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Author: Worawan Chandoevmit

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A Comment on
Naohiro Ogawa, Andrew Mason, Amonthep Chawla, and Rikiya Matsukura
“Japan’s Unprecedented Aging and Changing Intergenerational Transfers”

Worawan Chandoevmit
Research Director
Thailand Development Research Institute

The main objective of this chapter is to study the impact of population aging on both public and private intergenerational transfers in Japan in the last two decades. The highlights of the chapter are the last two sections relating to population aging, intergeneration transfers, and two demographic dividends and changing pattern of lifecycle deficits and lifecycle reallocations. The result from the last part is quite interesting.

This chapter systematically elaborates the facts about rapid demographic transition, and changes of social security expenditure and family support. Generally, many of us know that Japan has already moved into aging population. But, how it had evolved is showed in this chapter.

The declining of Total Fertility Rate (TFR) and mortality and higher life expectancy are all facts that made a higher share of elderly and aging society. In the 55-year period of 1950 to 2005, TFR declined from 3.6 to 1.3. Life expectancy at birth for both males and females increased approximately by 20 years. It would be interesting if the chapter estimates which factors between declining TFR and mortality has a stronger effect on a rapid increasing share of elderly.

It is quite well known that TFR in Japan is currently low, one of the lowest in the world. But, not many know that the sharp reduction of TFR was between 1947 and 1957 (Figure 2). In those ten years TFR reduced from 4.5 to 2. It should be mentioned in this chapter what might be the effect of these substantial reduction. Was it because of the effectiveness of the abortion law in 1948 that made the number of birth reduce by almost 500,000 in 1950? IPSS (2006) shows that about 35 percent of married women experienced induced abortion in 1967. This chapter should also mention why the TFR reduced from 2.2 to 1.6 in 1966 and then rebound to 2.3 in 1967. What kind of shock that made the number of birth reduce by 500,000 in just a year.

The first three parts of this chapter are overview. They generally emphasize on the roles universal pension and health insurance in 1961, Japan’s structural reform in 1973, the bubble in mid 1980 and the lost decade in 1990s. These factors are raised to explain age structural shift of Japanese population and changes of family role on supporting elderly. The roles of pension and health insurance may be important, but sometimes are over emphasized. For example, the changes of expectation of Japanese married women to depend on their children for old-age security were remarkable in 1950-1960, before Japan has the universal pension (Figure 5). In that ten years period, the proportion of Japanese married women expecting to depend on their children for old-age security declined from 65 to 35 percent or reduced by 30 percentage points. After 1961 or the first year of the universal pension, the proportion declined from 35 to 10 percent in 2005. It took 44 years for the proportion to decline by 25 percentage points. It may not be correct to conclude that the change of expectation was from the public pension.

One of the upsides of this chapter is the uses of survey data to explain Japanese behavior and attitude. Such surveys are not easy for non-Japanese to obtain, particularly for the long series of the survey results.

What is so serious for Japan is the population prospect. To prove this we can simply compare the share of elderly in the 20-year period of 1985-2005 and 2005-2025. In 1985, the share of those aged above 65 was 10.3 and total dependency ratio was 46.7. In 2005, the share of those aged above 65 increased by 10 percentage points to 20.2 and total dependency ratio increased by 4 percentage points to 46.7. In 2025, the share will increase by 11 percentage points to 31.0 and total dependency ratio will increased by 20 percentage points to 70. It will be very difficult for the working age group to live in such burden.

Serious policy responses to the high dependency ratio are necessary. Some countries seriously choose to help family cope with child care burdens. For example, mothers in France are flexible to work from home so that they can take care of their children while working. No mothers in Japan can have such option. In Japan, about half of employed married women work part-time and about 75 percent of part-time workers are women. The Child-Care and Family-Care Leave Law 2005 do not guarantee that these workers will not be terminated from their jobs if they ask for child-care leave. There are loopholes in the law that allows employers to do so (Hassett, 2008). In addition, the attitude of policy makers on women and child-bearing is somewhat inhuman. In January 2007 the Japan's Health, Labor and Welfare Minister stated that "The number of women aged between 15 to 50 is fixed. Because the number of birth-giving machines and devices is fixed, all we can do is ask them to do their best per head" (McCurry, 2007).

This chapter illustrates the first and second demographic dividends quite well. When fertility and mortality are falling, the changes of population age structure lead to an increase in the working ages relative to non-working age group and the first demographic dividend. Japan experienced the first demographic dividend in 1945 to mid 1990. When the first demographic dividend was moving close to zero in 1975-1980, the second demographic dividend was moving into the positive zone. Elderly in Japan do accumulate capital as the source of support for their consumption. This could have a positive effect on growth.

However, one should also consider the distribution of wealth that has been ignored. This chapter emphasizes the role of second dividend as it states that "A key point is that in countries that rely on transfers, both public and familial, in meeting the retirement needs of the elderly, the second demographic dividend will not emerge. ... The second dividend is affected not only by the numbers of the elderly persons relative to younger persons, but also by the extent to which consumers and policy makers are forward-looking and respond effectively to the demographic changes that are anticipated in the years ahead (p. 13)." In the countries where the distribution of wealth and income are unequal, the policy promoting individual wealth accumulation for retirement may end-up with a large pool of elderly poor who were unable to save or accumulate wealth. Basic guarantee for old age income security should come first, either through public or family transfers. Then, the second dividend could be enjoyed without social calamity.

Wealth accumulation in the form of real and financial assets cannot be done without risks. Wealth accumulation in the form of land has become less popular among the elderly. It could be because the prices have gone way too high. It might be because they know that population is declining which should not make an upward trend for the demand for land as it was in the past. To promote financial asset holdings, one should

provide information and knowledge about risks in the financial market and how to manage those risks. The chapter also mentions that 71 percent of population aged 20 and over have no knowledge about investment in equities and bonds and 57 percent have no knowledge about financial products.

Contemporary young Japanese are, in general, not happy with being in an aging society. However, the last part of the chapter shows a positive impact of elderly on younger generation. People in early period of retirement (60-75 years old) actually make net intra-family transfer to other age group (Figure 13). Their large portions of consumption are from labor income and income from asset (Figure 15). Total public and private transfer to elderly is smaller than what working age group and the young have received (Figure 12).

Transfer from elderly to younger generation could be altruism. It might be a strategic behavior of elderly. Once they retire, they live in a quiet and lonely environment. Any accident could happen easily to elderly at home. If they live with children, those incidents could be mitigated. If they live alone, they have to make some contribution in exchange of the visits from their children and grandchildren. The visits have some cost. Transfer from elderly, therefore, could be a reward for the young that provide tender-loving care to the old.

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