Social Security, Taxation, and Redistribution in Japan

ALISON CHOPEL, NOZOMU KUNO, and SVEN STEINMO

The paper examines the social security tax and benefit system in Japan. We offer an analysis of the interaction of taxes and benefits showing that the system has evolved to the point where it may no longer fulfill the original intentions. The system today appears to redistribute income from working people, who on average have lower incomes, to the aged population, which today have higher incomes. We suggest the system is in need of significant reform.

INTRODUCTION

One of the greatest successes of the modern capitalist welfare state has been the dramatic reduction in poverty among the elderly. Whereas only a few decades ago the aged were the poorest demographic group in most nations, modern social insurance systems have been enormously successful in lifting this group out of poverty and providing them with a standard of living and independence never imagined at any previous time. Today, direct public spending for publicly financed pensions accounts for an average of 16 percent of gross domestic product (GDP) across the Organisation for Economic Co-operation and Development (OECD). Social security is the largest and most important welfare program in the welfare state.[1]

The same welfare states are also facing a period of enormous fiscal stress. Global economic competition and the consequent political pressures to lower tax rates combined

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1. The term "Social Security" can imply different meanings in different national contexts. Here we refer to Social Security intergenerational programs between the working population and the nonworking elderly. In the calculations and figures below, we do not include medical care expenses (which are also heavily weighted to the elderly) nor disability and/or survivors benefits programs (which in the U.S., at least, are also administered as part of the Social Security System).

with growing public dissatisfaction with state services and consequent resistence to tax increases is impinging on the state's ability to support their social welfare systems. Old age security programs, however, seem almost politically inoculated against these fiscal strains. One need only witness the political machinations of the Bush administration in the United States as it attempts to redesign the American social security system, for example, to see the potent political force and appeal old age security holds with the general public. It is important to note that these same political and fiscal pressures are common across the advanced democratic world. Indeed, in contrast to most other welfare programs, as most advanced countries are bending to the pressure to reduce social welfare spending, old age social security programs are not only surviving, but growing.[2] This is both because the benefits that the aged now receive have increased dramatically and because the number of people receiving these benefits has increased as well. In short, advanced welfare states face a serious conundrum: There are powerful demographic trends as well as strong political support pointing toward *increased* public spending on the largest and most expensive social welfare program at the same time that there are powerful forces pushing for *lowering* public spending on social welfare programs as a whole. We see this as a conundrum because there is very little political will (in most countries at least) in favor of policies that would increase inequality in these states.[3] In this context, then, some policy makers are very cautiously looking toward their social security systems in an effort to trim the growth in public expenditure. Given the enormous costs of these programs and their projected growth, it seems fair to consider whether they continue to serve the redistributive functions that they were initially intended to serve.

In this paper, we examine one particular case of this conundrum: Japan. We believe the Japanese case should be interesting to students of Japanese fiscal policy as well as to non-Japanese experts because this country reveals a powerful—if not extreme—example of a broader phenomenon, which we suggest is latent in many social insurance systems. As is often noted, Japan has the most rapidly aging society in the world as well as the longest life expectancies. Perhaps less well known is the fact that Japan has a relatively small welfare program targeted at the non-aged poor but has a relatively generous social insurance system targeted toward retired individuals. In many ways, the Japanese system

2. Old-age cash benefits alone have grown from an average of 5.5 percent of GDP in 1980 to 7.57 percent of GDP in 1998 in the richest 21 (OECD) countries. The OECD predicts an average increase in age-related social spending of over 5.5 percent of GDP by 2050 and a decrease of 0.9 percent of GDP in child/family benefits and education; see Thai Than Dang, Pablo Antolin, and Howard Oxley, "Fiscal Implications of Spending: Projections of Age Related Spending," *Journal/Economics Department Working Papers Series* (Paris: OECD, 2001).

3. See, for example, Stefan Svallfors and Peter Taylor-Gooby, *The End of the Welfare State?: Responses to State Retrenchment* (London: Routledge, 1999); Peter Taylor-Gooby, *Welfare States under Pressure* (London: Sage, 2001).

most closely resembles the American system with its relatively low levels of social spending overall, yet relatively generous levels of spending aimed at the aged.[4]

We will demonstrate below that the Japanese social security system has quite unintentionally evolved from a redistributive program designed to aid society's most "deserving" poor (the aged) to a remarkably perverse redistributive program which transfers income from the financially strapped working families to the increasingly well-off retired population. In examining the Japanese case carefully we hope to suggest a problem that may at least be latent in other social security systems around the world. We do not, however, examine other country's systems in detail in that this would require a far more extensive study than is possible in these pages.[5] We have chosen to focus on the case of Japan because it is here that the case is most easily made, but we believe that the basic logic of this argument applies to other rich democracies as well. The fact that Japan is aging rapidly and the fact that the Japanese social security system is ill equipped to handle this demographic time bomb are both well known. The fact that the structure of the system itself dramatically deepens this fiscal crisis, however, is scarcely appreciated in Japan today. It is our intention to lay out this fiscal policy dilemma here.

Briefly, we recognize three main problems with Japan's current social security system. The first is structural: it is divided into three categories and two tiers that are both unequal and unsteady with regards to their various contributing and benefitting populations, as a result of having developed historically as responses to political and social developments, rather than having been planned in an organized, sustainable, and socially just manner. Second, while pensioners enjoy very generous benefits that are supported by the taxation of workers, they themselves make no social security contributions and pay very little in total taxes. The third problem is partly a result of the former two: In the context of the fiscal pressures all modern welfare states are currently facing, we believe that the growth of social security spending acts as a constraint on social welfare spending on more redistributive programs that actually may help those most in need. We refer to it as the New Redistribution.

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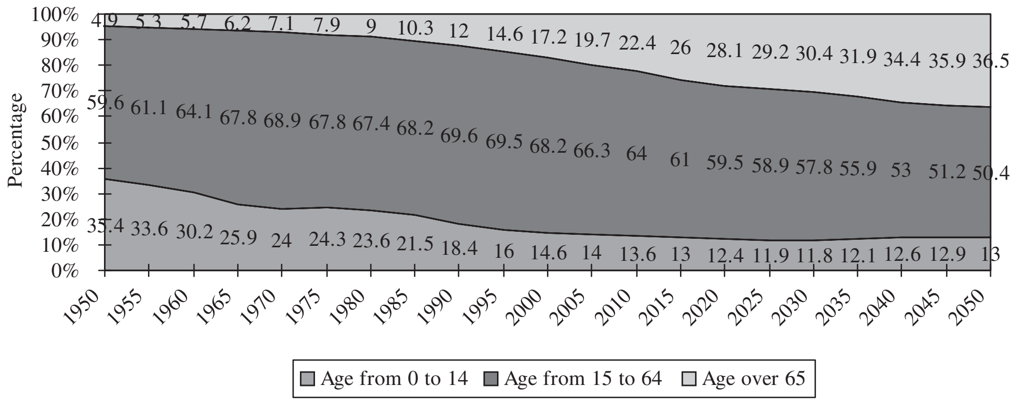
4. The U.S. spends 34 percent of total social spending on direct cash benefits to the aged (5.15 percent of GDP). Japan spends 40 percent of total social spending on direct cash benefits for the aged (6.06 percent of GDP). In contrast, Sweden—the world's most generous welfare state—spends just 27 percent of total welfare spending on cash benefits to the aged (9.38 percent of GDP).

5. For a survey of these issues internationally, see Ralph Bryant, "Demographic Pressures on Public Pension Systems and Government Budgets in Open Economies," *Journal/Brookings Paper* (Washington, DC: Brookings Institution, 2004) and the recent OECD report: Bernard Casey and Atsuhiro Yamada, "Getting Older, Getting Poorer? A Study of the Earnings, Pensions, Assets and Living Arrangements of Older People in Nine Countries," *Labour Market and Social Policy—Occasional Papers* 4, no. 60 (2002): 1–70. Miles Corak, "Government Finances and Generational Equity" (Ottawa: Statistics Canada, 1998), demonstrates statistically the intergenerational equity issues emphasizing Canada. Angus Deaton and Christina Paxson, "Intertermporal Choice and Inequality," *Journal of Political Economy* 102, (1994). 437–467, give us a detailed analysis of the policy choices. The U.S. comptroller general offers a blunt assessment of these issues for the America case: David M. Walker, "Social Security Reform," *Journal/Almanac of Policy Issues* (Washington, DC: General Accounting Office, 2003).

FIGURE 1
Percentage of Age Groups in Japan



Source: Population Divisions of the Department of Economic and Social Affairs of the United Nations Secretariat World Population Prospects: The 2002 Revision and World Urbanization Prospects: The 2001 Revision, *http://esa.un.org/unpp*

Demographic Context: Japan's Aging Population

All advanced countries face the problem of aging populations. Japan's situation is among the worst. The number of people over 65 years of age in Japan has grown from 4.9 percent of the population in 1950 to 17.2 percent in 2000.[6] This number is expected to more than double in the next 50 years, rising to a staggering 36.5 percent (see Figure 1). Japan also currently has the highest life expectancy in the world, at 77 years for men and 84 years for women.[7] While the aged population is increasing, the population of working people, between 15 and 64 years of age, is steadily and almost proportionately decreasing. This means that within the next 50 years, workers as a percentage of the total population in Japan will decrease from 68.2 percent to 50.4 percent (see Figure 1).

If current demographic trends and policy commitments continue, there will be 1.4 working people supporting each retired person by 2050 (currently the ratio is 1 to 3.9). There can be no gainsaying that these facts present difficult policy problems for policy makers in Japan—and in all industrialized democracies. Indeed, that the aging of society will have enormous social and economic consequences is scarcely a new observation.[8] While the idea that this demographic shift will present the state with difficult fiscal pressures is widely accepted, the idea that the current structure of the social security

6. In the United States the percentage of the population over 65 has grown from 8.1 percent in 1950 to 12.6 percent in 2000 and is projected to grow to 20.3 percent by 2050 (U.S. Bureau of the Census).

7. Naohiko Jinno, "On Pension Reform," *Social Sciences Japan*, no. 21: 11–12.

8. The Tax Commission (Japanese Government), "A Sustainable Tax System for Japan's Aging Society," Ministry of Finance, 2003).

system—in Japan and other countries—substantially exacerbates these problems is less well understood. The issue is not simply that there are "too many" old people and increasingly fewer productive workers to support them; rather, we argue that the public old-age retirement systems themselves have evolved into fiscally unsustainable—and morally questionable—systems of redistribution. No longer are these programs centrally redistributing income from well-off workers to their less secure elders. Today, as we shall demonstrate below in the Japanese case, the system has become one which rather bizarrely redistributes income from many of the have-nots to many of the haves.

A BRIEF HISTORY OF THE JAPANESE PENSION SYSTEM

> In spite of its success, Japan has failed to realize the sustainability of its pension system. What is worse, endlessly repeated reforms have eroded the credibility and legitimacy of the system.[9]

As Toshimitsu Shinkawa suggests in the quote above, the current Japanese social security system is constructed of a hodge-podge of different programs instituted at different times to serve different purposes and aid different constituencies. The system began with the soldier's pension, implemented in 1923, and expanded in 1941 when a Labor Pension Insurance for male factory workers was established, presumably in order to cover those who were involved in the war effort through manufacturing.[10]

Immediately after World War II, the government's and society's focus was on the war's destruction and its victims, so companies were left to take over the responsibility of taking care of their retired workers, which they got in the habit of doing with lump sum payments.[11] There was an attempt to create a more universalistic pension system, but it was undermined by many groups choosing to opt out of the system.[12] Eventually, in 1954, Welfare Pension Insurance was expanded to include all employees—but remained at very low subsistence levels. During the 1950s, the main policy priority was in economic growth and restructuring, and not social spending. Toward the end of the 1950s, how-

9. Toshimitsu Shinkawa, "The Politics of Pension Retrenchment in Japan," *Japanese Journal of Social Policy* 2, no. 2 (December 2003): 25.

10. This pension insurance also served as an incentive for the factory workers to stay in one place, for a movement from one prefecture to another resulted in loss of pension benefits. In 1944, a similar concession was made for women and office workers, and this was to be called the Welfare Pension Insurance. The reasoning behind this was economic; it was thought that giving people money would increase Japan's savings rate.

11. Toshimitsu Shinkawa, "The Politics of Pension Reform in Japan: Institutional Legacies, Credit Claiming and Path Dependency," in *Journal/Ageing and Pension Reform around the World; Evidence from Eleven Countries*, eds. G. Bonol and T. Shinkawa (London: Edward Elgar, forthcoming).

12. Margarita Estevez-Abe, "Negotiating Welfare Reforms: Actors and Institutions in the Japanese Welfare State," in *Journal/Restructuring the Welfare State-Political Institutions and Policy Change*, eds. Bo Rothstein and Sven Steinmo (New York: Palgrave Macmillan, 2002), pp. 157–184.

ever, there was a shift to focus on social welfare, with a minimum wage, universal health care, and increases in the National Pension system all being legislated.[13] As Japan industrialized it also urbanized. Thus, the children of farmers, fishers, and loggers (all covered under the National Pension) moved from the countryside to cities to take jobs in the fast-growing internationally oriented productive sector of the Japanese economy. The National Pension system grew to protect the parents and grandparents who had been left behind. The massive economic growth witnessed in the urban export-oriented sectors of the economy had the dual effect of declining rural incomes at the same time that the elderly people in the rural areas could no longer count on the tradition of their children being close at hand to support them. As a result, elderly retired farmers, fishers, and loggers were included into the National Pension system and allowed to draw benefits even while it was acknowledged that they had not paid into the system.[14]

By the mid-1960s, Japanese bureaucrats began to look at foreign models of social welfare capitalism as potential models for Japanese reform. It was clear that Japan was becoming a rich and successful country and therefore the argument that so much of national resources should be diverted to economic growth began to wane. Certainly economic growth was to remain a powerful goal, but well-being was now entering the agenda as well. It is important to note, however, that typical Anglo/European class politics were not a motivating force here. Instead, central bureaucrats began to change their attitudes as what was called "the old-people problem" (*rojin mondai*) came into their view. Japanese view of community and family values traditionally held that older people should be taken care of by their families. The growing reality, however, was that these burdens were increasingly hard to bear and this posed significant challenges both for older Japanese citizens and their children. Even in the 1980s nearly 60 percent of Japanese elderly lived with their children (compared to only 20 percent or less in the West). The bottom line, ultimately, was that the modern market economy, while expanding wealth for Japanese society, was also pulling at the seams of that society. The government needed to do something about this. First came pensions, then free medical care, and finally a host of specific programs such as nursing care facilities, home care, etc. blossomed. According to Campbell, by the late 1980s there were several thousand public programs at the national, prefectural and municipal levels of government specifically designed to aid older Japanese citizens.[15]

Despite the lack of strong political pressure for the expansion of the welfare state in Japan, there was a significant interest in growing public welfare programs inside the bureaucracy and from some elements within the Liberal Democratic Party (LDP). Why

13. Deborah Milly, *Poverty, Equality and Growth: The Politics of Economic Need in Postwar Japan* (Cambridge, MA: Harvard University Asia Center, 1999).

14. Naohiro Yashiro, "On Pension Reform," *Social Sciences Japan*, no. 21.

15. For a comprehensive overview of the evolution of Japanese social security policy, see John Campbell, *How Policies Change: The Japanese Government and Aging Society* (Princeton, NJ: Princeton University Press, 1992). See also Milly.

did they promote the expansion of welfare programs absent strong political pressures to do so? Kasza asks, "Why not? . . . bureaucrats and influential economists saw welfare problems as a structural inevitability during rapid growth. While heavy industry prospered, farmers, the self-employed, and workers in small businesses and declining sectors would suffer growing inequality. The solution was welfare policy as a form of structural adjustment."[16]

With the exception of health insurance, then, and unlike the more comprehensive social welfare systems being developed in most other countries at the time, specific structure of social spending and tax policies in these years were designed to target small producers, farmers, and the self-employed, *but not* the unemployed, single mothers, or those otherwise left behind in the capitalist economy. In truth, they were a subsidy to key elements of the LDP constituency. Due to the heavy electoral bias in favor of rural communities in Japan, the core of LDP's electoral base was found outside the dynamic urban centers.[17] Certainly one can argue that this kind of electoral bias exists in most countries (and grows as a product of migration off the land), but in Japan the bias was extreme and further exacerbated by the weakness of organized labor. As a result worker's interest were not paramount in the construction of Japan's social security system.

Still, as growth stabilized and Japan increasingly saw itself as a richer country, many came to believe that they too could grow the kinds of welfare state programs found in Europe and America. Many believed that Japan was now "modern" enough to have a "modern welfare state." The LDP declared 1973 the "First Year of Welfare" (*fukushi gannen*). Unfortunately for those who advanced the cause of a more extensive European-style welfare state, however, 1973 was the year of the great oil shock which quadrupled the price of oil around the world. Japan, a resource-poor island, was particularly struck by this oil shock. The 1973 oil crisis dramatically altered the focus of Japanese politics. For one thing, it transformed budgetary politics from a positive-sum to a zero-sum game. As a result, the LDP could no longer rely on automatic revenue growth—generated by bracket creep and economic expansion—to fund public programs. At the same time, unions and big business interests were starting to bristle after years of footing the national bill for social and economic subsidies. It is one thing to subsidize others while one is quickly becoming richer; it is quite another when subsidies force the payee to make sacrifices.

In response to this new political reality, big business and moderate labor unions became more critical of the expansion of a public welfare state. In response to the change in climate, the LDP also quickly changed its position. "Having just declared 1973 to be 'the first year of welfare' (*fukushi gannen*) . . . it announced a 'reconsideration of welfare'

16. Greg Kasza, "Japan's Welfare Policies in Comparative Perspective" (Unpublished manuscript, 2004).

17. For a discussion of this electoral bias and its effects on regional distribution policies, see Andrew DeWit and Sven Steinmo, "Policy vs. Rhetoric: The Political Economy of Taxation and Redistribution in Japan" *Social Science Japan Journal* 5, no. 2.

(*fukushi minaoshi ron*) and touted 'Japanese-style welfare society' (*nihongate fukushi shakai*) in the late 1970s,'' which would ''rely more upon family, community and corporate welfare than did the welfare state of the West.''[18]

By the mid-1970s, business interests began to fear that increased public sector growth would mean increased corporate taxes—even as profit margins fell. Thus, big business became skeptical of public sector growth and demanded administrative reform and fiscal restraint.[19] It is perhaps more surprising that Japanese unions were skeptical of a growing public welfare state—and equally hostile to the increased taxes that would be necessary to fund these programs. We saw in the Swedish case how labor union elites came to favor economic rationalization policies *in exchange for* social welfare programs and active labor market policies that helped individual workers adjust in times of economic transition and hardship. In Japan these same interests adopted a very different political objective. At least in part because unions were organized inside companies, ''core workers'' in the large successful firms were able to extract quite generous benefits (especially guaranteed full employment, housing, health care, pensions, etc.) directly from the companies. The Japanese firm, in short, had by now become the employee's welfare state. These workers, at least, did not need and did not want an expanded public welfare state. Whereas Swedish unions were organized by craft, were nationally organized, and had strong confederal leadership, Japanese worker interests were divided. In Sweden, the incentive for unions was to fight for the rights of all workers; in Japan, the incentive was to negotiate for the interests of their workers at the firm level.

Japanese workers employed in large successful firms not only received higher wages than those outside the economically successful ''core.'' The problem was that they also paid higher taxes. Eventually, they came to resent this. Recall that the most significant redistributive policies funded by the Japanese state were directed (as we saw above) at small business owners, farmers, and rural workers (who paid few, if any, taxes). The working taxpayer unsurprisingly eventually came to resent this. The result was that Japanese unions came to see their interests in almost exactly the opposite way as Swedish, German, and even American unions. Whereas in other countries, unions saw public spending as a mechanism to increase levels of consumption on the part of workers and the poor, Japanese unions saw public spending as subsidies to the unproductive but politically powerful rural and small business interests.

The key exception to this general rule, of course, was social security. In Japan, just as in most other countries, social security programs were advanced as a form of old-age insurance. Citizens, workers, and voters continued to support social security because they believed that they were funding their own future pension benefits. Even while the fiscal reality was that the pay-as-you-go (PAYG) system paid for benefits directly out of current tax revenues, citizens generally held the false belief that they were contributing to

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18. Kasza, ch.3, p.5.

19. Mitsutoshi Ho, ''Daikigyo Roshirengo No Keisei (Formation of the Big Business and Labor Coalition),'' *Leviathan* 2 (1988): 61–62.

a fund from which they would later draw benefits. In truth the National Pension was funded out of workers' contributions as well as general tax revenues. Approximately one-third of benefits are financed through a direct subsidy from general revenues.

The Ministry of Finance (MoF) began to appreciate the fiscal dilemma faced by the Japanese social security system in the 1970s. Recognizing the public and ruling-party resistance to increased income taxes on the one side and employer opposition to increased social insurance taxes (often called "wage taxes") on the other, they began to agitate for the introduction of a broad-based consumption tax. Their logic was that a broad-based consumption tax (like the value-added tax [VAT] introduced in European countries) would be an efficient source of future government finances which could be used to help pay for the welfare costs of Japan's aging society. We will not detail this story here other than to point out that this policy has been highly controversial and has faced extraordinary public opposition from Japanese citizens. Still, MoF and its political allies in the Diet pushed for the consumption tax specifically in order to help deal with the "aging society problem." After several failed efforts which cost several prime ministers their position, a 3 percent consumption tax was introduced in December 1988 and contributed significantly to voters turning against the ruling LDP in the subsequent elections.[20]

For most of the past decade and a half, the long and deep recession in Japan has dominated all fiscal policy discussion. The government finds itself in the perpetual dilemma—stuck between raising budget deficits, public mistrust, and an aging society—that will clearly demand changes in the social insurance system. In 1994, for example, there was an effort to gradually increase both the effective and the legal retirement ages, in the hopes that such an action would make the system more fiscally sustainable. For working pensioners, it was felt that the way that earned income decreased pension benefits was a strong disincentive for work, so the progressiveness of the system was attacked. To counteract the disincentive to work, those over the age of 60 are allowed to receive both a partial pension and wage compensation (if their wages are much lower than they were before "retirement") in addition to their wages from working. In spite of this systemic flaw, it was recognized that encouraging labor force participation by both the elderly and women (both underrepresented among workers) was a top priority.

In 1999, another reform was introduced which included a 5 percent reduction in new benefits and a proposal to raise employment pension plan contributions to 34.3 percent of monthly salary by the year 2025. This idea, however, met significant resistence both from employers and unions. They successfully argued that to increase the social insur-

20. This tax was increased to 5 percent in 1997. For detailed histories of the consumption tax in Japan see, Junko Kato, *The Problem of Bureaucratic Rationality: Tax Politics in Japan* (Princeton, NJ: Princeton University Press, 1994); Junko Kato, *Regressive Taxation and the Welfare State* (New York: Cambridge University Press, 2003).

ance charges to these (European) levels would significantly undermine Japan's international competitiveness by increasing the cost of labor.[21]

In 2004, another round of reforms was proposed. These initiatives have ignited a political struggle between the LDP and the Komei Party, and the Democratic Party of Japan (DJP). Once again, it has been the central bureaucracy that has pushed the hardest for reform. In Japan (just as we currently see in the United States) the political parties are faced with the problem that any reforms that promises to increase the solvency of the system by reducing benefits, increasing the retirement age, or increasing taxes are vigorously opposed by key constituents. As noted above, several prime ministers and in 1992 the entire LDP government were punished by voters for attempting to increase the consumption tax (which is the option currently favored by Japanese business confederation [Keidanren] and tacitly supported by Rengo the major union confederation).[22]

In June 2004, the Diet agreed to new proposals that will increase the social security contributions to both the National Basic Pension (NBP) and the Employee's Pension Insurance.[23] Along with the DJP, the employer federation opposes these pending increases with the argument that raising these contributions will cause small enterprises to go into debt and simply increase the cost of labor and thereby undermine Japan's tenuous economic revival. In response to these concerns the government has agreed to increase the direct subsidy the NBP receives from general government revenues: currently, one-third of the NBP budget comes from the Japanese government, and this portion will be increased to one-half in hopes of avoiding a continuing need to increase citizen contributions. This will cost the government, however, an estimated JPY2.7 trillion. Considering the existing Japanese deficit, it will not be easy for the government to make these contributions. There is strong pressure from inside the bureaucracy as well as from business interests to increase the consumption tax in order to cover the cost. While in the longer run it seems inevitable that this tax will have to be increased, strong public resistance to this tax (especially from self-employed workers and housewives) have clearly intimidated elected officials. Prime Minister Junichiro Kozumi has promised voters that this tax will not be increased while he is in office.

These reforms will reduce benefit levels to no less than 50.2 percent of the average worker's salary (it is currently at 59.3 percent). Even with the reductions, however, there remains much doubt about the sustainability of the system. As the LDP, Komei, and

21. For a broader discussion of these reforms, see Noriyuki Takayama, "The Japanese Public Pension System: What Went Wrong and What Reform Measures We Have," *Journal/Japan and Italy: Economic Performances and Policies Compared* (Milan: Boccini University, 2003).

22. Keidanren has proposed increasing the VAT to 15 percent over the next several years specifically in order to help finance growing social security demands as well as to help rebalance the Japanese budget.

23. Currently, the monthly NBP contribution is JPY13,300. This number will be increased by JPY280 yearly until it reaches JPY16,900 in the year 2017. For the Employee's Pension Insurance, the yearly increase will be 0.345 percent and the number will be fixed when it reaches 18.3 percent in 2017.

TABLE 1
Transition of Per Capita National Income and Money Spent Per Aged Person for Old-Age Pension (Thousand Yen)

	Per Aged Person Old-Age Pension		Per Capita National Income	
	Thousand Yen	**1975 = 100**	**Thousand Yen**	**1975 = 100**
1975	329.1	100.0	1108.7	100.0
1980	792.4	240.8	1706.1	153.9
1985	1161.0	352.8	2151.6	194.1
1990	1459.8	443.6	2840.8	256.2
1995	1705.9	518.4	3021.7	272.5
2000	1791.8	544.5	2998.5	270.5

Source: Transition of Per Capita Social Security Benefits and Per Capita National Income National Institute of Population and Social Security Research, *http://www.ipss.go.jp/Japanese/kyuhuhi-h12/4/d4.html*, Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2000 Revision and World Urbanization Prospects: The 2001 Revision, *http://esa.un.org/unpp/*.

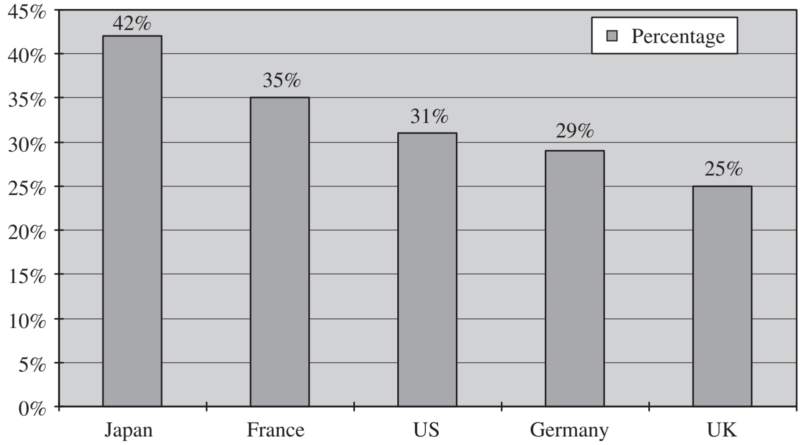
DJP fight over these new pension system reforms, the Japanese public is clearly confused and increasingly skeptical of their social security system.[24]

These changes are minor in comparison to the rate of growth of public expenditure on the elderly, however, both in real terms and in proportion to other government spending. Between 1965 and 2000, Japan's total social welfare expenditure increased an amazing 7,800 percent. Japan's total social welfare expenditure in the year 2000 was JPY78 trillion; by 2005 it will be up to JPY90 trillion, JPY109 trillion in 2010, and JPY176 trillion by the year 2025.[25] Not only is total social welfare expenditure increasing year by year at an alarming rate, but also the percentage of total money spent on total welfare that is going to the aged keeps increasing as well. In other words, all public expenditures for the aged are accounting for an increasingly large percentage of the government's total welfare spending; in 1973 it was only 25 percent, but by 2001 it had shot up to 68.7 percent. Within this large amount of public spending for the aged, pension benefits are increasing the fastest; between 1973 and 2001, expenditure on public pensions grew 3,776 percent. In 2001, public spending on pension benefits for the aged accounted for 49.9 percent of *all* social welfare expenditure in Japan. In the mid-1990s the Japanese government calculated that future pension benefits for a male worker and his non-working wife would *surpass* the average income of a single-earner family of four. Yet the sustainability of this extremely generous system is in question: the reserves that are supposed

24. See Noriyuki Takayama, "The Japanese Public Pension System: What Went Wrong and What Reform Measures We Have," *Japan and Italy: Economic Performances and Policies Compared* October 9–10, 2003. Furthermore, about 12.3 percent of current pension reserves are held in bad investments.

25. These figures include medical expenditures on the aged. See National Institute of Population and Social Security Research, "Social Security Expenditure for the Elderly, Fiscal Years 1973–2000," *Journal/IPSS: Statistical Report 13* (Tokyo: National Institute of Population and Social Security Research, 2000).

FIGURE 2
Current Average Benefit Level as a Percentage of Average Annual Earnings



Source: Yashiro, Naohiro, "On Pension Reform." *Social Sciences Japan* 21 (2001): 16.

to support the funding scheme fall short of projected future benefit payments by JPY530 trillion, or by about the sum of Japan's *entire* GDP.

These spending figures cannot simply be explained by the rapid growth of the population of elderly people in Japanese society. In 1975, the total public spending on pension benefits for the aged divided by the total elderly population amounted to JPY3,291,000 per person. By 2000, this number grew to JPY17,918,000 per person (see Table 1). This means that there was a 544.5 percent growth rate in 27 years on the per capita public pension expenditure for the aged. This is put into context when compared with a per capita national income growth at about half that rate, 270.5 percent. In short, per capita pension benefits for the aged are growing faster than is per capita national income.

It is widely recognized that in order to avoid a total collapse of the system, benefit levels must be decreased and contribution levels simultaneously increased, while Yashiro Naohiro recommends only reducing benefits and not increasing contributions. There appears to be a consensus inside the bureaucracy as well as within the academic community that Japan's dire demographic picture necessitates cuts in benefits as well as increases in revenues. Still the political leadership is loath to follow these suggestions for fear of suffering the ire of voters. (See Figure 2 for a comparison of pension benefit levels with other OECD countries.)

TAX BURDEN ON THE AGED

Redistribution is accomplished through two main interactions between a government and its people: governments tax with one hand, and offer benefits with the other. In

TABLE 2
Average Tax Rates for Earners of the Average Production Wage (in percent)

	Pensioners			Workers		
	Total	Income Tax	Social Security	Total	Income Tax	Social Security
Germany	7.7	0	7.7	41.9	21.2	20.8
Japan	4	4	0	16	6	10
Sweden	29.3	29.3	0	34.2	27.2	7
United States	10.9	10.9	0	25.8	18.2	7.7
Average	13	11.1	1.9	29.5	18.2	11.4

Source: OECD. Taxing Wages 2000/2001. P34. Table 2c.

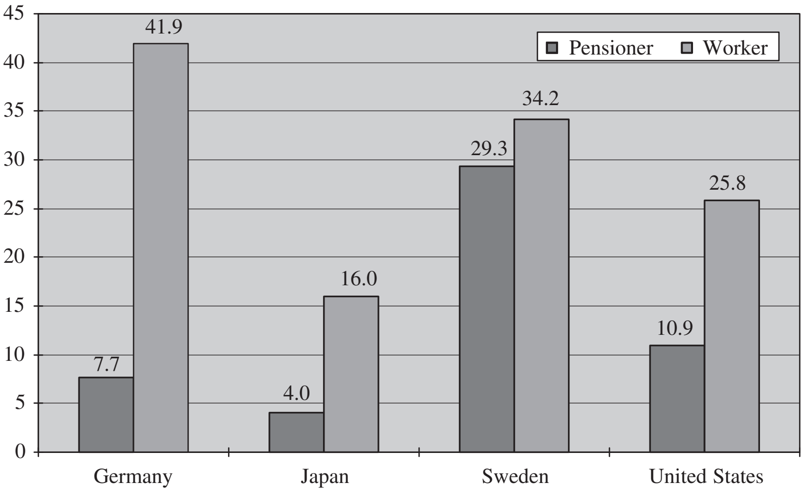
Japan, both of these actions serve to keep the elderly (as a group) in a comfortable financial position relative to the rest of society. The elderly population in Japan not only enjoys comfortable pension benefits, but due to various aspects of the tax system, they also pay little or nothing back into the system that supports them.[26]

Once an individual retires in Japan his or her tax burden is significantly reduced—even if his or her income remains high. Pensioners contribute nothing to the social security funds from which they draw their income—no matter how high that income is. On top of this, they pay considerably less in income taxes than do their younger working counterparts even when their incomes are higher than younger workers. This means that the aged keep a much larger portion of their income (including pension benefits) than do working people. Upon reaching the age of 65, the major portion of taxes (social security) is eliminated. A pensioner receives the first JPY1.6 million of his or her public pension completely tax free, and can even include a tax-qualified retirement plan private pension benefit in that threshold. This initial deduction is equivalent to nearly a quarter of average earnings and is subject to a minimum of a third of average earnings at JPY1.4 million. The deductions for people of working age are exactly half as generous, at 100 percent of the first JPY500,000 of income and the minimum deduction being at JPY700,000.

This difference is exacerbated by the fact that Japan has a very high income tax threshold in the first place. As a result, most individuals pay very little in income taxes and much more in social insurance taxes. The average production worker pays only 6 percent of his or her income on income taxes (less than taxpayers in Germany, Sweden, and the United States), and 10 percent on social security contributions (more than people in both Sweden and the United States contribute) (see Table 2). In fact, an average

26. Shigeki Morinobu, *Nihon No Zeisei: Guro-Baru Jidai No Kouhei to Katsuryoku* (*Japanese System of Taxation: Fairness and Vitality in a Global Age*) (Tokyo: PHP Kenkyuujo, 2001).

FIGURE 3
Average Tax Rates of Pensioners and Workers Earning Average Production Wage (Income Taxes+Social Security Taxes)



Source: OECD's Taxing Wages 2000/2001

Japanese production worker pays less than one-third the amount of income taxes than his or her counterpart in the United States does (at 18.2 percent).[27]

When the lower income tax payments and the nonexistent social security contributions are put together, we can see that a pensioner with an average income would pay only one-quarter the amount in taxes that his or her working son or daughter with the same income would (4 percent versus 16 percent). In fact, when we look at either the income tax burden or the social security charges paid by different age groups in Japan, the trend becomes very clear. Direct taxes paid continually rise until the taxpayer reaches the age of 60, when they begin to fall sharply. Likewise, social insurance charges, although they begin to drop slightly at the age of 50, plummet dramatically once a taxpayer has reached the age of 60 years (Figure 3).

This tax favoring of the elderly is not new in Japan—nor, as the figure demonstrates, is it unique to Japan. But it is exacerbated by the fact that in Japan consumption taxes, property taxes, and capital gains taxes are all very low as well. Income taxes are thus the major source of revenue, but even these are not particularly efficient revenue sources due

27. The data shown here are for tax rates on individuals earning "Average Production Wage." Similar disparities are found between the taxes paid by pensioners and workers at all income levels. For example, workers who earn twice the average production wage pay 21.2 percent of their income in income and social security taxes while pensioners at the same income level pay only 10.8 percent in these taxes. It is also widely recognized that capital income is significantly tax advantaged in Japan (as in many countries) and that older individuals have substantially higher capital incomes relative to their younger counterparts. These differences are not reflected in the figure above. See OECD, *Taxing Wages*, 2001/2.

TABLE 3
Income Redistribution by Age Groups of Householders (JPY10,000)

Age Group	Initial Income	Income after Redistribution	Redistribution Coefficient (%)
Total	601.0	618.0	2.8
Younger than 30	390.9	353.1	– 9.7
30–39	519.7	534.8	– 9.6
40–49	721.7	666.3	– 7.7
50–59	845.4	763.2	– 9.7
60–69	501.7	619.0	23.4
70 or older	284.1	528.3	86.0

Notes: (a) Data based on the survey conducted in 1996: "Survey on the Redistribution of Income (Fiscal 1996)" by the Research Section, Policy Planning and Evaluation Division, Minister's Secretariat, Ministry of Health and Welfare. (b) The redistribution coefficient is calculated as follows: (income after redistribution—initial income)/ initial income X 100.
Source: Annual Report on Health and Welfare, 1999, p. 7 (Table 2-2-4).

to the widespread underreporting of income by self-employed individuals and families. Margarita Estevez-Abe's comprehensive analysis of the Japanese tax/social insurance system declares that this system promotes "free-riding" by a variety of groups and further suggests that this system undermines general public support for the kinds of revenue increases that would help stabilize the system.

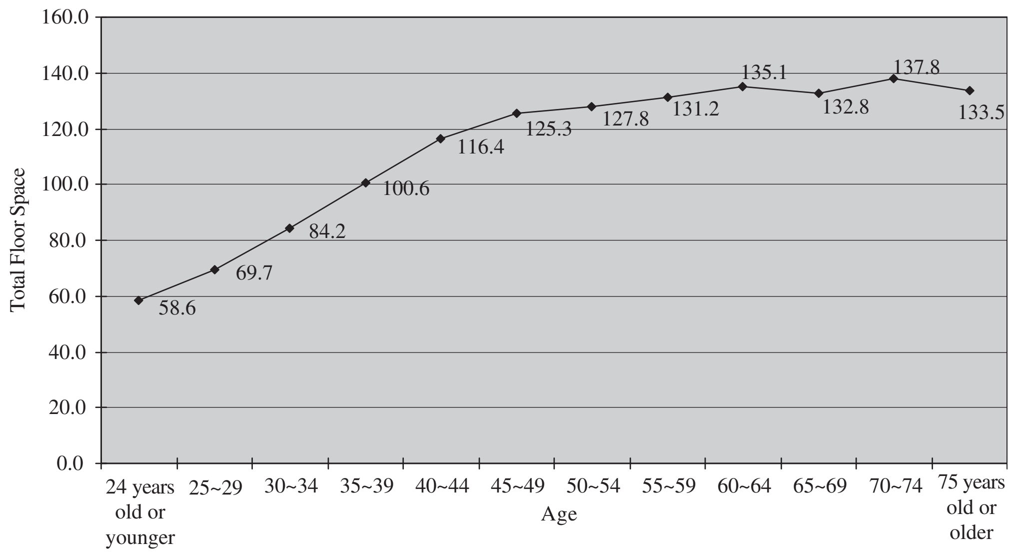
Put together, the social security system and the tax system heavily favor the aged at the expense of the working population. This is easily shown by looking at the redistribution coefficient. This number is calculated by subtracting initial income from income after redistribution and dividing that number by the amount of initial income. Income after redistribution refers to income and social security benefits received, less taxes and social security contributions charged. For every age group between 30 and 60 this is a negative number. In contrast, the redistribution coefficient for those between 60 and 69 years shoots up to 23.4 percent, and for people over 70 it jumps even higher to 86 percent (see Table 3). This demonstrates a wealth transfer from the young to the aged, which is achieved through the tax burden on the younger generation and the special tax exemptions and tax breaks that are enjoyed by people who are 65 and over. In sum, the public pension system along with the treatment of taxes for the elderly amounts to a massive redistribution of income (and ultimately wealth) from younger generations to older generations.

ARE THE AGED POOR?

Given the tradition of redistribution of wealth from the rich to the poor, one might think that this is all well and good and the social security system is thus fulfilling its purpose by redistributing wealth from the relatively better-off young to the relatively more vulnerable elderly. This is because aged people are thought to be one of the poorest groups of people in wealthy countries' societies. The question, then, is whether or not this is in fact true. The answer is no. This can be shown most simply by looking at income. If we look at initial income and redistribution income as shown in Table 3, we can see that the initial income earned by a person in his or her 30s amounts to less than the income after redistribution of someone who is over 70 years of age. Moreover, the redistribution income of that same person in their 30s adds up to be less than the redistribution income of a person in his or her 60s, by JPY842,000. Of course, it is difficult to get a good grip on the actual standard of living of different age groups, but at least on the densely populated island of Japan, the size of one's home (measured in floor space square meters) is one reasonable measure. Here we find that, at least on average, families of people aged 65 years and over tend to have more room than younger (usually working) families. Whereas the typical couple in the middle of their child-rearing years (35–39 years old) lives in a house averaging 100.6 m^2, the average home for individuals over 70 years old is 137.8 m^2 (see Figure 4).

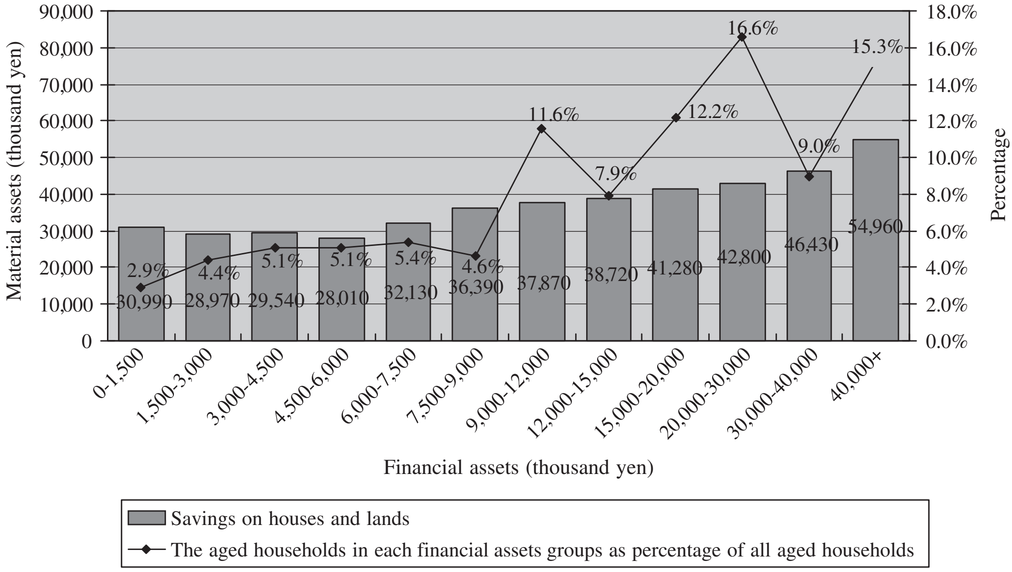
It is also interesting to look at holdings in the form of financial and material assets held by different age groups. The average Japanese person (of any age) owns about

FIGURE 4
Total Floor Space (m^2)



Source: National Survey of Income and Expenditure: Ministry of Public Management, Home, Affairs, Posts, and Telecommunications, *http://www.stat.go.jp/english/data/zensho/index.htm*

FIGURE 5
Material Assets of People over 65 by Financial Assets Group
Financial assets include savings in banks, post office, and other financial institutions; premiums of life insurance and damage insurance; securities in stocks, bonds, and trust funds; savings in institutions other than financial institutions.



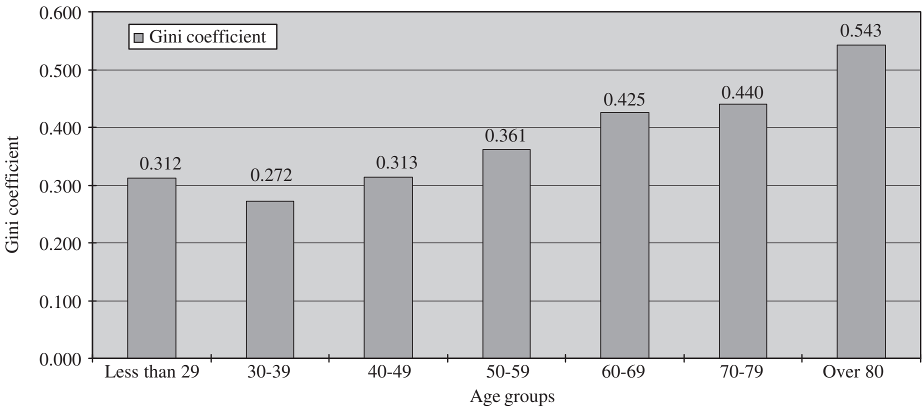
Source: White Paper on the People's Living: Cabinet Office, Government of Japan
http://www5.cao.go.jp/j-j/wp-pl/wp-p101/html/

JPY28 million worth of material assets. Moreover, as Figure 5 shows, the group of elderly people who have the smallest financial savings, at less than JPY1.5 million, still has JPY31 million worth of material assets, on average. This is not a large group (only 2.9 percent of the elderly population), however, for about half of all aged households have financial assets over ten times that amount at JPY15 million, and material assets worth at least JPY40 million. In a society where the average yearly income is about JPY7 million, these numbers are rather astounding. This means that half of elderly households are sitting on assets worth almost eight years of salary in the life of the average working person.

Inequality within Age Groups

In assessing whether or not Japan's social insurance system is fulfilling its function of redistributing wealth from the rich to the poor, it is important to look not only at broad age categories and average wealth or income, but also to examine inequalities within these categories. Despite the fact that the aged in Japan have relatively high levels of

FIGURE 6
Gini Coefficient by Age Groups



Source: White Paper on the People's Living: Cabinet Office, Government of Japan, *http://www5.cao.go.jp/j-j/wp-pl/wp-pl01/html/13103300.html*

income *on average*, there remains a great deal of inequality *within* this group. Indeed, a recent government white paper demonstrated that the level of income inequality (as measured by the Gini index) increases with age in Japan.[28] (See Figure 6.)

In sum, despite Japan's emphasis on old-age security spending in the Japanese social welfare system, there is still a higher degree of inequality among the higher age groups within the aged population. In short, while the age group as a whole is relatively well-off, many Japanese aged are still quite poor. Why? One would expect the opposite for the group of people that constitutes the main beneficiaries of public social welfare spending. The answer appears to be found in the gendered structure of Japanese society and employment on the one hand, and the employment bias in the social insurance system on the other hand.

In traditional Japanese society, the family was seen as a unit with husbands and wives performing different functions within the system. Classically, men earned the living and wives looked after their children in their younger years and the husband's parents in their later years. Women were neither expected nor rewarded for being independent. The Japanese social security system (like the German) was based on this "male breadwinner model" which considered the family as a unit. This is because the shift in Japan's

28. Income inequality generally has been growing in Japan as in most OECD countries in recent years. Thus the government has paid particular attention to issues of inequality between age groups as well as within age groups. See Yashihiro Kaneko, "The Factors of Income Inequality and Coordination between Income Distribution Policy and Social Security," *Review of Population and Social Policy* 10 (2001): 55–80. "The Gini coefficient is a precise way of measuring the position of the Lorenz Curve. To work out the Gini coefficient we measure the ratio of the area between the Lorenz Curve and the 45° line to the whole area below the 45 degree line." See *http://www.bized.ac.uk/virtual/economy/library/glossary/glossarygl.htm*

economy from agriculture to manufacturing led to widespread urbanization, and while elderly couple's children were moving to the cities to work, they were being left behind to fend for themselves in the country. Though still perhaps more "traditional," Anglo/European societies today, Japanese society has evolved since then, and the question is, have their welfare systems evolved along with them? Mari Osawa points out that "while these changes were being forced through, there was no attempt to hide evident hostility toward the concept of 'society as a whole supporting care,' " and yet, as the traditional caretakers were women who neither had a choice nor were compensated for their work.[29] Though special supports have been created for small farmers and small business holders (Category 1), the system offers only minimal support for those who have not paid in throughout their working careers—the largest category here is, of course, women—but day laborers and rural workers also suffer in this case.

Mari Miura has described the Japanese system as "Welfare through Work."[30] She demonstrates quite persuasively that while the "employment bias" in the system may have worked very well under conditions of stable family structures, the system is far less well adapted to a more dynamic employment system and/or changing family relationships. In Japan, the percentage of households that were receiving living assistance stayed at around 2 percent through the 1970s and early 1980s. In the mid-1980s, however, the number of households that were on what is openly called welfare (not including old-age benefits) went even lower. This is because the majority of these households receiving assistance were headed by an elderly or disabled person, and in the mid-1980s pension benefits reached their height.

Nowhere in the developed world is the aging of society more pronounced than in Japan. Societies across the world are having to adjust to and prepare for the major demographic shift that is happening. Probably because change is politically painful, and because there are many differing ideas on how to deal with this shift, all the governments of these societies have been reluctant to change their social security and welfare systems to mirror the new and coming reality. Consequently, these two related problems—the aging of societies and the tilting of the welfare systems toward the aged (of all income classes) and away from the poor (of all age classes)—are set for a head-on collision. The contrast between the lives of the average Japanese production worker and the average pensioner becomes even more stark if we look at the financial lives of the truly (non-aged) poor compared to those of the pensioners and then add on the government's treatment of both groups of people.

In comparing groups of people who have been typically categorized as being at risk of poverty, it is illuminating to compare the redistributive impact of taxes and social spending in favor of the aged with those in favor of single mothers and their families.

29. Mari Osawa, "Dispensing with the 'Male Breadwinner' Model for Social Policy," *Social Science Japan* no. 21 (2001): 3–4.

30. Mari Miura, "From Welfare through Work to Lean Work: The Politics of Labor Market Reform in Japan," *Journal/Political Science Department* (Berkeley: University of California, 2002).

TABLE 4
Income Redistribution by Type of Household

		Income per Household			Income per Member of Household	
	Average Size of Households	Initial Income (JPY 10,000)	Income after Redistribution (JPY 10,000)	Redistribution Coefficient (%)	Initial Income (JPY 10,000)	Income after Redistribution (JPY 10,000)
Total	3.04	601.1	618.0	2.8	197.7	203.3
Elderly-only households	1.59	141.8	386.7	172.7	89.2	243.2
Fatherless households	2.77	219.8	279.9	27.4	79.4	101.0
Other kinds of households	3.32	693.7	666.8	– 3.9	208.9	200.8

Notes: (a) "Elderly-only households" means households comprised of only men aged 65 or older and/or women aged 60 or older, or those comprised of them plus persons aged younger than 18. "Fatherless households" means households comprised of mothers aged 20–59 who do not have husbands for reasons including the death of their husbands and divorce, plus their children (including adopted children) aged younger than 20 only.
(b) The income per family member has been calculated by dividing the income per household by the average size of households.
(c) Data based on the survey conducted in 1996.
Source: "Survey on the Redistribution of Income (Fiscal 1996)" by the Research Section, Policy Planning and Evaluation Division, Minister's Secretariat, Ministry of Health and Welfare.

According to the Ministry of Health and Welfare the "redistribution coefficient" for the elderly is 172.7 percent, but only 27.4 percent for what they call "Fatherless Households." Indeed, as Table 4 shows, the average per individual income after redistribution is JPY1.01 million for female-headed households, whereas it is more than twice that amount for elderly households at an average of JPY2.432 million. This is especially surprising when you consider that the per family income before redistribution is much higher for single mothers.

The other group of people we can look to when comparing the aged nonpoor with the truly poor are the homeless. This group constitutes the poorest of the poor, and their numbers, at least 20,451 in 1999,[31] are a testament to the fact that Japan does indeed have a problem with poverty within its borders. This population is growing along with the aged population, and while both need attention, the elderly are getting it and the homeless are at the borders of society and receive remarkably little direct help from the Japanese state. This can be seen in the anti-homelessness budget of FY 2001: JPY1,080 million, to be spent on a total of six homeless shelters nationwide. Four of these already exist and the remaining two are to be built with this money; together all six will house 684 people. This means that less than 3 percent of the *known* homeless population will benefit from government assistance. It is questionable whether a direct connection can be made between the wealth transfer to the aged and the financial neglect of the homeless, but the fact is that all allocations of money to both groups come from the same government's budget with the same limited revenue.

CONCLUSION

Whereas only one or two generations ago the aged was one of the poorest demographic cohorts, today they tend to be financially independent and remarkably well-off. This transformation has been one of the major successes of the modern welfare state. In recent years, however, social security reform has become a major policy aim in a large number of advanced welfare states. The graying of populations in all advanced industrial democracies places enormous fiscal strains on these systems at precisely the moment that political and economic pressures have collided toward a reduction in taxes and social spending. The United States is only one of a set of countries that is in the process of evaluating the efficacy, adequacy, and fiscal solvency of its old-age retirement systems. This paper explores the Japanese case, which like the United States, has a relatively low tax burden and relatively niggardly welfare programs targeted specifically at the poor. We have shown that the system in Japan has evolved from a program designed to help

31. The actual number of homeless people in Japan is a subject of active debate. Many observers believe that the official numbers grossly understate the problem. Certainly this problem is less severe than in the United States, but even the casual observer recognizes the extent to which this problem has grown in recent years in Japan. Tom Gill, "Homelessness: A Slowly Dawning Recognition," *Social Sciences Japan*, no. 21 (2001): 17–20.

the aged poor into a program that effectively redistributes massive amounts of income from the working population to the retired population—even when the retired population has high incomes and substantial assets.

The working population has children to raise, and mortgages, taxes, insurance premiums, and other liabilities to pay. In contrast, the aged population consumes less food, has low to no mortgage debt, and high levels of savings. On top of that they receive public pension benefits and tax deductions. The success of the system has carried it beyond its goal into a rigid cycle of circulating wealth from the young to the old, ignoring the politically difficult question as to whether these welfare benefit recipients are truly needy. At the same time, the Japanese social security system has become fiscally unsustainable. This is shown by the fact that Japan's total social welfare expenditure is now almost equal to the total tax revenue.

It is also important to recognize that the Japanese government (again like the U.S. government) has cut income taxes (especially for the wealthy) quite substantially in recent years. As a result, the budget deficit has soared to an internationally high level of 140 percent of the GDP.[32] The annual deficit is expected to be approximately 13 percent of GDP in 2005 alone. In this context it is extraordinarily unlikely that new spending programs targeted at helping the genuinely poor (e.g., single mothers, widows, and/or the homeless) will get serious political consideration.

Our point is not to undermine the basic principles of old-age social security in Japan or elsewhere. Instead, we suggest that the current system has, unintentionally, developed into a system that is in serious need of reexamination. While the original intention of the public old-age pension system in Japan, as elsewhere, was to ensure that the aged did not suffer their last years in poverty, the current system appears to have developed into a system that *contributes to inequality*. In sum, while this New Redistribution is clearly unintended, it nonetheless poses the serious risk of undermining the social and economic equality that has for so long been a hallmark of the postwar Japanese miracle.

A detailed examination of reform ideas for Japan is outside the scope of this paper. Certainly suggestions such as increasing the retirement age, lowering benefits, and increasing taxes must be taken seriously.[33] The problem with these proposals, of course, is that they may address the fiscal crisis, they may even exacerbate the problems of equity. Like most social security systems, the Japanese system is in fact an intergenerational transfer: it is a welfare program for the aged. We suggest that the system should be evaluated for the redistributive program that it in fact is and that such an evaluation would lead to somewhat different policy conclusions. First and most obviously, the tax

32. James Savage, "A Decade of Deficits and Debt: Japanese Fiscal Policy and the Rise and Fall of the Fiscal Structural Reform Act of 1997," *Journal of Public Budgeting and Finance* (Spring 2000): 55–84.

33. The very low rates of immigration into Japan have certainly made the problem of aging more severe than it is in most other advanced countries. Some policy experts suggest that a *partial* solution to the fiscal crisis would be to dramatically increase immigration into this country. Ironically, it is older people (who have the most to gain from such a policy) who are often seen as the most intransigent opponents to this idea.

advantages offered to the aged should be removed.[34] Second, we are in agreement with the proposals made by a number of economists as well as the employer confederation, Keidanren, that consumption taxes should be dramatically increased and these funds should be used to shore up the social welfare system more generally. As we have pointed out above, the current system has been built on the "male breadwinner model," which encourages women to leave the labor market and become unpaid care givers. As a result, women's contribution to the economy (both in terms of work and the taxes they would pay) is underappreciated *and* they fall outside the welfare system which nominally at least is supposed to aid the poor.

APPENDIX

The Japanese public pension system is very complex. Underlying the system is the NBP, which is essentially a guaranteed pension paid to all retired workers financed partly out of contributions and partly out of direct subsidies from general tax revenues. On top of the NBP are what are known as the second tier plans which are a variety of different categories of defined benefit plans that include different categories of workers.[35] Each different category has separate funds in reserve, but are also PAYG systems. The average worker participating in the system is expected to contribute for about 40 years and retire at around 65 years of age, but there are, of course, many variations on this theme, and benefits are not directly determined by contributions. Employers make some or all of the premium payments on the second-level part of the public pension. Various private or corporate options make up a third tier, to which not all the categories of people have access. The NBP operates as a PAYG system, which some people opt out of and many others are distrustful of.

As in most OECD countries, citizens generally feel "entitled" to retirement benefits. But these benefits are only vaguely linked to lifetime contributions to the system. For instance, in Japan, the NBP benefit is calculated using a formula that includes variables A, the number of premium paid months; B, the number of half-premium paid months; and C, the number of premium-exempted months. So, while there is some connection between the amount of contributions and the size of the benefits, it is not direct. Theoretically, in fact, someone could still receive a pension even if every single month of his

34. Sweden, for example, treats all income—from whatever source, including pensions—as income and thereby eliminates the tax advantages enjoyed by the retired population in most other countries. See Joakim Palme, "The 'Great' Swedish Pension Reform," (Swedish Institute, 2003).

35. For a more detailed description of the various pension systems and options, see the government publication, Pension Bureau Ministry of Health Labor and Welfare, "Basic Concept of the Pension System" (Tokyo: Ministry of Health and Welfare, 2005); see also Jinno, 11; Yoko Kimura, "On Pension Reform," *Social Sciences Japan*, no. 21 (2001): 13–14.

or her working life was a premium-exempted month and they never paid anything into the system. The equation is as follows:

$$[1]\ \text{Yearly Pension Benefit} = \text{JPY797,000} \times \frac{(A) + 2/3(B) + 1/3(C)}{\text{Number of insurable months}}$$

All Japanese citizens over the age of 20 are obligated to join the NBP. The standard premium for this pension is JPY13,300 monthly. In order to receive benefits upon retirement, the worker must pay in for between 25 and 40 years. Currently, a retired person may begin to receive a reduced pension at the age of 60, or the normal benefit starting at age 65, and if they wait to begin collecting until they are between the ages of 66 and 70, then they will receive an increased payment. The qualification age for receiving the benefit is in the process of being increased, so that by 2025 only people aged 65 and over will be eligible to receive the pension benefits. Approximately 15 million individuals (mostly housewives, farmers, and the self-employed) are exempt from paying benefits due to their low incomes. The average citizen, however, does make lifetime contributions, and collects the total amount of contributions paid over 40 years in about eight years of being retired.

Self-employed workers and spouses of publicly and privately employed workers are not required to join any other pension beyond the NBP. Self-employed workers do, however, have the option to join a private pension fund. The thinking behind this is that the self-employed usually have access to various assets, such as shops and farm land, which they can liquidize when the need arises. Private sector workers in category two, however, are expected to join the NBP as well as the Employees' Pension Insurance, and may choose to join private plans such as the Employees' Pension Fund and the qualified retirement pension. Public sector employees must join not only the NBP but also mutual aid associations or mutual pension plans.[36]

To illustrate how this system has worked, let us take the example of a retired category two employee who has paid the full contribution every month for the maximum of 40 years, and has retired at the age of 65. His yearly benefit would then amount to JPY797,000 times $[(A = 12$ months times 40 years $= 480)+(B = 0)+(C = 0)]$ divided by (12 months times 40 years) or JPY797,000 per year. The total amount of paid premiums or contributions, over 40 years, amounts to JPY13,300 times 480 months, or JPY6,384,000. By receiving JPY797,000 yearly, he will recover the total of his monthly contributions in just over eight years of receiving the pension benefit, because $6{,}384{,}000/797{,}000 = 8.01$. Therefore, by four days after his 73rd birthday he will have recovered the total amount of money that he had paid over 40 years. This does not include any premiums or benefits from the other pension plan that he is required to join (the employees' pension or mutual aid associations).

36. Pension Bureau (Japanese Government), "Framework for the 80-Year Life Span Age" (Tokyo: Ministry of Health, Labour and Welfare, n.d.).