

Keeping on the Bright Side of Japan's Happy Aging Society

By Seike Atsushi

A Society Aging Faster than Anywhere Else in the World

Japanese society is aging at an unparalleled rate. This aging is due to a similarly unprecedented increase in longevity, which has in turn been caused by improvements in the standard of living due to economic growth.

Since it is Japan's economic success that has caused this aging, any consequent increases in the burden of social security payments or labor shortages really ought to be seen as a challenge to enjoy rather than lament. The most important point in terms of solving this problem is to create an "active-for-life society" where older people have the will and ability to go on working, thereby supporting the aged society. By good fortune, Japan is blessed with the prerequisite conditions for the creation of such an active-for-life society.

In this article, I will explain how Japanese society has aged at a rate never seen before in the world and how Japan is blessed with the prerequisites for creating such a society. I will then

suggest what reforms are necessary to promote the most of these favorable conditions.

Figure 1 indicates the percentage of elderly people in the advanced nations of the world. It is clear that the percentage of elderly people is increasing in all the advanced nations and Japan's increase stands out among them. It is remarkable in two ways.

The first is the projected level of the elderly population in the future. The percentage of elderly people in Japan was on a par with other developed nations until recently, but it currently stands at 19% that leads Japan to the one of the highest level in the world. According to 2002 projections of population growth, issued by the National Institute of Population and Social Security Research, the proportion of elderly people in Japan will exceed 25% in 2014. As can be understood from Figure 1, this is a higher level than any other country in the world.

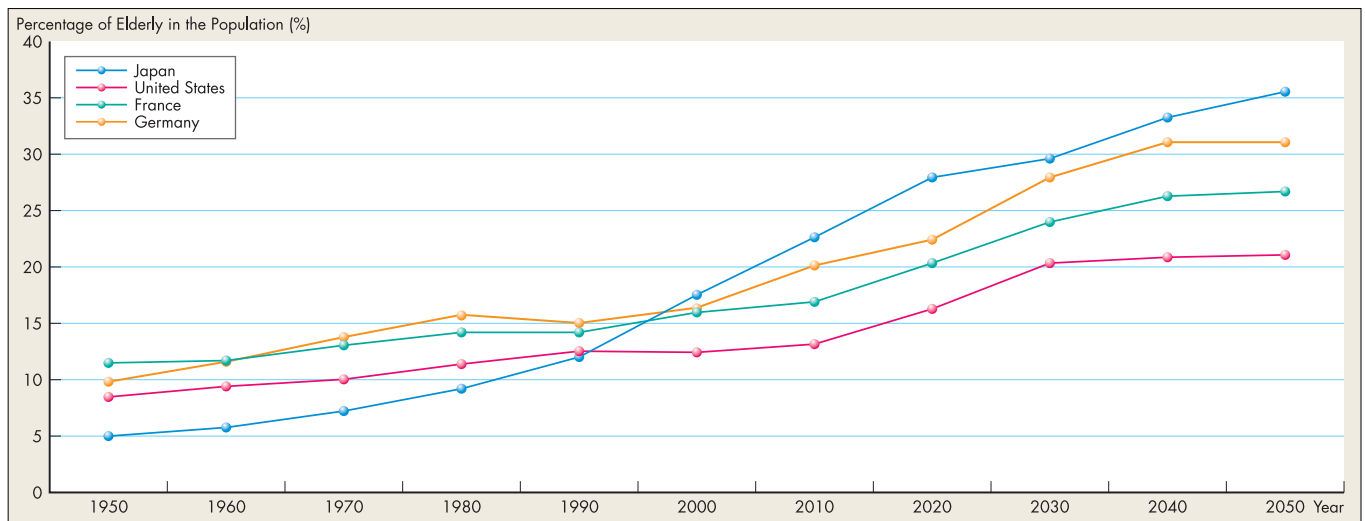
This means that one quarter of Japan's people are elderly. In other words, in just over a decade, one in four people in

Japan will be 65 years of age or older. This ratio is a symbolic figure of unparalleled aging of Japanese society compared to other nations.

When looked at in terms of an international comparison, one other remarkable aspect of Japan is the speed of aging. The United Nations definition of an aging society is one where the percentage of the population in the elderly category exceeds 7%; and when this exceeds 14%, it is then termed to be an "aged society."

Japan qualified as an aging society in 1970, and became an aged society 24 years later in 1994, taking less than a quarter century to move from one stage to the other. In contrast, other advanced nations need, on average, half a century in transition as an aging society, so Japan's transition from an aging to an aged society in only 24 years means that its transition occurred at twice the speed of other nations. It can be seen in Figure 1 that the angle of the line indicating Japan's aging is the steepest.

Figure 1 International Comparison of Percentage of Elderly People



Source: National Institute of Population and Social Security Research, *Latest Demographic Statistics, 2001/2002*

Aging is the Result of Economic Development and Growth

The prime cause of aging is the increase in longevity of the Japanese people. There is no need to explain the close relationship between the increase in longevity and economic growth. The increase in average life span, as calculated as the average life expectancy of a neonate, is brought about through a decrease in the death rate at all generations of life, namely infancy, young adulthood and old age. This, of course, cannot occur without an overall improvement in the standard of living as manifested by nutritional circumstances, public sanitation, living environment and medical care, and any improvement in the standard of living is a result of economic growth.

Figure 2 shows the changes in the average life expectancy in Japan after World War II. In 1947, shortly after the war, the average life expectancy for a Japanese male was approximately 50 years and for a female, 54 years. Fifty years later in 1997, this had expanded to approximately 77 years for males and 84 years for females. In just half a century, life expectancies had increased by approximately 27 years for males and 30

years for females. Even a conservative calculation shows that the average life expectancy in Japan has grown by six months a year.

During these years, and particularly during the period of high economic growth, the Japanese economy achieved phenomenal growth. That the Japanese life expectancy increased at an astonishing rate and eventually became the highest in the world is inextricably linked to the unprecedented economic growth and the fact that Japan became the world's richest economic power. Extended life expectancy is evidence of economic growth.

The second cause of an aging society is a declining fertility rate. In specific terms, there has been a decline in the fertility rate, or the number of children a woman will give birth to during her lifetime. This too has a close relationship with economic growth. In the latter half of the 1940s, when the average life expectancy in Japan was a little over 50 years, the fertility rate was more than 4, going on to decline as the economy grew, and is eventually 1.29.

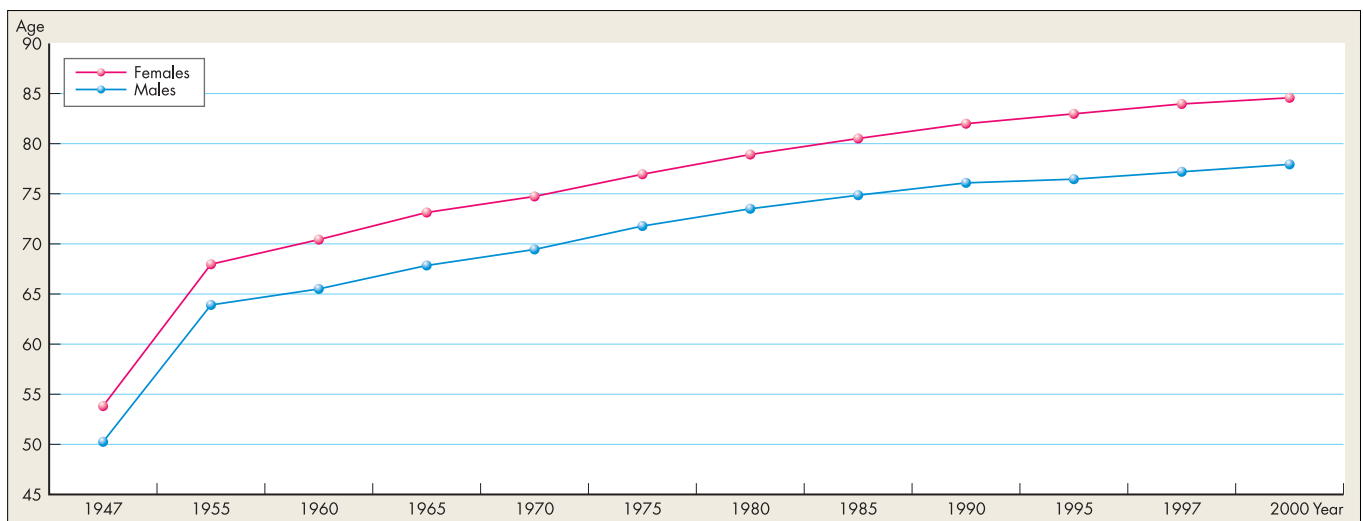
Normally, because economic growth results in a decline in the infant mortality rate, almost all of the children born then live to grow up, and since the cost

of raising a child increases due to a desire to provide the best possible education, the fertility rate declines in all the advanced nations. Japan is a typical example.

Of course the fertility rate declining to 1.29 is slightly excessive. The main reason for this is said to be the structure of society. Women bear the sole responsibility for housework and look after their children. At the same time, viewing this in economic terms, economic growth brings women expanded job opportunities and increased wages, so there is greater loss of opportunity involved when women have to reduce the amount of work, or quit their job altogether, in order to do housework or raise children. In this respect, economic development (in particular in those societies where the traditional male-female roles still remain) will lead to a decline in the fertility rate.

Anyway, it is economic growth that leads Japan's aging society with its increased longevity and declining fertility rate. There is no doubt that the aging of society will have a serious impact on the social security fiscal systems and corporate management. We just need to understand that it is not aging that is the problem.

Figure 2 Average Life Expectancy of Japanese



Source: National Institute of Population and Social Security Research, *Latest Demographic Statistics, 2001/2002*

It is simply the fact that a system created to work effectively under a pyramid population structure with few elderly people does not function well in an aging society. The fact that Japan's economic success has resulted in an aging society cannot be changed, but we can change the system.

Japan Is Blessed with the Conditions for Becoming an "Active-for-Life Society"

In order to cope with the aging that comes with economic development, the key is the creation of an "active-for-life society" where elderly people with the will and ability for employment have the opportunity to continue working.

For example, the reason why aging makes it difficult to maintain a pension system is because the "working generation" that bears the burden of supporting the social security system diminishes in size, and the "retired generation" that receives pensions increases. If elderly people with the will and ability to work stay in the "working generation" longer, the period that they will be in the "retired generation" will be shortened, thereby relieving the pressure on the fiscal systems supporting social security.

Also, over the next decade, the number of young people will decrease. For example, the people in their 20s will decrease by more than 3 million. Considering that at present the bulk of the labor force consists of population section in their 20s to 50s, this decrease in the younger population will make it difficult to maintain economic growth. In that respect, it is preferable that elderly people with the will and ability to work remain in the workforce.

Moreover, if elderly people with the will and ability to demonstrate their skills remain in the workforce, and receive appropriate remuneration for their efforts, this will lead to benefits in terms of their level of consumption in comparison to what it would be if they were living on a lower income on a pension. If the people who would have been on pensions stay in the workplace, such demand for commuter transport systems, office space, and skill development programs will increase.

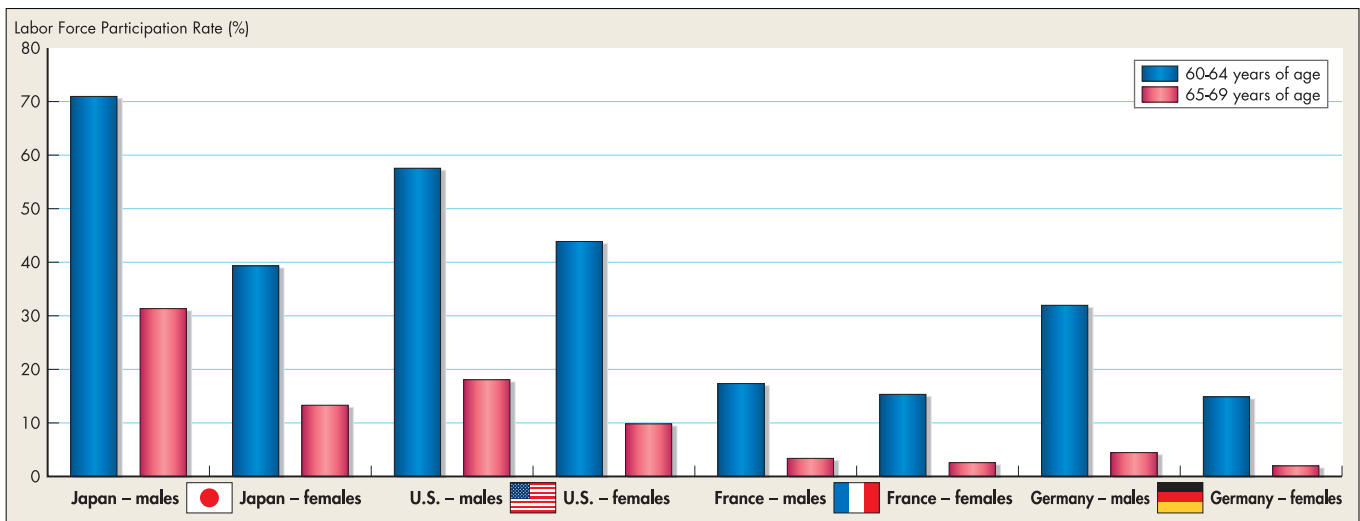
Creating an "active-for-life society" helps minimize the impact of the side effects of the aging of society, and Japan is indeed fortunate to have many of the prerequisites for its creation.

Among those prerequisites is the fact that, as indicated in the 2003 World

Health Report, both men and women in Japan not only have the longest life expectancy, but also have the longest healthy existence in the world as calculated by the period of their lives which is free from any long-term illnesses. Another is that the Japanese industrial structure is in the process of moving from manufacturing, which involves a great physical burden, to service industries with a lesser physical burden. But, without a shadow of a doubt, the biggest advantage that Japan has in terms of creating an "active-for-life society," is the fact that among the advanced nations of the world, the elderly people of Japan have by far the strongest desire to work.

Realizing an "active-for-life society" involves allowing those elderly people who wish to work to do so. Attempting to compel the elderly people who would prefer to retire to join the workforce runs contrary to the principles on which a prosperous society is based. Fortunately, in Japan, the percentage of elderly people who seek self-fulfillment through work is extremely high. As can be seen from Figure 3, Japan's labor force participation rate, which reflects the percentage of people in the population who wish to work, is more than

Figure 3 Labor Force Participation Rate of Elderly People



Source: ILO, *Year Book of Labor Statistics*, 2002

70% of men between the ages of 60 and 64 (30-50% in the US and Europe) and is still greater than 30% for those 65 years old and older (from several percent to less than 20% in the US and Europe). In Japan, 40% of women between the ages of 60 and 64 wish to work. Although this rate is slightly lower than the United States it is a far higher percentage than in Europe; and the ratio is even higher in the 65-year-old or older bracket, which reaches 10%, as opposed to only a few percent in the United States and Europe.

Such a strong desire to work on the part of elderly people is an extremely welcome phenomenon. If we can realize an “active-for-life society” that makes the most of people’s strong desire for employment, Japan will be able to present itself proudly to the world as a model aged society.

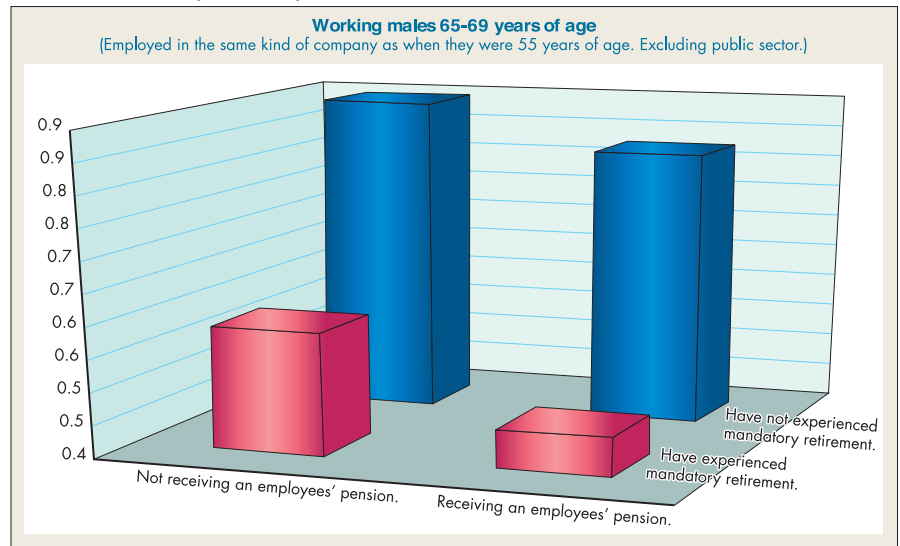
■ Toward a Prosperous Aged Society

The next step is to create a system that allows these healthy and enthusiastic elderly people to make the most of the abilities they could offer. Two key requirements can be identified in terms of creating this system. They are reform of the mandatory retirement system and reform of the pension system.

In Japan, more than 90% of companies, which employ 30 or more people have a mandatory retirement system. Some 90% of those companies that do have a uniform mandatory retirement plan set the age for retirement at 60, the lowest age for mandatory retirement as determined by the Law Concerning Stabilization of Employment of Older Persons.

There is also a problem with the public pension system. At present, when elderly people who are eligible to receive pensions continue to work, their pension is reduced in accordance with their earnings through work. In particular, when their earnings exceed a certain set amount, they could not receive their pension benefits at all. In other words, the public pension system effectively penalizes elderly people for work-

Figure 4 Percentage of elderly people receiving employees’ pensions, or who have experienced mandatory retirement, who are engaged in the same kind of work as when they were 55 years old.



Source: Seike Atsushi and Yamada Atsuhiko, *Koreisha Shugyo no Keizaigaku* (The Economics of Elderly People in the Workforce), Nihon Keizai Shimbun, Inc., 2004.

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Of course there are older people who are reemployed at the same company after mandatory retirement, or who start working at a different company, but not small number of elderly people take the opportunity to retire completely. There are also too many situations where the person’s ability is underutilized in their post-retirement age employment. Knowing that working beyond a certain number of hours will result in their benefits being cut could sway someone, who may have otherwise continued working, to go into retirement, or if they do work, preferring to avoid fulltime work in order to keep their earnings down.

Figure 4 indicates the percentage of those who continue to work in their 60s in the same type of job as when they were 55 years old. The percentage is low for those who experienced mandatory retirement and are receiving public pensions. If those working in the same type of job as when they were 55 years old could ride on the strength of their experiences when they were just about to enter the final phase of their working careers, then it would mean that those who go through mandatory retirement and are working while on a

public pension could not make the most of their skills.

In that sense, a fundamental review of the mandatory retirement system and the criteria involved in receiving pension payments is necessary. In order to review mandatory retirement, a review of the seniority-based wage system, where wage increase in accordance with age and continued services, is also essential. Similarly, the pension system needs to be amended to see it assume a more neutral position regarding the choice to continue working, at least in a way that does not reduce the person’s total pension entitlement.

If such reforms are undertaken, the fact that elderly people in Japan already have a strong desire for employment should make it possible to create a society that can utilize the abilities of the elderly who are willing and able to work. Japan’s aging society is the result of its miraculous economic growth, and we are indeed blessed with the conditions to create an “active-for-life” society that will allow us to take true pleasure in Japan and its aging society. **JS**

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