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Introduction

Yukio Noguchi and David A. Wise

The papers in this volume were presented at the first of a series of conferences sponsored jointly by the National Bureau of Economic Research and the Japan Center for Economic Research. Subsequent conferences were held on housing markets in the United States and Japan and on the economics of the family, and the related conference volumes are in preparation. The purpose of the continuing series of conferences is to explore issues that are of concern both in the United States and in Japan. Because population aging poses issues that are of paramount concern in both countries, that topic was chosen to begin the conference series. It is hoped that, as the series progresses, the interaction will promote increased mutual understanding of economic issues and economic behavior in the two countries and in addition will further economic research in the two countries. The goal of this conference was to present discussion papers by Japanese and American authors on comparable topics. The volume contains papers on labor force participation and retirement, the economic status and housing of the elderly, the budget implications of population aging, and the utilization of health care. The discussion of health care in this volume is limited to the United States, but that issue will be the subject of a separate joint conference to be held in December 1994.

Two general concerns are addressed in the papers: one is the economics of the aged, and the other is the economics of aging. The first directs attention toward the present economic status of the elderly, and the second directs attention toward changes that result from and issues that arise because of population aging. The two issues are of course closely related, and some aspects of both are considered in several of the papers. Indeed, studies of the economic status

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of the current elderly are in many cases motivated by the recognition that future population aging is likely to bring with it increased concern for the economic well-being of the aged.

The Japanese population will age very rapidly in the coming decades. According to the most recent prediction by the Institute of Population Problems of the Ministry of Welfare (September 1992), the proportion of people age 65 and older is expected to rise from 12.1 percent in 1990 to 25.5 percent in 2020 and 26.0 percent in 2030. These figures are higher than the corresponding figures (23.6 percent in 2020) in the previous prediction (December 1986), on which most of the discussions in the papers by Japanese authors are based. This raises a number of important public policy concerns. Labor force participation, financing Social Security, housing the older population, and health care are of particular importance.

Population aging will also proceed rapidly in the United States in the coming decades, although not as rapidly as in Japan, and the same issues are of major concern. According to the UN publication "World Population Prospects 1990," the ratio of people age 65 and older in the United States is expected to reach 17.3 percent in 2020 and 19.6 percent in 2025. It is our hope that studies of the current situation of the elderly and major trends will help us understand what the future holds and will help inform public policies meant to address these issues.

Current policy discussions are also affected by future considerations. For example, the introduction of the consumption tax, which had long been an important policy issue in Japan, was closely related to the aging problem because its expected role was to finance increasing Social Security expenditures. Therefore, this issue cannot be judged without analyzing population aging. There are other examples in which present economic policies are related to the future aging process. Japan is now asked to adopt policies aimed at expanding domestic demand. Whether to adopt saving-reducing programs or investment-increasing programs depends on the future trend in macroeconomic balance, which is related to population aging.

One of the benefits of the joint research conferences including both American and Japanese participants is that comparisons between the two countries have become possible. We found that there are both similarities and differences in the nature of problems, behavioral patterns, institutional settings, and public policies.

Trends in the labor force participation of older Americans and the primary explanations for these trends are summarized by Robin L. Lumsdaine and David A. Wise. They show that, while the labor force participation rates of men age 60 and older remained essentially constant from 1870 through 1937, those rates then began to decline in the late 1930s and that the fall is still continuing. They attribute the decline to the introduction of Social Security and private pension plans. They emphasize that, for the majority of retirees, support after retirement is provided primarily by Social Security and private pension plans. Most older Americans have very little personal saving. Personal wealth is primarily in the form of housing equity, and housing equity tends not to be converted to liquid assets, as the elderly age. They argue not only that the income from Social Security and firm pension plans allows elderly employees to retire at younger and younger ages but also that the provisions of both Social Security and firm pension plans tend to encourage early retirement. In short, they conclude, although persons are living longer and longer, they are leaving the labor force at younger and younger ages. The trend is unrelated to personal saving; it is associated instead with government promises of Social Security benefits after retirement and the saving by employers for their employees through firm pension plans.

The effect of government pensions on the labor supply of older Japanese is analyzed by Atsushi Seike and Haruo Shimada. As in the United States, the labor force participation of older Japanese is also declining. Still, Japanese labor force participation rates are about twice as high as comparable rates in the United States. For men over 65, for example, the participation rate is 37 percent in Japan, compared with 17 percent in the United States. Seike and Shimada's analysis, however, concludes that the government pension plan for employees contributes significantly to the withdrawal of older employees from the labor force. Seike and Shimada conclude that the Japanese plan earnings test, similar to the U.S. Social Security earnings test, reduces substantially the labor supply of those who are receiving retirement benefits. They tend to reduce their labor supply to avoid the lump-sum tax associated with the earnings test in Japan.

Michael D. Hurd surveys research on the economic status of the elderly in the United States. He concludes that the elderly are at least as well off as the nonelderly and possibly substantially better off. In addition, because much of the income of the elderly, like Social Security, is indexed to inflation, they are well protected from inflation. In the relatively near future, the economic status of the currently retired elderly seems well assured, according to Hurd. In the more distant future, however, when the baby boom generation retires and there are many more retirees per employed person, the financial position of the elderly is much less bright. He suggests that the consumption of the elderly relative to the consumption of employed persons will then be lower than it is today.

Noriyuki Takayama considers household asset- and wealthholdings in Japan. He concludes that, in terms of wealthholding, the elderly are better off than the working-age population. Owing to the rapid rise in the value of Japanese land prices, the difference between the wealth of the old and the wealth of the young has widened. As in the United States, housing equity is the major asset of most elderly households. Takayama emphasizes that, under the current circumstances, a young person who works all his life will still be unable to buy a home in a Tokyo suburb if he has to depend on his own earnings. Takayama also points to the need of older Japanese to liquidate home assets by using equity conversion schemes such as reverse annuity mortgages.

Daniel L. McFadden considers the economic issues of housing the elderly in the United States. He finds that the share of income spent on shelter rises with age, primarily because income falls more rapidly than payments for housing, but also because real housing prices increased substantially at the end of the 1970s. This supports the common perception that the elderly are being squeezed by housing costs. On the other hand, McFadden argues that the pattern of mobility among the elderly and the housing transactions when the elderly move do not suggest a significant "bottled-up" demand for converting housing equity to income. There appear to be no major market barriers that prevent the elderly from making desired transactions between nonliquid and liquid assets. McFadden also suggests that the demographics of the elderly population in the United States and the age distribution of capital gains from housing price increases suggest that the baby boom generation will face more difficult economic circumstances at the end of its life cycle than the previous generation.

Seiritsu Ogura discusses the budget implications of population aging in Japan, with an emphasis on health care and the cost of public retirement benefits. As in the United States, public health insurance in Japan provides health care to the elderly at little or no cost. Apparently as a consequence, the per capita cost of health care for the elderly has risen very precipitously in recent years. Nonetheless, health care cost in Japan is only about 6 percent of GNP, approximately half the cost in the United States.

In 1973, benefits under the Japanese public pension plans were increased substantially, and subsequent costs increased very rapidly. According to Ogura's analysis, the cost of both health insurance and pension plans will continue to increase sharply in the next several decades and will peak around the year 2021, when the cost of government medical programs will be about 50 percent higher than it is today and the cost of public pension plans will double. Together, the two plans will absorb about one-quarter of national income, about 10 percentage points more than the current cost. Ogura questions whether future generations of workers will be willing to continue to support the elderly at the levels at which they have been supported in the recent past.

Alan M. Garber surveys demographic trends that influence the utilization of health care in the United States and examines the key financial issues surrounding hospital and physicians' services for the elderly. He also discusses the obstacles to improved financing and delivery of long-term care. He urges a cautious approach to expanded government financing of long-term care, emphasizing the difficulty of controlling costs for such care. Garber argues that marketing long-term care insurance to younger persons should help prevent the adverse selection that mitigates against selling long-term care insurance to elderly persons. Nonetheless, owing to the open-ended nature of potential long-term care services, he argues that moral hazard will remain an obstacle to the efficient functioning of a long-term care insurance market. As larger numbers of people purchase long-term care insurance, nursing homes are likely to change their character, providing high-quality housing and related services, Garber emphasizes. Many individuals who would not consider entering a nursing home today would be willing to do so if quality improved in this sense. Garber concludes that the development of private financing mechanisms is likely to be the major response to the need for long-term care.

In summary, taken together, the papers in this volume reveal a striking number of similarities between the two countries. The populations in both countries are aging rapidly, although the rate is faster in Japan than in the United States. Thus, true "aging problems" are future problems in both countries. Workers are leaving the labor force at younger and younger ages in both countries, although the trend is much more pronounced in the United States than in Japan. In both countries, the trend may be attributed in large part to public and private pension benefits. Public health insurance that provides health care at little or no cost in both countries contributed to rapid increases in the cost of health care in both Japan and the United States, although the per capita cost in Japan is still only about half that in the United States. Housing equity is the primary asset of both elderly Americans and elderly Japanese. In both countries, the elderly are at least as well off as younger members of the population. Although Japan's national saving rate is much higher than that in the United States, both Japanese and American authors predict that population aging will reduce future saving rates in both countries, largely because of Social Security programs that have become more generous in recent years. Indeed, the Social Security programs in the two countries are rather similar. The cost of health care and, more generally, the prospect of a smaller number of employed persons supporting a growing number of retired persons are important concerns in both countries.

There are of course some differences. For example, the ratio of elderly living together with their children is high in Japan and low in the United States, although the pattern in Japan is rapidly changing in the direction of the U.S. pattern. A special feature of the Japanese economy is the extremely high real estate values, especially in urban areas. Although much of the increase during the late 1980s was due to "bubbles" and real estate prices are falling dramatically in recent years, the values are still considerably higher than in other countries, and homes are the major form of household assets. Since a large fraction of homes are owned by the elderly, this has had an extremely important effect on the wealth of the older population in Japan. The medical care systems are very different in the two countries, although those differences are not emphasized in this volume.

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