Quality of Life

By Robert J. Ballon

To describe their living conditions, the Japanese speak of *ikigai* (quality of life), a term that retains much dynamism and no less controversy. It must be remembered that, as revealed in numerous comparative surveys, the Japanese express much less satisfaction about what they have—standards of living and jobs—than their Western counterparts; Japanese expectations are higher. After all, satisfaction is a function of expectations.

Income had remained close to subsistence level until postwar growth provided the welcome addition of discretionary income. Whereas the former left little free time, discretionary income loses sense without it. It appears questionable, or at least premature, to interpret the desire for free time as a growing reluctance to work.

The changing values of youth are much bemoaned, but work values do not vary much among generations and are surprisingly constant. Japanese society has a strong ideological connotation of homogeneity beyond the actual heterogeneity of values, experiences and group interests. It is expressed in a strong middle-class syndrome. Since the mid-1960s, when asked in public opinion polls to which social class they feel they belong, about 90% of the households have viewed themselves as middle class, reflecting, in addition to cultural values, mass education, mass consumption and a mass media.

How does this view stand up in terms of wealth, savings and social security?

Wealth

Abruptly, in the span of one generation, the Japanese acceded to affluence. It still has an inherently superficial and fragile quality sorely expressed in an internationally high per capita income substantially reduced when adjusted for parity purchasing power. In 1990, as reported by the Ministry of Labor, per capita national income expressed in dollars was $19,035 (about 10% higher than in the United States), but purchasing power stood at $14,354; a year later, the Economic Planning Agency reported an average exchange rate of ¥134.5 to the dollar, while purchasing power was ¥170.2.

In the average worker household, domestic prices are bitterly compared with prices abroad (as experienced by the 10 million and more Japanese roaming abroad every year). Vacationing overseas, international travel included, is cheaper than vacationing at home. Many manifestations of affluence are still largely limited to the younger working population, especially female, who live in their parents' home and spend their income freely, but save as well.

Increased income nurtures first and foremost the age-old concern for education. After World War II, compulsory education was extended from six to nine years, but additional schooling was soon expected to provide better access to the labor market: large firms recruit from top universities, and smaller firms compete for all other school graduates. For parents anxious to see their children enjoy equal opportunity, the cost of education beyond compulsory years is substantial, now including daughters attending university as well.

A most dramatic aspect of ikigai, however, is land prices, a problem which grips Japan's economy and society. Most Japanese are seeking some escape from the confinement of a congested urban society; space is the ultimate luxury in today's Japanese large cities. The epitome of ikigai is housing, a cherished goal vitiated by exorbitant land prices in particular in major urban areas since, as a rule, a house and its site are one package (over 60% of the total price being for the land), making the unit price of a dwelling extremely high relative to income. Land prices have a profound effect on the Japanese lifestyle; fertility rates, childrearing practices, women's participation in the labor market, social life, family relations, ways to spend leisure, reading habits, and how Japanese view themselves are all influenced by the high price of land which has resulted in cramped but expensive housing far from work and schools.

Wealth distribution is badly skewed by capital gains on landownership. Currently, after-tax income distribution is relatively equal due to redistribution policy and social security, but property income (interest, dividends, rent and capital gains from landholding and stockholding) drives a growing wedge of inequality. Noguchi Yukio, a well-known Japanese expert, recently made a disturbing revelation: "One percent of households owns about 13% to 14% of the total wealth in Japan, and the top 5% hold approximately 31% to 32%. This high concentration in an extremely small number of households has not been previously disclosed."

Class Perception of Japanese Households, 1965-1992

Class	1965	1970	1975	1980	1986	1990	1991	1992
Upper	0.6	0.6	0.6	0.6	0.2	0.7	0.5	0.9
Middle								
Upper	7.3	7.8	7.2	7.4	6.4	8.2	7.7	10.4
Middle	50.0	56.8	59.4	54.4	51.8	53.1	54.4	53.6
Lower	29.2	24.9	23.3	27.5	29.4	27.7	27.8	26.2
Lower	8.4	6.6	5.4	6.7	8.6	7.2	6.3	5.1
Don't know	4.5	3.3	4.0	3.3	3.6	3.1	3.3	3.8

Savings

The high household savings rate is a postwar phenomenon. After 1955, household assets (wartime destruction followed by hyperinflation) and consumption lagged as income grew rapidly. The savings rate soared to 25% in the 1974-76 period. Later it reversed itself as income growth slowed dramatically and household assets attained a relatively high level. Tax breaks attempted to sustain the high rate: until 1988, taxpayers were allowed various tax-free saving plans, which together meant that an individual could hold ¥14 million of savings in non-taxable forms. However, improved social security and consumer credit slowly started to reduce the savings rate; a moderate decline set in, falling to less than 15% in the late 1980s. Today, with an average annual income of ¥8 million, worker households have over ¥11 million in savings and ¥3 million in liabilities (respectively, ¥2.5 million and ¥719,000 in 1975).

Some major incentives to save are built into the salary system of regular employees as deferred wage payments. Whereas the monthly income from work determines daily living standards, the twice-a-year bonus helps household budgeting in providing for such items as payments on loans, consumer durables or travel, while half typically gets stashed away as savings. Furthermore, a substantial retirement allowance (*taishoku-kin*), another deferred wage payment, is in fact forced savings.

Whatever the level of income, saving propensity is high, determined as it is by two elemental purposes: subsistence after retirement and housing.

Traditionally, retirement age was set at 55; from the 1960s on, labor union pressure extended it progressively to the current age of 60, and the Ministry of Labor is now pushing for 65. The problem is that, whereas age 55 was more or less the life expectancy at the time, life expectancy is now up to 76 years for men and 82 for women. A worrisome aspect is that older parents can no longer expect to be fully taken care of by their children, today much less numerous and more independent (the average worker household counts less than 3.5 persons versus 4.19 in 1965). Rather than the traditional three-generation family, still more common than in the West, the postwar trend toward the nuclear family is progressing steadily. There is then a general concern for subsistence beyond retirement. The first reaction is to continue working, at lower wages of course, while hoping to make ends meet by a combination of savings and social insurance.

Housing is the prized possession ... if affordable. Throughout the postwar period, 60% or so of the households owned some property, but housing conditions today are increasingly unsatisfactory. Housing is the largest debt (over 90%) of worker households. Though subsidized housing is a substantial item in the government budget, the basic policy has rather been to deploy capital in areas considered more productive in the long run than immediate consumer needs.

Meanwhile, either as bank deposits, postal savings (one-third of the total), or insurance premiums, savings create an enormous pool of private funds whereby industry, largely through government intermediation, financed its expansion (and improved the wherewithal of affluence), while also creating all the problems associated with intense industrialization.

Social security

One reason for the declining savings rate is the social security system which consists of three major components: public assistance, social insurance, and other welfare programs. From a fiscal viewpoint, social insurance is the most important; it comprises health insurance, public pensions, and unemployment compensation, all administered in different ways at different levels and financed both by social security contributions and taxes. Overall, the Japanese system compares favorably with those in other industrial countries, and is a source of concern for many of the same reasons.

As in most systems, care for the elderly is the centerpiece with pensions the focus. In the early 1970s, ikigai was declared a national goal; major improvements of the social insurance system were legislated based on continuing high economic growth. In 1973, the pension system was revamped. The portion of the pension independent from wages was indexed to consumer prices and the wage-related portion to current wage rates.

Pensioners thus did not need to worry about inflation and could anticipate real increases in pensions as real wages rose. However, a few months later, the oil shock struck, causing growth to decelerate permanently, and soon, to further dismay, Japan came to realize that a rapidly aging population would in the foreseeable future result in more beneficiaries than contributors. In 1985, the eligibility age was raised from 60 to 65, and additional tax revenue was sought by the introduction of the consumption tax.

By the mid-1990s, social security expenditures are still in the moderate range due to the relatively small percentage of aged people and the immaturity—as compared to other major economies—of the state-operated pension system (the ratio of pension recipients to contributors being low for the time being).

A debasement of the benefit structure appears inevitable if the social security system is to remain solvent. A possible solution could be an increase of the consumption tax; one proposal in early 1994 was to change its name to "national welfare tax" and increase the amount from 3% to 7%. It was decided to set an amount of 5% in 1997. Japan must thus increase the economic cost of the social benefit of enjoying one of the longest life expectancies in the world.

Returning home from abroad, most Japanese heave a deep sight of relief: yes, prices are exorbitant, but (notwithstanding earthquakes and even poison gas) Japan is so congenial! JJTI

Robert J. Ballon is professor emeritus of Sophia University (Tokyo) and director of the International Management Seminars held at the university. He first came to Japan in 1948, and has authored several books on Japanese business such as Foreign Competition in Japan: Human Resource Strategies *published in 1992.*