economies. This distinction is similar to the current discussions in the U.S. of the “old economy” and “new economy.” The term “Fordist” refers to a specific industrial organization system associated with the innovations of the Ford Motor Company during the early 20th century (Jaffee, 2001; Myles, 1990).

Essentially, a Fordist economy is based on mass-production technology, with products having a relatively long life cycle. Correspondingly, worker skills, once acquired, have a relatively long life cycle and the productivity level of workers is relatively static throughout their working life. The auto, steel, and rubber industries are good examples of the leading sectors in this type of industrial economy. In contrast, a post-Fordist economy is more oriented to the application of information technology and the production of information and services with a relatively short life cycle, requiring continuous innovation. Worker skills must be constantly upgraded. In the post-Fordist, knowledge intensive economy, workers must be trained to seek multiple careers in their life-time. Payoffs to educational investment do not last for one's life-time. Educational training is required at several junctures of career changes. Computer software and telecommunications industries represent the leading sectors of this type of economy. It is more appropriate to address the issue of an aging population in the context of the transformation in the productive capacity of the Post-Fordist economy. It is analogous to discussions of how many farmers it takes to provide the food to support a population (Myles, 1990, 282). At the turn of the century, it may have taken one farmer to supply the food necessary to feed 6 people. However, with innovations in farm technology, improvements in crop yield, resistance to disease and pests and better organization, the capacity of American farmers to support a population increased geometrically in the 20th century. So too the argument is that future increases in worker productivity would allow them to support ever increasing numbers of a "dependent" older population in a post-Fordist economy.

Current policies frame the issue of population aging as causing a policy problem and tend to distract us from the fact that it is the economy and the "carrying capacity" (productivity) of active workers that determines, in large part, whether the aging of the population is a problem. The demographic aging of a society should be viewed in the context of the economy's capacity to support its members. Viewed in this light, the restructuring of the economy (the transition from a Fordist to a Post-Fordist economy) and increasing its capacity to carry a dependent population along with issues of labor, social welfare, and education policies to support such a transition. As Schulz (1991: 107-108) emphasized, marginal increases in economic growth rates help relieve the economic burden of population aging much more than marginal decreases in growth rates of the dependent population intensify the burden. Relatively small increases in economic growth have the potential to substantially moderate the ill effects of demographic factors that have a negative impact.

In the Fordist economy, educational completion followed by a life long stable job characterize a typical male worker's career. In the Post-Fordist economy, workers will be more differentiated in terms of their skills, sequential job careers, and full vs part-time work. To put it differently, the traditional male career patterns of the Fordist economy would be "feminized" in the Post-Fordist economy, with more chaotic career paths characterizing their life-time.

Japan's future hinges on whether growth industries will emerge and raise economic productivity. Although many authors maintain that the key to sustaining a healthy economy is continuous 2-3% economic growth rates, it may be difficult for Japan to revive the economy because of labor market rigidity mentioned earlier. In addition, under the Fordist economic regime, Japanese corporations maintained the production of high-quality goods and the pursuit of market share as key business

principles. A byproduct of corporate competition has been the corporate one-settism whereby corporate groups moved like a herd. Everybody more or less produced the same goods, flooded the market, and competed for market share. Under the post-Fordist economic regime, more emphasis will be on qualitatively different services, knowledge production, and corporate profit-gain. Corporations will be pressed to be innovative and adaptable. A more flexible movement of workers will be needed in the new economic regime, including the acquisition of talents for short-term projects. The use of temporary, skilled workers and professionals will be necessary. Organizations may keep only a small number of core workers. Although the use of a well-paid, contingent workers has been in discussion throughout the 1990s, these policies have not yet materialized. Ironically, the most notable change has been the increase in the use of voluntary early retirement. Thus, the increasing number of nonaged workers taking retirement well before reaching the normal retirement age will be an important policy issue in the post-Fordist economy.

Japan's Strengths

Japan's economic future may be full of challenge, but there are several strengths as well. First, the Japanese population does not view a leisure-based retirement as an entitlement. Leisure at the end of a long career is not an expectation. Continuing to be a productive member of society is still seen as a virtue partly because Japan's public pension programs are relatively new to the population (introduced in the 1960s). For this reason, changes in pension benefits or the extension of retirement age are politically more feasible than in other countries with long histories and generations experiencing retirement as "pre-paid leisure."

Second, Japan has a very healthy population with a good national health care program. There is the potential for active aging. According to the World Health Organization's ranking of country's population health by taking disability into account, Japan was the healthiest nation with people living in good health (free from disability) until 75 years of age. The fact that Japan has a healthy population promises a bright future that is often overlooked. The older population provides vital resources to the society, not as workers but as volunteers, grandparents, and consumers. For example, older parents provide a large portion of child care for their adult children and care giving to their spouses. If these services are purchased in the open market, they amount to a significant economic value. In addition, studies on intergenerational exchange have repeatedly shown that the flow of goods and services from older parents to younger adult children is much greater than vice versa. Considering the future advancement in health and medical technology that will reduce disability before death, future extension in our life span may not necessarily prolong old-age dependency. It is more likely that older persons will live in good health for longer years, increasing the potential social and economic output for the society. Current Japanese discussions neglect the actual and potential contribution of older persons.

One crucial policy decision Japan made was the National Long-term Care Insurance that began operation in April 2000. The initial conception took place in 1989 when the government started its Gold Plan (revised as New Gold Plan in 1994). It restructured health care and long-term care deliveries in recognition of a sharp decline in the availability of family care givers and the increasing needs of older persons for long-term, intermediate, and short-term care facilities and home helpers. The key idea

of the New Gold Plan is the promotion of active aging supported by community-based health care and social services. It attempts to minimize institutionalization and contain future cost increases. Although it is too early to assess the result of this new insurance program and the outcome of this new insurance program, Japan has taken an important step in minimizing disability in old age and keeping the frail and disabled in the community as much as possible. This translates as minimizing the “dependency” of the dependent population.

Third, compared to other industrially advanced nations, Japan has a low welfare burden. It has a well- educated population and low levels of poverty that do not put excessive strain on welfare and health care needs. This provides more budgetary freedom than is enjoyed by other industrialized countries.

Finally, Japan has an untapped supply of labor: middle-aged and older females.

As mentioned, the post-Fordist economy is a service-oriented economy. The female population represents an educated but under-utilized labor force that might supply vital labor to the economy. The question is whether this service sector will be oriented to low paying jobs or well-trained, highly paid jobs. In the US, for example, the expanding health care sector led to the creation of unskilled, low paying jobs with no career opportunities. In Sweden, the emergence of the service sector has created more better paying, skilled jobs. Given Japan’s reluctance to open doors to more immigrants, it will be necessary to keep the wage scale attractive to female workers in this area.

Conclusion

In this paper I have suggested a different, broader conception of population aging in Japan. Instead of viewing population aging as the cause of government problems, I have argued that population aging be seen in the context of the robustness of the economy and government social policy. In other words, an aging population is only a problem when the economy is weak and the policies uncoordinated. I have made this case by suggesting an imminent move toward a post-Fordist information- and service-based economy. The transition requires collateral policies that restructure and reorient labor, welfare, and educational institutions.

So far, Japanese policy makers have clung to a Fordist model of the economy by treating the aging population as a social problem. Government policies have been at cross purposes with Japanese corporate behavior and contributed to a legitimacy crisis by increasing the psychological anxiety of people over growing old. Public confidence in government management of public pensions has been eroded. What is needed is a re-conceptualization of the relationship between the economy, state policy, and demographic aging. More specifically, government should facilitate the transition to a post-Fordist economy by implementing collateral policies that will restore public confidence and allow older population to contribute to this transition. Such a transition requires insightful interpretation, proper policy and masterful leadership.

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Table 1. People over 65 years of age as a percentage of total population

	1985	1995	2005
Japan	10.5	14.5	19.6
U.S.	11.6	12.5	12.4
France	12.5	16.0	16.7
Germany	14.5	15.0	17.8
Great Britain	15.0	15.5	15.9
Sweden	17.5	17.0	16.6
Additional year of life expectancy at age 60, Japan			
	1970	1998	2025
Male	16	21	22
Female	19	26	28

Source: Government statistics.

Table 2. Age dependency ratio, Japan

Age	2000	2010	2015	2025
0- 14	14.6	13.4	12.8	11.6
15 – 64	68.1	64.1	61.2	59.7
65+	17.4	22.5	26.0	28.7
(15-59)/(65+)	3.92	2.84	2.36	2.06

Source: National Institute of Population and Social Security Research (2002), www.jpss.go.jp.

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