

Japan's Baby Boomers and the Year 2007 Problem

By Seike Atsushi

Japan's Baby Boomer Generation

The term “*dankai no sedai*” (clumped generation) owes its origin to the title of the bestseller by the economist Sakaiya Taichi. It refers to Japan's baby boomers born during the years from 1947 through 1949, and sometimes includes those born in 1950. The large bulge in the population formation in Figure 1 represents this generation, and, as they get older, this bulge will move further up the pyramid.

The baby boomer generation of Japan differs from that of many other countries such as the United States where it continued until the first half of the 1960s, in a point the period of increased birth is shorter – only the above-mentioned three or four years – making the bulge in the population pyramid more conspicuous. To be specific, around 2.7 million babies were born between 1947 and 1949 (another 2.3 million in 1950), 30-40% more than the years before and

after this period.

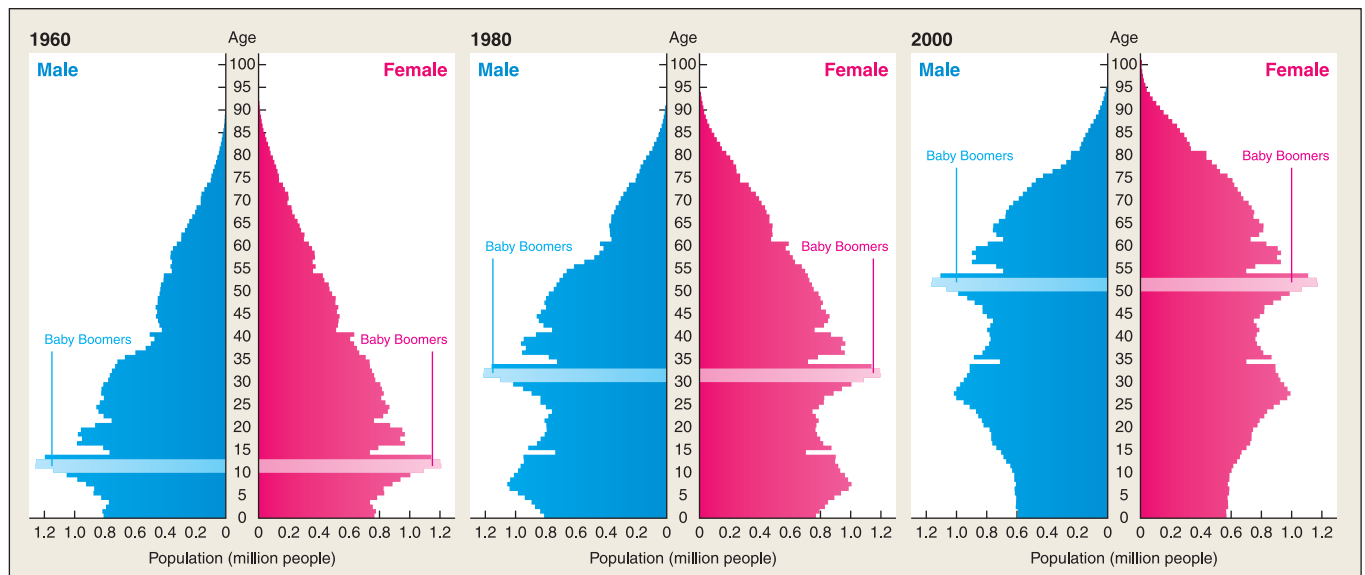
Japan's baby boomer generation has a very distinctive nature from a labor economics viewpoint. In short, they are the children of salaried worker's society. One might even say that they lived their lives in step with the progress of Japan's corporate society.

In the late 1940s when the baby boomers were born, more than 60% of Japan's working population was self-employed (mainly home-based businesses), and less than 40% were employed in companies. However, this ratio changed markedly as the baby-boomer generation grew older, and by the late 1960s and early 1970s, when they had graduated from high school and university, the percentage of workers in the self-employed sector had fallen to less than 40% and employed workers made up more than 60% of the working population. We could say that Japan's baby boomers were born in an age of self-employment but found their jobs in the corporate society.

Today, 85% of Japan's working population is made up of corporate employees, and more than 70% of the baby boomer generation fall into the employee category. This means that the labor economics problem presented by this generation is fundamentally one inherent to corporate employees, and for that reason, the solution would be found mostly through reform of corporate employment systems.

The baby boomer generation are the children of corporate society, and their lives have been essentially prosperous. The period when they first entered the workforce, from 1962 (when those born in 1947 graduated from junior high school) to 1971 (when those born in 1949 graduated from university), represents the years of Japan's high economic growth. It was not at all unusual for the annual economic growth rate to exceed 10% in real terms, and the labor market was typified by hyper-employment and a shortage of workers.

Figure 1 Population Pyramid



Source : National Institute of Population and Social Security Research website

Table 1 Distribution of the Mandatory Retirement Age

Company Size	Percentage of companies that have a mandatory retirement system	Retirement age (Percentage of companies that have a mandatory retirement system = 100%)				
		Before 60 years of age	60 years of age	60-64 years of age	65 years of age	Over 65 years of age
Total	91.5	0.7	90.5	2.4	6.1	0.4
5,000 or more workers	100	0	98.2	0.9	0.9	0
1,000 to 4,999 workers	99.3	0.2	95.8	2.6	1.4	0
300 to 999 workers	99.6	0.3	95.4	1.7	2.6	0
100 to 299 workers	97.1	0.3	92.9	3.3	3.4	0.1
30 to 99 workers	88.8	0.8	89	2.2	7.5	0.5

Source : *Employment Management Survey 2004*, Ministry of Health, Labour and Welfare

All things being equal, the large quantity of labor provided by the baby boomers might normally make finding employment difficult in terms of supply and demand in the labor market. Economic analyses show that in countries like the United States where the period of the baby boom was longer and the total number of the baby boomers was large, the baby boomer generation got the short end of the stick in terms of lifetime income, because a large supply of labor was available in the market when they found their employment. However, although Japan's baby boomer generation supplied a substantial amount of labor, there was an even higher demand because of the strong economic growth, and the baby boomers were able to find their relatively good salary jobs easily.

Once their careers were underway, the Japanese baby boomers worked as mid-career employees or frontline executives during the golden years of the Japanese economy from the late 1970s to the start of the 1990s. When the other advanced nations experienced a marked slowdown in growth rates and a high unemployment rate, the Japanese economy, although it had slowed down from the period of high economic growth, still maintained levels that occasionally exceeded 5% growth. Japan's baby boomers were at the front line of Japanese corporations during this period of economic prosperity. This meant that they enjoyed good jobs and accumulated more skills and knowledge than the generations that came immediately before and after them.

■ What is the Year 2007 Problem?

Because Japan's baby boomers have represented such a large group in demographic terms, they have had various impacts on schools, corporate organizations and society in general. In preparation for the wave of the baby boomers, elementary and junior high schools hurried to increase the number of classes, and they were the generation of the student movement that was sweeping the world when studied at university. They went on to make a huge contribution to corporate society and now find themselves again at the center of attention as they prepare for retirement.

This, in essence, is what is referred to as the Year 2007 Problem. The first wave of the baby boomers, born in 1947, will turn 60 years old in 2007. Since most Japanese corporations currently set the mandatory retirement age for their workers at 60, the first wave of the baby boomers will retire en masse in 2007. Observers suggest that this will result in negative developments including labor problems such as a shortage of workers caused by the sudden decrease of labor, the loss of the refined skills and knowledge accumulated by the baby boomers, a decrease in productivity, problems for the rental building business caused by the expected surplus of office space, and even a loss of customers for bars that rely upon the patronage of corporate employees.

However, the Year 2007 Problem is not a problem with the year itself, nor is it true that the baby boomers should be blamed. The essence of the problem lies

in the system that sets the mandatory retirement age at 60; only the fact that the 1947 baby boomers happen to turn 60 in 2007 attracts attention to them and that year. If corporations are genuinely concerned about the Year 2007 Problem, all they need to do is rethink the retirement age system.

The mandatory retirement system is not some natural phenomenon that has fallen from the sky; it is a system created by corporations themselves. Just as they created it, corporations (management and labor) can decide to lift the retirement age or abolish the system altogether. What causes the problem is that many corporations set the mandatory retirement age at 60, which is something that corporate society has brought upon itself. In that respect, a fundamental review of the mandatory retirement system is essential in order to resolve the Year 2007 Problem.

■ We Can Avoid the Year 2007 Problem

As Table 1 indicates, approximately 90% of companies that employ 30 or more employees, and almost all large corporations, have a mandatory retirement system. Moreover, 90% of those companies that have the system for all of their employees regardless of the type of job (most retirement age systems fall into this category) have set the age for retirement at 60. In Japan, even though 60 is actually the lowest age allowed by law for set retirement, most employees of the companies over a certain size are required to retire at this age.

As it happens, this will change dramatically from 2006. Amendments carried out last year to the Law Concerning the Stabilization of Employment of Older Persons mean that from April 2006 corporations must make fundamental changes to their mandatory retirement systems.

The new form of the law requires that business proprietors who have set the retirement age for their workers below 65 must carry out one of the following three measures: (1) raise the retirement age to 65; (2) abolish the mandatory retirement system; or (3) if neither of these is possible, create a system whereby workers can continue to work until 65 after “the mandatory retirement age.” This “continued employment system” is defined as “a system that allows for the continued employment of elderly people who wish to remain working after reaching retirement age.”

While this amendment has faced strong opposition from employers, in my opinion it was an inevitable development in the context of Japan becoming an aged society in the true sense of the word, although it came too late.

That is to say, the age of pension payment eligibility for corporate employees is in the process of being lifted to 65 years old. Of the so-called “two-tier” employee pension payments, the age of pension benefit eligibility for the fixed amount that equates to the “first-tier” is being raised by one year every three years from 2001 (it currently begins at 62 years old), and it will ultimately be increased to 65 years old by 2013. The age of pension payment eligibility for the earnings-related component is also being raised by one year every three years from 2013, and will ultimately be raised to 65 by 2025. In the context of Japan having the highest average life expectancy in the world, raising the pension payment eligibility age by five years is essential in order to maintain the employee pension system that provides post-retirement security for corporate employees. We should also note that receiving a full pension from 65 years old is the norm in the other advanced nations of the world.



Illustration: Iwasawa Akio

The changes that will occur from next year effectively mean that by undertaking one of the three options, in principle, the elderly employees will not be required to retire because of their age until they reach the amended age to receive the fixed amount of the employee pension. In other words, from next April until March 2007 they will be allowed to work until 62 years old, from April 2007 to March 2010 to 63 years old, from April 2010 to March 2013 to 64 years old and from April 2013 onwards, until 65 years old. In this respect, the Year 2007 Problem need not occur, because in 2007, employment until the age of 62 should be the rule for salaried workers, and people born in 1947 will not be requested to retire in 2007 because of their age.

The Aging of Society Occurs in Increments Rather than Surges

Of course, extending employment through to the age of 65 has its difficulties. For example, raising the retirement age means that we must overhaul the entire seniority-based wage system and the retirement allowance system put together on the basis of retirement at 60 years old. For workers, it might bring other painful changes such as a decrease in wage levels. This kind of systemic reform may not be easy for either man-

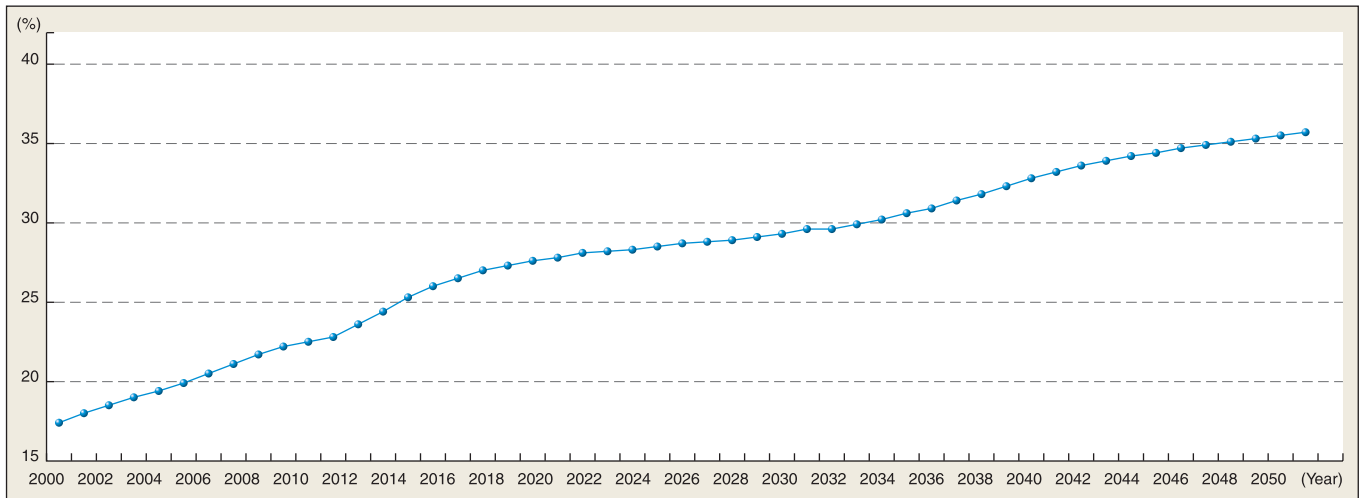
agement or workers to accept.

Many companies handle the extension of working not by actually changing the retirement age, but by extending employment beyond the unchanged “retirement age” or by offering reemployment after retirement. Rather than representing fundamental reform of the employment system in preparation for the aging of society, these are minor adjustments that sustain the retirement age and the age of eligibility for receiving a pension.

The approach to the Year 2007 Problem suggests that this is an issue specific to Japan’s baby boomer generation. This encourages the view that minor adjustments will suffice during the years after 2007 until the last of the baby boomers reach retirement, and that once they move on everything will be back to normal.

However, we need to understand that the aging of society is not a surge phenomenon that will stop once the wave of the baby boomers breaks on the shore. It is a phenomenon that will continue in increments as the tide slowly changes. Figure 2 depicts the expected changes in the percentage of the elderly population of 65 years or above. This percentage will undoubtedly increase from 2012 through to 2015 when the baby boomer generation joins the elderly population. The wave of the baby boomers will defi-

Figure 2 Trends in the Percentage of the Aged Population (People 65 Years Old or Above)



Source : *Future Trends in Japan's Population 2002*, National Institute of Population and Social Security Research

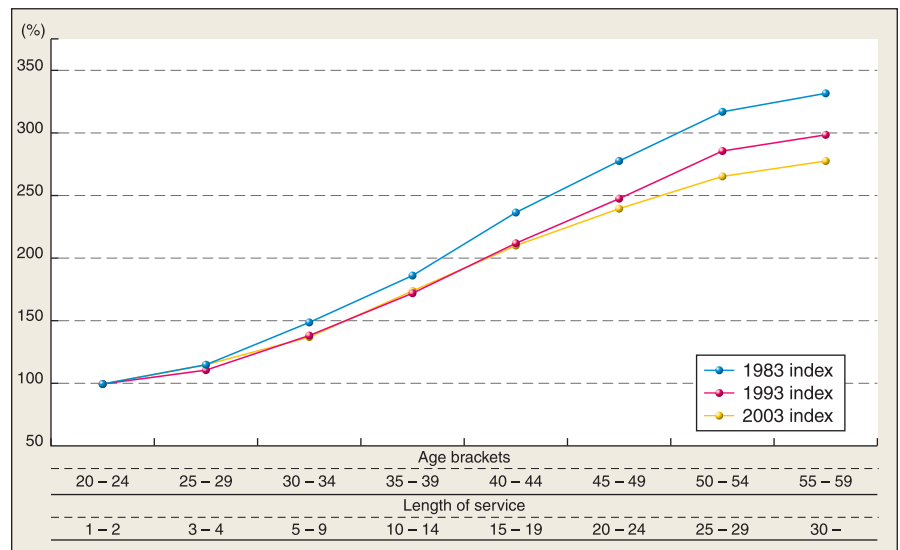
nately have a major impact on the demographic structure of Japan, but what is more important is that even after the last baby boomers born in 1949 enter the aged category, the percentage of elder in the population will continue to rise.

If the problems of the aging society were of a transient nature, which would disappear once the baby boomer generation has gone, then stopgap measures and minor adjustments would suffice, such as temporarily extending the years of employment, to alleviate the impact of the baby boomers' en masse retirement. Fundamental changes to the age of retirement or the seniority-based wage system would not be necessary.

However, the aging of Japanese society is not a temporary problem; it will continue even after the baby boomers have disappeared from the scene. The number of older people will increase even further and the population of young people will decrease. Even after the baby boomers and the Year 2007 Problem have gone, there will be an much greater need to create a society in which people with the will and the ability to work stay active in the workforce for life.

When that happens, it will be essential to carry out fundamental reforms of the mandatory retirement system such as lifting the age of pension benefit eligibility

Figure 3 Seniority-based Wages for Standard Workers (Male University Graduates)



Source : Calculated by the author from *Wage Census*, Ministry of Health, Labour and Welfare
Note : 20-24 years of age, length of service for 1 to 2 years = index of 100

to 65 year old at least and ultimately abolishing mandatory retirement altogether. In terms of the expense involved in employing older people, it will not be possible to maintain seniority-based wage system or promotion systems. As shown in Figure 3, the seniority-based wage system is already on the wane. The preparation for the Year 2007 Problem should lead to long-term reform of the employ-

ment system. It would be great if the baby boomer generation, caught in the middle of these reforms, becomes the model for future generations in pioneering the path to a society in which people stay active in the workforce for life. **J.S**

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