

# Older, Wiser, Poorer?



## Don't Worry, Make Babies

by Yoshinori Ohno

**T**HE JAPANESE ARE living longer. This is one of the greatest achievements of our society. Long life is a great pleasure of mankind. And we should not turn this pleasure into anxiety.

On the other side of the coin, we are now facing the serious problem of extremely low birthrates. Take a look at the baby-boomer era for example: At that time the nation's birthrate was 4.3 children per woman. In 1965 it was 2.14, and it declined dramatically to a record low of 1.26 in 2005. (Data released in January 2007 show a slight increase last year to 1.29; however, this is still far below the level necessary to maintain the population.) This means Japan's population could be halved within a century. We have already passed the point of no return. In 2005, Japan's population began to decline for the first time in the history, dropping by 4,361 people.

An aging society with fewer children

brings a host of problems. The sustainability of the pension system is jeopardized. Japan will also suffer from a labor shortage that will serve as a depressing factor for its economy, and will necessitate the introduction of foreign labor. To address these issues related to the aging of society, Japan first needs to reform its pension system, and, second, implement policies to improve birthrates.

The pension system of Japan was reformed in 2004. This author pushed forward this reform as president of the Pension Reform Committee of the Liberal Democratic Party. The main purpose of the reform was to make the pension sus-

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tainable for 100 years to come. If the general populace were of the opinion that our pension system was not sustainable, then this would serve to considerably undermine the system, as people would lose their trust in it. We had to cut down benefits and increase contributions in order to make the system sustainable.

It is widely said in Japan that a pension is a gift from the younger generation to their parents and grandparents. However, because of a rapidly aging society with fewer children, the system is becoming unfair between generations. In the case of employees' pensions, people of my age (I was born in 1935) are to receive benefits equal to eight times their paid-in contributions, but people born in 1985 and after will only receive benefits equal to 2.3 times their contributions.

One way to maintain fairness among generations would be to change the current pay-as-you-go system to a fully funded one. However we should maintain the pay-as-you-go system, because a major drawback is that the fully funded system is vulnerable to asset-price fluctuations.

The present pension system is rather complicated and does not meet the requirements of changing lifestyles. For example, there are three pension systems:

- ✱ *Category one.* This is the national pension. This directly applies to people who are not covered by category two or category three, and implicitly covers people in categories two and three as well. Category one contributions are expressed in absolute value, currently around 14,000 yen (\$117) per month

- ✱ *Category two.* The employees' pension and is divided into: pensions for those working for private companies; public service mutual aid (covering employees of na-

tional and local government); and private-school teachers' and employees' mutual aid. Efforts are under way to unify these three kinds of employee pensions into one.

Contributions under category two (employees' pension) are expressed as a percentage of received salary. The contributions of employees' pension implicitly include both the contributions for the employees' pension and the national pension. On top of this, the contribution for employees includes an additional contribution for the national pension of their spouses.

- ✱ *Category three.* This covers the spouses of category-two participants.

As is evident from the above, this is a complicated system and is one that causes a host of serious problems. For example, should a spouse in category three decided to take up employment, then he or she would have to pay the contributions for employees' pension, and for the national pension—a contribution that is already implicitly paid by

their spouses. This is ridiculous. The first thing we have to do is to draw a demarcation line between the national pension and the employees' pension. In other words, every Japanese should pay a set contribution to the national pension, irrespective of which category he or she belongs to.

The national pension system should be the same for all Japanese citizens, whether they belong to category one, two or three. On the top of the same national pension, we have to reconstruct the employees' pension.

In 2004, we decided to raise the proportion of the national pension paid for through taxes to 50%, up from one-third. However, I believe that the national pension should be completely financed

*Japan needs to spend as much on child-care as it does on elderly care.*



*Japan needs more children in order to stave off labor shortage and sustain the pension system. More spending on child-care could help.*

through taxes. The structure of a new national pension should be revised so as to make the system fair and understandable. Those whose incomes exceed a certain level should not be entitled to receive the benefits of the national pension.

Another serious problem lies in the fact that the cost of collecting contributions from pensioners under category one is very high, and nearly one-third of those under category one do not pay these compulsory contributions. Therefore, it is very important for all Japanese citizens to be made to stand on their own feet, and become more aware of the benefits of the national pension—namely that pay-outs will be 1.7 times larger than paid-in contributions. The government should create more publicity around this. Money should not be wasted on collecting unpaid contributions. Instead, that money should be channeled into improving the pension fund. Further, all administration costs of the fund should be borne by the government. Currently, part of the paid-in contributions is spent on paying for the administration of the pension system. Stop that practice! Public pension funds are different from commercial ones.

## The Baby Gap

IN A NUTSHELL, the fundamental solution to maintaining the sustainability of pensions is to produce more babies. Let me

first analyze why young Japanese couples have fewer children. The average age of first marriages is rising. For Japanese girls, the age of first marriage was 24 about four decades ago. Now it is 27. At the same time, we can observe a significant difference in the average age of girls' first marriages according to the area where they live. In Tokyo, 60% of girls aged 25 to 29 are unmarried, while in Akita prefecture only 30% of females of the same age group are unmarried.

About 40 years ago, there was seemingly a pressure on Japanese girls to get married before the age of 25. If they were not married before 25, they were likely to be called "left-over Christmas cake." They looked beautiful for sure, but no one would buy them after Dec. 25. This expression disappeared a long time ago. Now the time has come for those who are called "parasite singles." This term refers to youngsters that work, but live with their parents, relying on them for everything including meals. They spend what they earn to enjoy themselves, for example, by traveling overseas. Generally, these youngsters hope they will get married to boys who earn more than they do.

What do those young boys think about marriage? Many of them are from outside metropolitan Tokyo, and come to the capital to secure employment. In Tokyo, they work and at the same time they enjoy their free time. Therefore, they tend to feel married life may restrain their free time. Boys' average age of marriage is also rising.

Long working hours also help to push down birthrates. In France, husbands are supposed to come back home by 8 p.m. Wives can usually reach home by 6 p.m.

In addition, in Japan, men do not share housekeeping duties. Japanese husbands share only 5% of the total household chores on average, while in Norway, for example, the husband's share is 40%. This exerts a heavy burden on Japanese wives' shoulders.

ders. As a result, they do not like to have more babies. The high cost of education is also a factor in low birthrates, as is the average size of Japanese houses. In Tokyo, average living space per person is only 29.8 square meters, while the highest average living space in the country is 49.3 square meters in Toyama prefecture.

In 2005, just one prefecture out of 47—Fukui prefecture—saw an increase in its birthrate. What are the factors contributing to the improving birthrates of Fukui? In my analysis, in Fukui the percentage of families that live with three generations under the same roof is the highest of anywhere in Japan. Under such circumstances, babies can be taken care of and dinner can be prepared by the hands of grandmothers. Thus, the ratio of working women is also the highest. In turn, this enables families to afford the cost of education for their children.

Regarding the size of living space for one family, Fukui is the second-largest, behind Toyama prefecture. In Fukui, the unemployment rate is the lowest, and surprisingly, the ratio of life-insurance contracts per family is the highest in Japan. You cannot buy love with money, but you can show the sentiments of love with money. Through three generations living under the same roof, sentiments of love of family are spreading out.

Thus, I would like to say out loud, “Young man! Return home! Live together with your parents or nearby your parents.” However, if there is no job for a young man back home, then such a refrain holds little meaning. Therefore, we should push forward policy measures that will create more jobs for young people in areas outside of major cities. How to create jobs and attract young people to come back home is a task that politicians should tackle in order to solve the problems involved in dealing with an aging society and fewer children.

We have already implemented policy measures intended to boost birthrates, such as extending the period of child-rearing leave, promoting shorter working hours, securing various types of employment, fulfilling child allowances and increasing the number of nursery schools. Yet more money should be appropriated for child-care. In my analysis, expenditures for child-care should be raised up to the level of expenditures for care of the aged.

Another possible reform is a drastic change of the income-tax system. An income-tax system designed to give an incentive to have a large family was introduced in France some years ago—the “Family Quotient System.” Since then, the special birthrate in France has greatly improved. The French system works as follows. The incomes of all the members of the family are added up, and the total income is divided by the number of family members. That is the tax base for income. In other words, if you have a large family, your income-tax burden would be small. When we consider introducing such a system to Japan, we may consider a system where the grandparents or aged people can be counted as the number to calculate the income-tax base (in the original French system, grandparents are not counted).

Junichiro Koizumi, former prime minister of Japan, did a wonderful job in the field of structural reform. We should continue our reform efforts based on economic principles so that everything is carried out in an effective and transparent manner. However, we cannot survive only with effectiveness and transparency. I believe the time has come to place more importance on education and social security. In this context, I earnestly hope that Prime Minister Shinzo Abe will place the greatest importance on social security—namely, pensions, medical care, elderly care and—importantly—child-care. ■