

THE BROOKINGS INSTITUTION
IS JAPAN A SILVER DEMOCRACY?
DEMOGRAPHICS, POLITICS, AND POLICY CHOICES FOR THE 21st CENTURY

Washington, D.C.
Wednesday, December 3, 2014

Introduction:

MIREYA SOLIS
Senior Fellow & Philip Knight Chair in Japan Studies, Foreign Policy
The Brookings Institution

Panel 1: Demographics and Politics:

Moderator: MIREYA SOLIS
Senior Fellow & Philip Knight Chair in Japan Studies, Foreign Policy
The Brookings Institution

LEONARD SCHOPPA
Associate Dean for the Social Sciences Professor of Politics
University of Virginia

ITO PENG
Professor of Sociology and Public Policy Director, Centre for Global Social
Policy, University of Toronto

MICHIO UMEDA
Assistant Professor, Faculty of Law and Letters
Ehime University

Panel 2: Demographics and Public Policy:

Moderator: GARY BURTLESS
Senior Fellow, John C. and Nancy D. Whitehead Chair, Economic Studies
The Brookings Institution

LIV COLEMAN
Assistant Professor
Department of Government, History, and Sociology
University of Tampa

JOHN CREIGHTON CAMPBELL
Project Researcher, Institute of Gerontology, University of Tokyo
Professor Emeritus of Political Science, University of Michigan

NAOHIRO YASHIRO
Visiting Professor
International Christian University

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P R O C E E D I N G S

MS. SOLIS: Good morning, everyone. I'm Mireya Solis, Knight Chair in Japan Studies, and it's my great pleasure to welcome you this morning to this very exciting program. We're going to discuss the impact of demographics on Japanese politics and public policies.

We all know that Japan is experiencing profound demographic change. Because of the low fertility rate and the high life expectancy rate, Japan is aging very rapidly and the population is expected to drop. Keeping in mind, by the year 2060, 40 percent of Japanese will be 65 years or older and the population is expected to decrease from 127 million to 87 million, so we're talking about really very significant demographic change. That is not questioned.

But what is really contested -- and that's the debate we're going to get into this morning -- is what are the implications of this profound demographic change on Japanese politics and regarding critical choices on public policy?

You know, some people talk about Japan as a silver democracy and they make the case that elderly citizens have a lot of electoral clout and therefore they push and obtain very advantageous policies on social security and so forth. Others, however, disagree with this picture of Japan and make the case that senior citizens are not, in fact, a driving force of Japanese politics and certainly not skewing economic and social policies in their favor. They would say that comparatively, pensions in Japan are not that generous and that medical costs are not really running wild.

So, we're going to get into this discussion as to what extent demographics impacts politics and therefore how this then translates into public policies.

But I would also like to note that, you know, putting together these programs takes months and as I was selecting December 3rd for having this discussion, never in my wildest dreams would I have imagined that the Japanese government would have decided to postpone the second increase in the consumption tax, raising questions,

therefore, as to how to fund social security programs, nor would I have imagined that Japan would be in full containing mode because of this (inaudible) election that is now going to take place December 14th.

So, I think that this discussion on elections, on growth policies, on welfare state, is even more timely. And we're going to do these in two panels. The first panel will focus on the connection between demographics and politics. And just to give you a sense of the very rich discussion that we are about to have, the panelists will address questions such as this -- not exclusively, but these are some of the items that we'll -- they will discuss: Do electoral and political institutions create a bias in favor of elderly citizens or not? Do survey analyses show marked differences among generations regarding the issues that they care most about and that influences their decisions when they cast their ballots or not? And what encourages or discourages different generations in Japan from organizing politically?

Now, we have a great line up of experts. Len Schoppa is professor of politics and associate dean at the University of Virginia. He has written very influential books on Japanese politics and political economy and he is now working on a documentary, which sounds really very interesting, on how residential mobility influences civic engagement, and I can't wait to see the actual documentary.

Michio Umeda is assistant professor at Ehime University and is doing important research on how electoral institutions affect the distribution of government expenditures between the young and the elderly voters. And he does this in a comparative way, so I think this will also be very important for our discussion this morning.

And Ito Peng is a professor of sociology and director for the Centre for Global Social Policy at the University of Toronto. She's a very well known expert on comparative welfare states and is now working on global migration of care workers.

So, without further ado, I would like to ask Len to get us started with a discussion this morning. Thank you very much.

MR. SCHOPPA: Thank you for the opportunity to speak today and I really appreciate Mireya focusing on a topic here in Washington where things tend to be focused on what's happening this week most often and here we have a topic that's really going to play out over decades, you know, the effects of demographics on politics is going to be an ongoing story, a long-term, slow moving process that's going to affect politics.

But of course we have the convenience of an election happening in just two weeks to focus us also on the Washington timeframe of how the demographics might even affect the upcoming elections. So, we'll try to talk about a couple of those things.

I'm going to start, since I'm the first speaker, by going over a little bit of the data that Mireya summarized. So, the demographic change in Japan is, in large part, a product of a very continuous, steady decline in the fertility rate that has reduced the number of babies being born annually now for a couple of decades. So, you can see back in the '70s that a typical cohort had two million babies; we're now at the point where a typical cohort has about a million babies, so we're already seeing the number of young people at half the number that it was not too long ago, and that is projected to continue. A lot of this is built into demographic momentum. Since there's fewer women in childbearing age today, we can be pretty sure that this decline is going to continue and that by the year 2060 or so, we're going to have cohorts of only half a million.

So, if you think about this continuing steadily over longer periods of time, Japan is on track, at some point, to have a population of one-fourth the size it is today based on what's already baked in. That's a dramatic demographic change.

But this is a very slow moving process, so it is starting to show up in the overall population numbers. We are only now, in the last several years, starting to see the total number of the population decline because for much of this time, the big cohorts were still adding to the population of elderly people, not necessarily the cohorts that were passing away, and finally we have, today, each year more people passing away in Japan than are being born.

But, again, because the demographics are baked in, we can expect this to continue steadily for many decades into the future and we can project Japan losing 41 million people in its population by 2060.

Now, this demographic change is also a product of the slow rate of immigration into Japan. So, I know this is a well known fact that Japan doesn't have much immigration, but you may not have realized that it's actually been going down recently, that there was a period in which the typical net migration was around 100,000 a year coming into Japan, the larger number of people coming in than were leaving in a given year, but lately the annual net migration has been only 35,000. So, at this kind of rate it would take 28 years for Japan to add one million immigrants. So, we can't expect immigration to offset that 41 million decline in population.

So, the demographics Japan can look forward to are going to be, in the short-term, a shrinking number of people and an aging of the population. Over the next couple of decades, those large cohorts of two million babies from the 1970s are going to reach their 60s and their 70s, so we're going to see a swelling of the number of people over 65 and over 75 while the number of working age people and children start to decline quite sharply.

So, what does this mean in terms of politics? So, this is our main focus today.

What I've done with the silver bar there is show the proportion of Japanese eligible voters, so voting age in Japan is 20, so looking at the population over 20, what proportion already of the eligible voters are over 65, and we can see a quite sharp increase in recent years in this proportion. This is already happening; it's not just a future projection. As recently as 1995, 18 percent of the eligible voters were over 65. In 2015, we're up to 32 percent of the eligible voters being over 65. So, this is within a relatively brief period of time a substantial change in the makeup of the Japanese eligible electorate and not surprisingly, given what I showed you on the charts with the large numbers of 65 and 75-year-old people, we can project looking ahead to the 2040s and

'50s that this number will increase, of the eligible voters, to 45 percent of the population, 45 percent of the eligible voters being over 65.

Now we need to add on top of that the difference in turn out rates. So, in many countries, including the United States, the turn out rate is the worst for young people and tends to be the highest for people approaching retirement age when they're still relatively healthy but maybe have a little more time because they're starting to transition or have already moved into retirement.

So, in Japan, just like in the United States, the highest rates of turn out are among the people over 60. In Japan, 73 percent -- this is from the 2012 election -- 73 percent of the eligible voters over 65 -- 65 to 69 turned out, 77 percent of those 70 to 74 turned out, so very high turnout rates for the older Japanese, and then we have very low turnout rates for the youngest cohorts, so those between 20 and 24, just 35 percent turning out at the 2012 elections.

That was a general election in 2012. We're not picking on something like a midterm -- 2012 was a year when the government control was at stake, the DPJ was thrown out of power and the LDP came back in. Of course there were always some specific reasons why turnout might be affected by events of a particular election, but this has been a pretty steady pattern, low turnout rates for young people, high turnout rates for older people.

How does this compare with the United States? The numbers for the oldest cohorts are not that different. The United States Census Bureau data shows that the turnout rates for 65 and older Americans is 72 percent. So, if you take these -- you know, the older cohorts over 65 include the -- some people who are turning out at 77 in Japan and then some people who are over 80 who are turning out at lower rates, so we don't have exactly comparable data broken down by age, but it's roughly the same turnout rates for older voters in the United States and in Japan.

For younger voters, the rate is substantially lower in Japan than it has been for the American young people in the last couple of elections. In 2012 U.S.

election, the 18 to 24 year olds turned out at the rate of 50 percent of the eligible voters -- 50 percent instead of 35 -- I'm sorry, that was 45 percent in 2012, 50 percent in 2008, so you may remember that in Obama's first victory, the young people were particularly enthusiastic and turned out in unusually high numbers, so that was 50 percent. Even in the second election it was 45 percent.

The Obama elections were up a little bit from where they were before Obama in the Bush years, but all of these elections have had larger turnouts than you saw in Japan in this recent election.

So, I'll do a little speculating, if I have time, on why these rates are so low for young people in Japan, but let's look at the implications first for what the actual turnout of the voters is going to look like.

So, in 2012, 29 percent of the eligible voters were over 65 but because of the turnout difference, 33 percent of the people who actually voted were over 65. So you see that the way to the elderly voters in the political process is going to be even larger than their makeup of the population already today. We're already up to 33 percent.

If we look ahead to the 2015 election, we can project. So, here I'm doing some projections. I apply the turnout rates from 2012 in Japan to the eligible population data from the demographic projections, and we can look forward that in each of those upcoming elections the gray bar is going to be even larger than the ones you saw earlier because of the bias in turnout, the older voters turning out in higher numbers.

So, the data happens to be in even numbers, so like 2015 projection should roughly resemble what we're looking at in the election in a couple of weeks. We should expect the over 65 voters to make up about 37 percent of those who actually cast votes and that's going to steadily rise into the 2050s to half -- half of all voters being over 65.

So, there's a number of questions this raises, one has to do with why the different pattern of turnout -- I'll speculate a little bit about that -- and then we'll talk a little bit about the effects on policy. I know the other panelists will also focus on that topic.

So, the causes -- the reasons why the turnout in Japan is unusually low for young people -- I think that if we look at the theories that we have from political science about turnout, we know that one of the big reasons that people turnout is because people ask them to. Often the people asking them to do this are things like labor unions and political parties, organized bodies that have an interest in turning out voters.

Young people in Japan are unusually disconnected from these types of organizations. They -- of course unions would not be a big factor in the United States either, but political parties in the United States, if you go to the University of Virginia or any other university, you're going to find young people actively engaged in the college Republicans, the college Democrats, and these young people are out there campaigning at election time and some of them are talking about political careers.

In especially the University of Virginia, we're not far from Washington; we've got lots of politicians.

In Japan -- and I would say this applies to Britain is another country I spent time in, the Oxford elections are organized by British political parties, so you have the college Tories running their candidate against the college Labor Party and people turning out in somewhat predictable patterns according to the class base of the colleges.

You know, I went to Pembroke College and 90 percent of the people voted Labor there in student government elections. So, we have an amazing connection between parties and young people in some other countries. Not in Japan. Japan has seen a trend for the last 20 years of the decline in the organizational support base of all of the parties. The largest party that people say they support in Japan for many years has been none of the above, no party.

Typically 50 percent or so of the voters will tell you "no party". That number is especially high among young people who are disillusioned with the political parties who cater to the older voters, the organized support groups of the parties, which are often made up of older members of Japanese society. They don't see a whole lot of

connection between the political parties that are organized in Japan and their lives as young people, and those parties are not particularly trying to get them to turn out at elections.

So that's, you know, my speculation since we don't have good surveys asking people or trying to sort out why people are not voting, maybe some of the other panelists will have some ideas about the low turnout rate in Japan, but that's one reason I can see.

And I think I may be coming to the end of my time, but how much time do I have to talk about implications? Are you keeping the time? A couple minutes.

Well, let me just start the conversation about the implications for policy and these issues are very much on the political agenda right now. We should be worried or wonder about how this large proportion of the electorate and especially the turned out electorate being over 65 is going to affect the way the Japanese deal with some of the major political economy issues that are in front of them including taxes and social welfare benefits.

The consumption tax, one of its distinguishing features is that it's paid not only by working age people but also by retirees. So, retirees who might be getting income or spending savings that's not taxed, still when they spend the money pay the sales tax or the consumption tax, and Japanese have a Ministry of Finance has for many years said that this is the way Japan needs to deal with its aging society to increase the consumption tax so that the older citizens will continue to pay their fair share of the costs of paying for the benefits for older citizens.

But Japan has had persistent difficulty raising the consumption tax and we just saw Prime Minister Abe decide not to go ahead with the raise that was planned for October 2015. So, one big question the panel can start to talk about is, how is the consumption tax issue going to play in an era when the elderly make such a large portion of the electorate?

Similar issues, it's very obvious about whether Japan is going to be able

to trim its pension or medical benefits for the elderly.

So, I have a couple more slides on this but I really want to save time for the other panelists. So, we can come back to some of that if you have questions about the pension policies and so forth. Thank you.

(Applause.)

MR. UMEDA: So, thank you for coming. I'm Michio Umeda. I'm currently assistant professor at Ehime University. Today I would like to speak only (inaudible). It's very different -- (inaudible) benefit -- welfare benefit for elderly citizens and -- okay, and not only there, I mean, we have more (inaudible) than -- but they are more taken to be politically sophisticated. They have career preference on the issues; they are more likely to vote. They care about the issues always.

So, I would like to start with basic (inaudible). This is just, I mean, how government spend to elderly, to non-elderly citizens across the world. This is from (inaudible) 2006 and it shows that Japan spends 42 times more money on elderly citizens to non-elderly citizens and actually United States comes second. So, United States, its average between 1985 to 2000, but United States spends 38 times more money to -- more money on elderly citizens to non-elderly citizens. This is ratio of government spending (inaudible) old age pension versus unemployment benefit (inaudible) and education and training, (inaudible).

Actually, the structure is getting worse in Japan. So, this is (inaudible) 1960 to 2000, so now some countries shift spending from elderly citizen to non-elderly citizens, but some countries didn't. Japan actually increased (inaudible) for benefit to elderly citizens but didn't do so much for non-elderly citizens. So, 800 percent of shift to elderly citizens.

Japan's (inaudible) is not a big spender in any sense, first of all in public spending as part of GDP, but Japanese (inaudible) doesn't have enough tax for social security revenue to support those benefits. As a result, Japanese government is always running a deficit each year to finance these programs.

But the question is, (inaudible) in Japan sometimes claim that, okay, we need -- we have to raise tax in order not to leave debt -- a debt to our children.

(Inaudible), something like that, but at the same time they rarely claim that we need benefit cut or (inaudible) in order not to leave a debt to our children.

So, this is why and I would like to answer some -- I would like to show some answers, not (inaudible) but some structural factors.

But because my quick answer is it's very electorally suicidal. Never say anything about the "C" word. (Inaudible) just a number and Professor Schoppa always showed this one, so I can -- I just speak very quickly about (inaudible), but this is just, I mean, we have more voters -- more elderly voters than the young, so now median age of voter is 52 years old. This is the population structure of eligible voters of last year.

Again, it's here -- this figure but also (inaudible) elderly voters are much more likely to vote than the younger one.

This is what people talk but I can add some more figures from this on my paper and this is the one -- so, basically, elderly voters have clear preference on welfare - - no, oh, yes, and so they have clear preference on welfare issues. So, it's based on ISSP, cross national social survey project, and it asks that do you support more or less government spending in old age pensions? And this is the answer. And basically, in general, old age pension is very popular, both among young and senior citizens in Japan, but it's a clear difference between those below 50 and those over 50.

So, those below 50, it's around roughly 45 percent of people support more spending on old age pensions. But those people over 50 the number goes up more than 60 percent.

And also, I mean, there are more -- another interesting picture, so, elderly citizens -- so, this figure is based on (inaudible) survey, (inaudible), so the survey asks voters of ever lower house election since 1972 about what kind of wishes did you care when they make voting (inaudible) and it's multiple choice question -- it's multiple choice questions so they can choose among many -- I mean, they can choose many

topics, which they care.

And (inaudible) but basically it's comparable. This shows that elderly voters always care about welfare issues. (Inaudible) 40 years, since 1970s there are many things happening in Japanese society, for example, (inaudible) reform or (inaudible) change in 1993 or 2009, and sometimes welfare issues catch peoples' attention, for example, 1972 when Prime Minister Tanaka, I mean, he claimed that this is my first year of Japanese welfare states, but at that time, everybody care about welfare issues or 2000 -- at the time of 2000 election, also people -- I mean, welfare issues catch peoples' attention, but other than that, I mean, people over 60 always care about the issues, but people -- younger people, especially those below 30, sometimes care but usually do not care so much about the issues.

So, there is a big disparity -- big difference in peoples' attention. So, if you are a candidate running for public office and some people -- I mean, some people like the issue, some people like more spending, some people do not like -- they don't like more spending, but one group of people always care about the issues, but the other people do not care much about the issues.

So, which group do you care? The answer is clear. I mean, (inaudible) have to care about the elderly citizens. So, this tendency is clear even after (inaudible) over all political sophistication of elderly citizens. I mean, they are more issue oriented, they are more knowledgeable about the issues, so they tended to vote based on issues. But even after controlling over all issue orientation is still about differences very clear.

And there is -- and also some other reasons that political operations in Japan shouldn't make (inaudible) an institutional reason, and (inaudible) reason, Professor Schoppa mentioned about that, but especially in Japanese electoral system is we are now using single member district, both in -- all these all for lower house election and upper house elections, now currently (inaudible) districts is single member district.

And that (inaudible) single member district is that you do not need majority of the district to get elected. They need around 30 percent of votes of the

district. I am now -- I live in (inaudible) prefecture and (inaudible) he is currently happens to be Minister of Health and Welfare, and our district has 400,000 -- I mean, voters, but usually he gets 100 to 110,000 to 130 votes -- he is keeping -- and probably he wins this election again.

So, because they just need 30 percent of district vote, they usually care about -- focus on small core and active group of voters while campaigning. And another reason can be that (inaudible) and many people talk about that. I mean, Japan -- Japan's electoral system is very (inaudible) and it gives more extra power for older and rural district, and I calculated -- I mean, apportionment in upper house, probably just the weighted average -- weighted median is around (inaudible) not so huge, but I mean, not (inaudible).

So, in conclusion, I mean, the combination of these five factors, I mean, numbers, (inaudible) preference, clear preference, and issue (inaudible) among elderly citizens, and institutions, electoral institutions makes any benefit for the elderly extremely difficult in Japan, obviously not impossible, but it's very difficult. And we may need stronger political leadership or financial (inaudible) or something to override the (inaudible) in Japan -- in Japanese democratic process.

And I have been talking about Japanese issues, but, I mean, it may happen in the United States too because, I mean, even though American population is much younger than that in Japan, I mean, there is, I mean, some factors -- some decisions are very similar in the United States too.

So, okay. This is the end of my talk and thank you for hearing.

(Applause.)

MS. PENG: While we fiddle with this I also want to echo the previous two presenters by first thanking Mireya for inviting me over for this workshop. This is really exciting.

The first two speakers, Len Schoppa and Michio Umeda, talked about the silver power. I think it's pretty evident from their presentation that the sort of elderly

people in Japan have tremendous electoral clout.

In my presentation what I would like to do is sort of turn around and say, what about the youth? Why are youth not so engaged in the politics in Japan?

So, just to bring my conclusion forward, I want to summarize what I think are the reasons why Japanese youth are, how many people say, sort of disengaged from politics and I think there are three sort of factors. One is about number, second I would call it interests, and third, I summarize it as opportunity and I will elaborate this in my slideshow later.

But just quickly to summarize what I mean by these three elements.

First, in terms of number, as you can see from the bar graphs here -- I'm sorry it's largely in Japanese -- in the bar graph here, this is a total population of Japanese in 2010 divided according to the age cohorts and as you can see from here, the current youth people between the age of 21 to 29 is about 13.5 million as compared to people over the age of 60, which is now 35 million.

So, very quickly you know that from the numerical point of view, young people -- and here I'm talking primarily about people in their 20s, and maybe perhaps early 30s -- they are much smarter sort of population group numerically compared to people over the age of 60.

So, in terms of number, my argument is that youth voter population is small in comparison to the elder voter population and because of this, that youth votes from the youth point of view feels powerless, and from the politician's point of view, less significant in terms of electoral politics.

The second point that I wanted to mention in terms of the interest is that we know a significant proportion of voters -- youth voters are quite apathetic today and I will show you in the next slide, this is a slide from -- of the historical trends in voting trends starting from 1967 in the lower house election, the important graphs are the red one -- red dot, which now in 2012 election. Those are the people in their 20s. Their voting rate has been slipping down from 1967 from almost 67 percent all the way down to

38 percent in 2012.

In comparison to that, people in their 60s, which is sort of red line on top, have been remaining pretty well steady from about 77 percent in 1967 to 74 percent in 2012. I must say the 2012 election turnout rate has been lower than the previous ones, but nevertheless, you could see this steady decline in the sort of voting rates amongst particularly the people in their 20s and in their 30s since 1960s.

So, in a sense, one of the critical problems about this -- about the sort of voter apathy, is of course that it expresses itself in the voting rate. I will talk a little bit more using the result of the 2013 survey of youth to see why they are not voting -- why they are not participating.

Finally, my third sort of conclusion summary point of opportunity, I'll talk about this a little bit later, is that I think the issue -- I think that Michio's graph showed that the interest in welfare issues among the young people were rather low. It's not that -- I think it's not that they are not interested in welfare issues, I think they have other things that are really preoccupying their mind and their time and that's the economic and employment issues, and so I will talk a little bit more about this later, but let me just show you some of the survey results from the 2013 Cabinet Office survey that compares international youth sort of in one, two, three, four, five, six -- seven countries. For people who are not able to -- who can't read Japanese, the top bar is Japan, second is -- one below that is Korea, and then U.S., UK, Germany, France and Sweden.

In 2013, the Cabinet Office issued a very large international comparative survey for people between age of 20 and 35 and basically sort of looking at -- asking people questions about their -- everything from their private life to political interests to concerns and I just plucked out a few of the key questions that they have asked in relation to youth in terms of politics and political engagement.

So, this is the -- the question here is, are you worried about your future, and what you could see is the most left hand side is, yes, I am concerned, the second one to the left is, well, sort of concerned, and then the second to the right is, sort of not

concerned, and then finally the figure right to the right hand side is not very concerned, and if you see these figures, the Japanese youth, those who answered that they are concerned or somewhat concerned were close to 80 percent -- 79.4 percent of Japanese youth answered either sort of or very concerned about their future versus 20.6 percent who were not.

Compare that to the U.S., 61 concerned or somewhat concerned and 39 not concerned or somewhat not concerned, and so, well, and so you could see that young people in Japan are actually quite concerned about their future.

If you -- and then if the -- and then the survey asked, I want to help solve social issues for the betterment of society, in other words, asking how much they want to engage in the sort of solving social problems. What you see again is toward the left is not so, toward the right is, yes, I want to solve the social problems. The Japanese figures, again, are the lowest amongst the seven countries in terms of their interest in solving social issues or, in other words, engaging in some kind of social and political activities to solve problems.

As a member of my country and my community, I want to actively participate in policymaking process. Again, the proportion amongst the Japanese youth is one of the lowest at 35.4 percent of youth -- Japanese youth -- says, we don't think so versus 46.5 who believe that as a member of their country and their community that they want to actively participate in policymaking processes.

This is a different survey conducted with the youth in students at University of Tokyo in 2009. The question was, do you think the government policies are helping youth? The figure -- the pie chart to the left says, only 10 percent of the University of Tokyo students thought it was, 90 percent did not think so. And then the question to the right asks, why do you think policies are not helping youth? Large majority, 62 percent, said it was because the policies do not reflect the future vision of Japan, second -- this is multiple answer question, second reason is that politicians are postponing the tax raise and -- for the future, and that's creating greater burden for the

taxpayer -- for us in the future. In other words, it's really reflecting the idea that the governments are not sort of thinking about the tax burden of the social security for the youth generation in the future.

So, another question about whether youth thinks that it's possible to change society through their participation, only 30 percent of Japanese youth thought that they could change society through participation, 51 percent did not think so, as compared to the U.S., more than 50 percent really thought -- 52 percent thought that they could change society through their participation.

In terms of their satisfactions towards their country and society, Japanese youth was least satisfied of them all -- of the seven countries. Well, actually, France was just as -- French youth are just as unsatisfied as Japanese youth. Again, compared to the American youth, American youth were more or less equal in terms of satisfaction and answered dissatisfaction.

And then finally looking at the future of their countries, the Japanese youth was least hopeful about their future with only -- with less than 29 percent thinking that the future in their country looked bright or somewhat bright whereas over 50 percent thought they were not looking bright at all.

And so, the survey asked these young people what they think -- what they see are the country's social problems. Largest proportion of them said that it was really hard to find work and that unemployment rate was really high. That constituted 47 percent and that there was -- the second comment was there was no reward for hard work followed by the fact that politics is not sound.

So, my last sort of point about opportunities is that I think Japanese youth are not engaging not just because they are numerically small and that they are less engaged, they feel that the politicians are not listening to their needs, but also in terms of the opportunities, I think they are much more concerned about something else, which is employment and the issue of high unemployment and it's because the youth in their 20s really have to keep their heads down in order to find jobs and I think it's that that is

putting them -- taking them out of sort of political engagement.

So, I will stop here. Thank you.

(Applause.)

MS. SOLIS: That was a terrific set of presentations and while the other panelists get their mics on, I just want to get started and pose just two or three questions and then open it up for Q&A from everybody here in the audience.

I thought this was a really rich discussion and it opened in my mind really fundamental questions about political involvement of different age groups in Japan.

So, let me just ask two or three questions. In my mind, one of the things that I thought was most striking is that there was very little discussion about political organization, per se, and that is the lobbying that we think, you know, is very important in many political systems in order to influence policymaking and make sure that certain groups capture more benefits than others.

And I thought it was really interesting that, you know, we know in the United States senior citizens are very active, they're very well organized, there's the Association of Retired Persons in the United States, and there's nothing like that in Japan. Nevertheless, we have these very strong sense that there is something like "Silver power" and that senior citizens are the ones that are vocal, are the ones that count, are the ones that the politicians cannot ignore.

So, why do you think that senior citizens do not go that extra mile, why there isn't more organization, and does this in any way affect the way in which these social benefits are allocated or not? That's the first question.

The second question is, I was not clear from the panel if there is a sense that electoral reform is necessary in Japan. I guess we got the sense that there's a very clear difference between the way in which the youth and the senior citizens make their views or preferences felt and that politicians therefore have an incentive structure as to where they'll go, but I thought it was interesting, especially from the first two presentations, that the usual suspects as to why senior citizens are so influential did not

figure prominently in their discussion, and by this I mean electoral institutions, and more precisely the problem of mal apportionment, because many people believe that it's a fact that rural sectors, where more elderly citizens live, have larger magnified political influence, that that also is part of the explanation, but I think Umeda-san mentioned that he did this exercise and found that mal apportionment did not really have much to do with silver power.

So, if you could address this issue as to whether electoral reform is necessary or would perhaps not be even effective.

And the last question goes to Ito-san. I thought that presentation was mind blowing in the sense of perceptions of the youth regarding their future and regarding potential use of political strategies to try to influence their future. And if you could, Ito-san, begin to connect the dots for us, because to me it was really striking to see how discouraged, how pessimistic Japanese youth are about the future, personal prospects, the direction of the country, the willingness of politicians to be bold and, you know, implement policies that have in mind the future of these young generations, and the complete rejection of any political strategy to try to convince politicians to pay more attention to them.

So, why do you think that they feel -- why the disconnect? A lot of dissatisfaction but no vocal activity? No desire to connect? No desire to make politicians pay more attention to them?

I think that you hinted at that by saying that they have to keep their head low, that they cannot alienate their job prospects, but perhaps there is more to it as to why they don't mobilize more and this ties in, I ask why no organization for the elderly, why no organization -- political organization for the youth, and we know that in current society it's not that I'm very savvy on this, but social media now plays a very important role and that's a way in which especially young citizens can be aware of the specific issues.

So, why isn't social media energizing the Japanese youth to be more

proactive politically? So I'll start with that and then we'll open up for questions.

So, should we go in this order? So, Umeda-san?

MR. UMEDA: So, your question is, does electoral reform --

MS. SOLIS: Make a difference --

MR. UMEDA: -- make a difference --

MS. SOLIS: -- regarding silver power?

MR. UMEDA: So, in my opinion, I mean, at least we have to correct -- we have to fix mal apportionment in some sense, but in my opinion, it doesn't change a lot about silver power. But I think that if we change from single member district system -- basically, we are using (inaudible) system right now, but if we move to, first of all, PR system, probably it changes a lot, because it changes, I mean, motivation of political parties to mobilize younger, usually less reachable citizens, because if you take -- I mean, any additional (inaudible) count in district, currently it doesn't count. I mean, if you have, for example, 30 or 35 percent of votes in a district, it doesn't count even if you get any extra vote.

But if we move from SMD to PR system, probably it change a lot and basically I mean, current political parties doesn't have a strong motivation to reach younger people or any other lesser active group. So, in this sense, we change about the power between -- in silver power sense.

I show that public spending ratio and (inaudible) PR system country, mostly (inaudible) or the country with (inaudible) I mean, they have to vote -- rule with -- obligatory for the -- Australia, for example, Australia changes a lot about the SR ratio, but my suspicion is -- my suspect is I expect that it's -- probably it keeps political parties to mobilize younger voters.

MS. SOLIS: Thank you, Umeda-san. Len?

MR. SCHOPPA: Sure. Thanks for raising the question about the organization of older citizens and the very significant difference in the degree to which the American older voters have organized through the AARP. I'm a member now since I'm

over 50 and, you know, it seems to be something that just happens naturally in the U.S. political context that you get involved in these types of groups whereas in Japan similar groups do not exist or are not very powerful.

And I don't think it's something distinctive about the older voters in Japan or -- it's more of a broader pattern that you see in Japan where large groups of people who have some -- not a significant stake in a policy area, like consumers, taxpayers, these types of groups who -- there are millions of them, there's a significant incentive to free ride, hoping that somebody else is going to represent this organization. In Japan, none of these groups are very well organized whereas in the U.S. you see the consumers organized through Ralph Nader, you see the taxpayers organize for the various groups here in Washington that extract no new tax pledges from virtually every congressperson, and the AARP is organized. So, this broader difference is driven in part by the historical regulatory structure for nonprofit organizations that made it relatively difficult for Japanese groups of this type to organize and create a tax benefitted, nonprofit corporation that could represent these types of groups.

So, Japan does have very powerful interest groups, but they tend to be producer interest groups, like the automakers or the electronics industry, and to some degree, the unions. If you have enough of a stake to have your whole business depend on government policies, you do get organized even in Japan, but these other types of groups don't tend to get organized and that's true of the older voters as well.

Now, this does change the way that the older voters get involved in the policy process. They are there in the background. Every Japanese politician has to avoid, in the way the other panelists talked about, doing something that is clearly going to cut benefits or hurt the older voters. There are just too many of them to do something obvious.

But what the Japanese politicians can do is do things relatively easily that are less obvious. They can hide behind technocratic policy changes proposed through the bureaucracy that actually do limit benefits or increase contribution rates to

keep the pension system and the medical systems solvent, so there is -- you know, this is the part of my talk that I didn't get to, that I think we'll hear more about in the second panel, which is, the surprising degree to which the Japanese have maintained the solvency of their pension system and their medical system despite the demographics that you heard about.

They did it on the pension side by increasing the contribution rates by 5 percentage points over the last decade. The average take home pay for Japanese employees is 5 percent less because of the amount that's been withheld to maintain the solvency of the pension system. So that was a revenue increase on the working voters and it happened despite the -- some of the demographics that we heard about.

The benefit cuts, those have been slower to come, but the 2004 pension reform includes a macro slide provision that guarantees that if, after all this additional revenue has been raised, the pension system goes out of balance in the future, that we will start to see automatic benefit cuts in the future to adjust for the amount of revenue that's available. So, this has been built in in a very technocratic relatively invisible way, it was passed way back in 2004, perhaps by bureaucrats anticipating that the silver power voters in 2020 would make it impossible to pass such cuts then, so they built it into the pension law in 2004 so that it would possibly bite and bring about some pension benefit cuts at those future dates.

Of course, the politicians may reverse all of this and it may not quite work out that way, but I think the absence of an AARP made a difference in Japan in allowing that kind of pension reform to go through in a way that AARP would have been on top of those bureaucrats and blocked it from happening here.

MS. PENG: Thank you. I just wanted to mention that I agree with Len completely about the sort of the historical/institutional structure that makes citizen-based political NPOs and NGOs (inaudible). So, much of the sort of organizations such as AARP equivalent is very difficult to sort of -- to develop in that kind of social and (inaudible) context.

I think in a way in Japan even though the situation is not that -- not always good, in some ways, older people don't have to worry that much about creating AARP type of citizen organizations because much of the policies are -- you know, Umeda-san's presentation showed, at least in terms of the public expenditure, is really tilted toward elderly people. So, that part is kind of addressed.

So, the question is, why are young people not sort of reacting to this and sort of mobilizing politically? I think there are a couple of reasons. One, I think is the strategy of exit rather than voice because I think there is a sense that there is nothing they say that they do that would actually reflect in politics, but I think also there are institutional structures that makes sort of -- that demands young peoples' time and energy and effort and that comes through in education and workplace kind of structures.

If you look at, for example, you know, I have taught in Japanese universities as well as in North America. By the third year -- second, third year of the Japanese university, students are totally tied up with (inaudible), that is employment activities, and it's -- it has now taken so much of their time that they could hardly even study never mind trying to sort of set up political organizations or participate in political lobbying of any sort. It is really crucial for them.

Many students don't also even do such things as international experience and things like that because they're afraid that if they do that, that they will lose a chance to get a job.

I think that insecurity -- employment insecurity and economic insecurity, plays a really crucial role in their lack of (inaudible) -- lack of motivation incentives and sort of willingness to participate in (inaudible).

MS. SOLIS: Thank you so much. Very interesting. So now questions from the audience. I would like you to please wait for the microphone. Identify yourself and I will take two questions at a time just to make sure that most people get a chance to ask. I have two people on the back. Jennifer?

MR. ROZMAN: Hi. I'm Gil Rozman, formerly at Princeton, now at the

Asan Forum. I think this is a great panel on the connection of demography, politics, and welfare. I want to shift the attention a little bit to international relations from welfare. And do Abe's revisionist policies and his realist defense policies distract the youth in any way? Do they have implications for the election results? Or are we strictly talking about welfare as driving the election that's coming up in ten days?

In other words, Americans think a lot about what Japan is doing in international relations, and as well as at the TPP and issues like that, does that matter? And can you give us some demographic information that will help us understand that dimension?

DR. POPLIN: I'm Dr. Caroline Poplin. I'm a physician -- I really don't belong here. I was a few minutes late, but perhaps Professor Schoppa could explain why the birthrate is falling. I'm 67, so it's of general interest.

MS. SOLIS: Any comments on those questions?

MR. UMEDA: How about (inaudible)?

MS. SOLIS: So, how do young people in Japan think about foreign policy? Does it factor in when they think about the upcoming election or is it just welfare economy?

MR. UMEDA: Yeah, for upcoming election, I guess -- my guess is, I mean, people don't talk much about neither, I mean, people talk about neither welfare policy nor foreign policy. I mean, it's really economy. It's (inaudible) because, I mean, Abe talk about consumption tax, but now, I mean, both governing and opposition parties support postponing consumption tax rates. So, it's -- I mean, (inaudible) very far from clear, but it's about economy. And welfare issue or foreign policy, it's not a big topic at this election.

MS. SOLIS: Len?

MR. SCHOPPA: Yeah, I mean, I agree with that. Historically, the voters, when they're polled after the elections, about what were the issues that they cared about, foreign policy always rates very low and despite some of the things that have gotten a lot

of media attention in the U.S. and abroad about Abe's foreign policy, the Japanese -- the issue is not nearly as prominent there as relative to the economic issues that the Japanese are hearing all about. And so I think we should expect this election to see similar results when you ask the voters this time what they cared about, foreign policy will be low, economy will be high. They'll still say welfare is important, but all of the major parties are against raising the consumption tax now. They're for postponing it. All of them are for welfare. So, this is going to be an odd election where the issues are pretty opaque.

MS. PENG: I don't want to repeat the same thing, but I think in terms of the sort of policy issues, there is quite a divide between younger and older age cohorts. I think that there are some youth who are really opposed to the fact that they are postponing, yet again, the tax hike because there is a concern that -- and youth knows this, that their contribution rate, particularly for pension, will continue to increase and yet when they reach the age of 65 and over, that what they will get out from the pension schemes will be much lower than what the current elderly people are getting.

And so, I think there is a grievance over this intergenerational inequality.

I think the government is mindful of that and yet I think they are kind of stuck in the gridlock as to how to navigate this (inaudible).

MS. SOLIS: We only have five more minutes left and I'll be happy to discuss with you the fertility rate question maybe in the break, but I have -- wow -- all right, so if we can do a lightning round of questions, one minute per person, Shari and (inaudible) and Debra, and then I'll go to that side. Super concise because we're really very short on time. Thank you.

MS. MARTIN-MURPHY: Hi. I'm Shari Martin-Murphy from the State Department's Office of Opinion Research. My first question is, the youth population is actually distributed differently from the population overall, so there's fewer youth in, let's say, (inaudible) compared to, you know, urban areas like Tokyo. So, have you seen any differences in strategies in terms of reaching out to youth voters across districts where

there may be a higher proportion of youth relative to a lower proportion of youth? So, are there some differences in party strategy, campaign strategies that you may have observed even anecdotally?

And second is the -- about the youth internationally and how Japanese youth stack up to everyone else. My question is, how different do Japanese youth look from the rest of the Japanese population just in terms of like outlook for the future, for example? Thanks.

MS. MILLY: Deborah Milly, Virginia Tech. I'm wondering if you have any sense of how the elderly preferences for better welfare benefits is nested in some concept of the economy overall and how -- whether retirees see their benefits -- these benefits as really dependent on a greater working of the economy and better conditions for youth and things like that?

SPEAKER: Thank you very much. In my view, this phenomena is in society of Japan is the first ever phenomena in the human history. So, this is a very adaptation must be very difficult. But my question is, will the Japanese people attitude stay the same as it is or this will be -- could be changed? Because -- for example, desire to have more welfare, that's a very human desire, but a precondition for that is that the system is sustainable and in my view, we are approaching the stage where this sustainability is in question. This is the first one.

The second one is the satisfaction and dissatisfaction scale which was used by Ms. Ito Peng. So, my layman's impression is that is the Japanese society so bad -- this is my impression -- that foreign tourists to Japan are very satisfactory, so the Japanese people, we are fearing the future, we are they very worrisome people so that this satisfaction/dissatisfaction scale in international comparison is a little bit doubtful. This is my impression. Thank you very much.

MS. SOLIS: Two questions have a minute each, these two gentlemen.

MR. FARMER: Dick Farmer. I'm a member of the U.S. Silver Democracy and two questions; one is, out migration. Are the Japanese youth voting with

their feet and is that a large part of the migration? And secondly, in terms of intergenerational wealth transfer, the Japanese save a lot of money. Are the elderly population likely to have money left at their death? And how will they pass it on to the youth? And things like estate taxes, how does that work in Japan?

SPEAKER: My name is Kunio Kiguchi and I'm with Washington Research and Analysis. Old Japanese do worry about young people and their welfare. They're not all that selfish. Starting from that base, I think Professor Ito was very enlightening. First of all, I don't understand this unemployment business. They spend so much time for recruitment to good companies, but in fact, Japan is short of labor, so when it's unemployment, it seems to me it's a question of preference of work. There's plenty of work in Japan. In fact, it might not be on a big corporation basis.

The other thing is, the highest interest was shown in the previous election when they elected the Democratic Party and the result was insignificant, as it were, so there is a huge disappointment. And the young people in Tokyo University, for example, are very smart. They know that politics really don't matter because the real rulers of Japan are the bureaucrats who are not voted. Thank you.

MS. SOLIS: Thank you very much. So, I think we can all see how exciting this topic is because of the strong interest from the audience. We have, unfortunately, run out of time, so what I think I would like to do, if the panelists would be so generous to address some of these questions in the break, and some of these issues actually cross over into the second panel and they probably will be addressed as well by our next group of experts. But please join me in thanking these excellent presentations.

(Applause.)

MS. SOLIS: And we reconvene at 10:30. There is coffee and there should be pastries still out there to recharge energies and we'll be back in like seven minutes or so.

MR. BURTLESS: I'd like to call you to order for the second pane of this morning's discussion.

My name is Gary Burtless. I am a complete non-expert about the politics of Japan. I'm an economist here at Brookings, and I have visited Japan many times, but that is the extent of my expertise.

The next panel will proceed exactly the way the first one did. You can get the full biographies of our speakers by reading the handout that you got upon coming in. Our first speaker will be Professor John Creighton Campbell. He is a researcher at the Institute of Gerontology at Tokyo University. He is Emeritus Professor of Political Science at the University of Michigan. He writes about Japanese politics, decision-making, and social policy. Currently, he is studying Japanese and comparative policy for the elderly, particularly with respect to long-term care. He is going to speak on "Is there a political bias in Japan in favor of the elderly?"

Our second speaker will be Professor Naohiro Yashiro. He is currently a visiting professor with the College of Liberal Arts at the International Christian University in Tokyo. In addition to his academic career, Dr. Yashiro has held positions with the Japanese Government's Economic Planning Agency and at the OECD. He was president of the Japan Center for Economic Research in 2000, and a member of the Council of Economic and Fiscal Policy in 2006 to 2008. He will speak on the question, "What are the expected impacts of Japan's demography on its growth prospects?"

Our last speaker before we sit down together on the front dais is Professor Liv Coleman. She is assistant professor of Government and World Affairs at the University of Tampa, where she teaches East Asian Comparative Politics and International Relations. She does research on Japanese gender politics and family policy responses to the declining birth rate. I should note, actually, the Japanese birth rate has been rising for a number of years now, not falling. But it's still quite low. She was a research fellow in the program on U.S.-Japan relations at Harvard, and she is going to speak on the question, "Is Japan a family-friendly and child-friendly welfare state?"

Okay. Professor Campbell?

MR. CAMPBELL: I'm sorry, can someone help me with this? Oh, here it

is. I see it. Okay. Got it. Okay, I'll get it. I'll get it. Why is it in the wrong -- okay, I got it. All right. Thanks. I'm sorry, do you see where the slideshow thing is?

Thank you very much. It's a great pleasure to be here. I have never before flown 15,000 miles to talk for 13 minutes, but I'm very happy to do so. I actually would -- this is a topic I've been working on more or less all my life, and I would not want to be here. Maybe I can put it that way.

I'm going to try to do four themes in 12 minutes. First, I'll argue that expansions of social programs for old people in Japan came when there were not many old people. When there were a lot of old people, all the policy decisions went against them. In other words, silver democracy doesn't amount to anything, so far at least.

Second, I'll show that Japanese social policies for old people are not particularly generous anymore. They used to be to some extent.

My third point is more about the second panel's topics. I'll argue very briefly that the future prospects for social policy and for the Japanese -- well, at least for the old age side of social policy are not as gloomy as often suggested.

And fourth, I'll have some recommendations.

I just gave you this brief list of the major changes that I suppose the new policy initiations that account for, I don't know, 90 percent of spending on old people stuff in Japan and when they came about. Creation of the national pension and the welfare pension in 1959; the Welfare Law of the Aged, which was small at the time, but started nursing homes, home helpers, lots of programs, 1963. 1972, doubling the welfare pension benefit. Free medical care, meaning no co-pays for people over the age of 70. In 1973, doubling the benefit of the model pension under the employee pension program up to 50,000 yen a month. Also, taking pension income out of taxes; having to pay taxes on them.

And then you see I have in brackets, because it's kind of exceptional, 1989, the Gold Plan, which was really the start of long-term care policy in Japan. It's a little exception because in 1989, there were a fair number of older people in Japan,

although this program was not really aimed at older people. But for all of these other programs at the time, the number of Japanese old people was ranging anywhere from 6 to 8 percent of the population, something like that. So it wasn't because of a lot of old people that these programs were passed.

Secondly, when we started having more older people in Japan, we started getting cutbacks. Leon mentioned the Pension Reform of 2004; it took effect in 2005. But future benefits in Japan were cut in 1985, again in 1995. As he said, the major reform in 2005 or 2004, index benefits to the economy and to demography, which met substantially lower future pension benefits.

The copay for medical care, which had been taken away in 1973, or 1972, was reinstated in 1981, and since then it's been raised in several steps. It's still being raised today.

The special health insurance system for the (speaking in foreign language) for people 75 and over, started in 2008. It raises the premiums and the costs of medical care for these older people quite considerably. And then long-term care insurance benefits -- I don't want to explain this. It's mostly what I talk about. But long-term care insurance started -- that system started in 2000. Every three years they've had a reform of the system that has cut back on benefits and raised premiums, particularly premiums of older people every three years, including 2015 there's a reform that will go into effect next year.

In other words, when we've had a lot of old people in Japan, all of these specific decisions have gone against the interest of old people. When the big programs were established that made for pretty good policy, or pretty generous policy for older people, that all occurred when there were very few old people. I'm not saying that relationship is causal, but to make some argument that all the social spending on old people is because there are a lot of them doesn't make any sense.

So, do the older people have political influence? Yes, in a narrow way. All these copay increases in medical care, for example, and some changes in pensions to

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lower pension benefits have been postponed for one, two, three years by the LDP basically because they were afraid of the old people vote. They didn't reverse them. They didn't increase the benefits. They just postponed the decline so they wouldn't get a reaction in the next election.

But that's pretty trivial. Just last week, with an election coming up, the LDP said that the cutback in the postponement of the consumption tax would mean that Japan would have to rethink some of the social benefits it had promised. It said it wasn't going to rethink child daycare. That was a priority and we'd have to find money for it someplace. But two programs for older people. One is paying for home visits by doctors and others, increasing the salaries of people in the long-term care insurance system. We're not sure about those. We probably won't be able to do those. At the moment, at least, the priority is kids, not old people.

Perhaps most startling, they announced shortly before they lapsed a short time ago, pension benefits are going to be decreased across the board by 1.1 percent by application of the cost of living decline in Japan, which they hadn't put into effect for a while, but decrease pension benefits by 1 percent before an election doesn't look like silver power to me.

So as of now, with the partial exception of long-term care, Japanese long-term care program is generous. I think it's very effective, but in world-class terms it's quite a substantial program. But with that exception, Japanese programs for old people are not generous at all.

Here's a little chart I made. I'd never seen it before. It hadn't occurred to me I could do it. This uses the payment -- this is actually -- the numbers here are the same sort of numbers that Jennifer Lynch used for her table, which we saw in Michio's presentation, which only went back to 2000. But this is a number the OECD comes up with for spending on older people, of which most of it is pensions and some of it is long-term care. It doesn't include healthcare. But what I've done is rather than present it as a percentage of GDP, which they did, I refigured it to be how much our government

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spending on old people divided by the number of old people, per capita for the 65-plus population. Japan is not very generous. Japan is spending about 15,000 bucks a year. That's purchasing power parity dollars per person.

Japan is -- it's actually a little higher than the U.K. It's not as high as the United States. It's below Sweden. It's way below France. There's no indication that Japanese spending on older people is particularly generous in world terms. There really isn't anything much to explain here.

The advantage in health insurance that older people had over younger people, which was enormous in 1973, has been whittled back so that today it really doesn't amount to very much. Many old people pay a 20 percent rather than a 30 percent copay, but that's not any gigantic difference.

Perhaps most importantly, and a fact that is little known, although it was pointed out by the OECD, Japanese pension benefits are just about the worst in the world.

This is an OECD chart. It's from a book called *Pensions at a Glance* a couple years ago. This is kind of a funny number, but it's the standard number we use in the pension business. It's the pension for the median worker who is going to have an average salary who is entering the labor force now as a percent of average wages. So it's more or less the replacement rate, and it's the replacement rate net of taxes. Replacement rate is the usual figure that we use in comparing pensions, but the trouble is there are about 18 different ways to compute the replacement rate, so this is a particular one and I think it's the best one.

Where is Japan here? Japan is at the arrow. Japan's pensions, benefits, as a percentage of salaries is better than Mexico. It's worse than everybody else in the OECD. Japan's replacement rate is 42.5 percent. U.S. replacement rate, 49.9 percent. OECD average 69 percent.

It's a terrible pension system. It used to be quite generous, whether you like it or not, good or bad, it's different, but it used to be pretty generous for employees. It

was never generous for nonemployees. But for employees it was quite generous but the benefits have been cut back very sharply.

Future prospects. The big problem about the future prospects in Japan and for social policy, clearly in the long run Japan has to maintain growth with a shrinking, aging population. A shrinking and aging population. This is certainly a hard problem. The good thing about the problem, if it's good, is that it happens rather slowly. It's a matter of 1 percent or so changes a year. It's not some second crisis that descends upon us. And in many of these respects, markets, and to some extent government, can adjust to the changes as they go along. The obvious example is in labor markets. We always hear about the labor shortage in Japan and how they won't have enough workers to produce enough products. We find that when labor becomes short, wages go up. When wages go up, more people come into the labor force. A lot of women. More women could be working. More older people could be working. Not only that, Japan has -- overall the whole economy is one of the lowest productivity, labor productivity countries in the world. Labor productivity could be raised in lots of ways when firms have an incentive to do so, and the on the margin, particularly in specific fields where there are sectoral labor product projects, we -- excuse me, labor shortages -- we will surely see the number of migrants going up, as Debra Millie has just been finding out and telling me it's going to happen pretty soon.

But I'm going to leave the rest of this topic to my economist colleague who is speaking next and turn to future prospects, the smaller problem. In the medium term, it's clear that Japan has to increase spending on medical care and on long-term care for another 10 years. Things are going to get easier in 2025.

Here is the least-known fact about Japanese aging; it's finished. The number of people over the age of 65 in Japan is going to be constant, more or less, from now until 2055 and then it's going to start to go down. There are not going to be lots more people over the age of 65. Here's a chart that shows it to you. This is the same chart we saw before to show the total population and how that's going down. We see the

age 15 to 64 population, which was going down sharply for a while. We see the age of the youth population, 0 to 14, which has been going down continuously since 1955, and then we see the population of people aged over 65. That little arrow is pointing at this year. Actually, it's pointing at last year. I found this slide last year. In other words, you see the shape of the line, it's been going up like crazy, very rapid aging; now it's flattening out.

We all think that aging is really increasing because we always look at the percentages. The percentage of people over the age of 65 is about 26 percent right now; it's going to go up to 40. That's an important point. The younger people have to pay for some of the older people for sure. It's very important. But the absolute number of older people is also important.

However, this figure doesn't take us out of the woods because -- I'm sorry, I'm premature with that slide -- doesn't take us out of the woods because most of the costs of older people -- healthcare costs and long-term care costs -- come over the age of 75. Arithmetic will tell you that if the over-65 population peaks now, it's because the Don Kai Sadai, the baby boom generation just turned 65. That's going to happen 10 years from now for the over 75 population. So over-75 numbers are going to continue to go up and they're going to need more funds for healthcare and for long-term care.

In medical care, Japan basically has succeeded in holding down its spending. Despite the rapid growth of aging, healthcare costs have not increased that much in the U.S. I could make a long argument about that but let me just show you this chart. This is medical care spending per capita. This is per capita for the whole population, not the old age population. Medical care spending per capita in 2011, purchasing power parity dollars. These are OECD -- it's again, just out of one of the standard OECD books. Where is Japan? Well, Japan is pretty high, but it's below the OECD average. It's below all these other countries off here on the left by a fair amount. It's a little bit higher than Spain, Italy, Portugal, Greece; Korea, certainly. All the other rich countries of the world spend more on healthcare than Japan does. Even though they

have fewer older people, Japan has -- excuse me, the U.S. has around half the percentage of older people that Japan does. That's the U.S. over there. See how much it spends on medical care? The light blue is private spending; the dark blue is public spending if you're interested in this chart.

But in other words, why is Japan so low? Because they have a very effective mechanism of changing their price schedule every two years and holding down the growth rate of medical care spending, and they've done so very effectively and they'll continue to do so.

As I mentioned before, in long-term care insurance, which I don't want to talk about in detail -- I surely will if you ask me -- they have had these reforms every three years. Spending has gone up as the particularly over 75 or over 85 population has gone up, but it hasn't gone up very much above that level. By making little cuts here and there they've succeeded in holding the growth rate of spending down pretty well.

What about pensions? Well, as of now, total spending on pensions, public spending on pensions is not going to go up all that much. Why? Well, pensions go to people over the age of 65. Their numbers are going to be about constant. Pension benefits have been cut back a good deal, so there's not that much increase that's built in right now. The problem with pensions are that benefits need to be higher for pensions in Japan, particularly a minimum pension because lots and lots of old people in Japan are poor. Japan is second only to the United States in the percentage of older people below the relative poverty line.

So a minimum pension was a proposal of the Democratic Socialist Party when they were running for office and won, but they were not able to put it into effect. They wanted a minimum 70,000 yen a month pension. Now there's a proposal around to make a minimum 50,000 yen a month pension. That's 500 bucks a month, depending on the exchange rate. It's not very much, really, but that proposal isn't flying any place. The pensions are just too low.

Some people think that Japanese old people are well off. They have a

lot of income and they're hoarding their money, and therefore, holding down consumption and that this is a big economic problem for Japan. But it isn't really true. Japanese older people's incomes, they not bad as it happens, partly because a lot of them work, but their incomes are not particularly high and they certainly aren't hoarding it. In fact, older people spend more of their income in Japan than it's true of any other -- well, I can't say any other country in the world, but among these 12 countries assembled by David Bloom, who is the leading scholar on this subject, about age-specific consumption rates; consumption over income. That arrow is pointing at the age 65 to 74 age bracket, and there's Japan, the highest in the world spending a little bit more, actually right about the same as all of their income or they're consuming it. When they get to the older age group, Japan is number two; China is higher. That's not public programs obviously; that's transfers within. Chinese older people have no income, so to stay alive they'd have to consume way more than their income. But Japan is very high in this regard. In terms of income, we don't see people, on average, in the aggregate, hoarding money. They don't spend that much because they don't have that much money because too many of them are relatively poor.

So recommendations. I agree with Prime Minister Abe. The focus has to be on economic growth in Japan; no question about it. I may or may not agree on how to do it, but I certainly agree with that. My view as to what is needed in Japan is a big improvement in aggregate demand, which will require raising wages, which everybody says. They haven't been able to do it very much yet, but everybody knows that. But it also means raising the incomes of old people, particularly poor old people.

How do you finance it? What older people in Japan have is assets. Not all of them by any means, but many old people in Japan have a lot of assets. They have a lot of money in the bank or in insurance policies, and it sits there. Somebody asked about that. There is a pretty substantial estate tax in Japan but there are ways of getting around it. More than anywhere else in the world is the stock of money controlled by old people. The other people that have an awful lot of money are companies which have had

enormous profits and have socked the money away and are not investing it, they're not paying it to stockholders, and they're not paying it in higher wages. They're basically putting it in the bank.

Japan has to tap this big pool of money in order to finance its necessary expenditures. What they need is an assets tax on the amount of money people have in the bank or have in insurance policies, financial assets. They already have relatively high property, real estate taxes, but assets taxes. And that will tap into these older people and these firms that have been hoarding money. And I would say that the healthcare system and the long-term care insurance system do not need any substantial reforms. They need the same kind of concern for economizing that they've had all along, but that has been quite adequate and will continue to be so.

So finally, is aging an economic catastrophe? I use the phrase catastrophe because in this business we throw away a cute little word called "catastrophic demography" that applies to, for example, Peter Peterson's book in 1999, called *Gray Dawn*, that says that the impending demographic changes in the United States -- and God only knows in Japan -- are going to be the rack and ruin of all of us. Catastrophic demography.

Lots of people don't agree with that and I certainly don't. Their agenda is pretty obvious. Peter Peterson, of course, was a cabinet member of the Reagan administration, an investment banker, runs the Peterson Institute, founded the Peterson Institute. He's a very conservative guy. He naturally thinks that the government has to get out of the business of taking care of people. And so if we can scare everybody with all these enormous burdens of old people, that will be a good reason to cut back on, in the American context, social security, Medicare, all these entitlements and so forth. As you may tell, I disagree with this proposition.

I will say flatly, and I'll defend it if you want, that aging was not at all the cause of the post-bubble malaise that we've had in the Japanese economy for the last 20-plus years. Not in the least.

And I would not say that the aging population is not a problem in Japan. It is a problem. When I've talked about this in other -- when I've had more time, I've gone through a little litany and said that in my opinion it's about the number six most important problem facing the Japanese economy now.

The biggest of the economy is a lack of aggregate demand and is extreme income inequality, both of younger people and also of older people. I think those are the two biggest problems in Japan. If we could deal with those problems, I think the aging problem, it wouldn't be trivial but it would be quite manageable.

Thank you very much.

(Applause.)

MR. BURTLESS: I'd just like to mention that we met first in 1980. I organized a conference in Japan -- in New York for the Japan society called The Aging Labor Force in Japan, and he spoke. He was then an official at -- he wasn't famous then. He was just a little grade official at the Economic Planning Agency (inaudible).

MR. YASHIRO: Thank you very much for your kind introduction, and it's my great honor to be invited here to the Brookings Institution for this seminar.

Let me talk about silver democrats in Japan in a bit different perspective from Professor John Campbell. Actually, everybody says the importance of demographic transitions applications is declining but there are pessimist and optimists concerning this declining population. And yes, even though the population is declining, we still go back to the 1970s or something, but the problem is Japanese customs or practice, labor practices, implicitly depend on the assumption of growing population. So on this we changed our system, and moving into the declining population society does cause a problem. And that's simply as is the need for structural reform in order to adapt to the declining population. That's a key issue.

And not only is the population declining as everybody said the population is aging and as Professor Campbell already said, the ratio of the elderly to the population may not be important, but what is important is the aging of the elderly people, what we

call very elderly people or above the age of 75, who cannot work and who are heavy consumers of healthcare and nursing care services, which have a tremendous impact on the expansion of the social security benefits. And actually, there is a lot of inequality across generations as our previous speaker said. It partly comes from the fact that our life expectancy is increasing quite a lot and the social system, particularly social insurance hasn't caught up with the rapid increase in the life expectancy.

Currently, Japanese life expectancy is among the highest in the world and it's still increasing. And we have the largest age differences between male and female. Japanese women live seven years longer than Japanese males, and the gap is slightly still increasing. So actually, those who are elderly people benefitted from the current social security system while our children and grandchildren are suffering in order to pay the costs for the elderly people. And that causes a serious -- how do you call it -- unsustainability of the Japanese social security is key. But it's just a part of the story.

The more immediate problem with Japanese social security, this entirely depends on the deficit financing. Our social security expenditures, pension or healthcare costs, ultimately could increase with the aging of the population, but our contributions to the social security (inaudible) because it entirely depends on the wage rate. And the wage rate stagnated because of deflation. So there is a gap between social security pension contributions and the gap is widening every year. And that was financed by the general government budget. But the same can be said with the general government budget because our income tax, corporate tax hadn't increased very much under a stagnation economy. And this subsidy from the general budget is almost the same as the amount of the public debt issues every year.

So actually, what is important is our social security is entirely financed by the increase of national bond issues. So if Americans or Chinese people stop buying our national bond, that's the end of our social security. So actually, it's a very unstable situation and it's not a long-term issue; it's an immediate issue. It's financial market issues, this aging or social security problem. But not many people are very -- how do you

say -- understanding in this situation.

And this is (inaudible). Okay.

And let me give one comment on Professor Campbell's previous statement that government decided to cut 1.1 percent pension benefit. Let me explain why. Because Japanese pension law requires automatic adjustment of the benefit according to price change, both inflation and deflation. But the Japanese politicians simply intervened this automatic system and they froze the pension benefit at the time of deflation. That has been rested for the last 11 years, so actually there is a gap between statutory pension label which reflects that deflation and actual pension label that is marked by the red line. And the gap is increased as much as 2.5 percent. That's a very - - how do you call it -- short-term sighted behavior by the Japanese politicians.

So that's why the current Abe government, which is more responsible than the previous democratic government, decided to narrow the gap between the two, but in three years they gradually cut the pension benefit in order to meet with the original pension benefit according to deflation.

But it doesn't solve the problem because even if they adjust it to the statutory pension level, still what happened in the past 11 years hasn't changed, so it's a kind of bonus to the elderly generations. So this is part of the negative impact of the silver democracy in Japan.

And I'm very surprised that in the previous panel nobody mentioned this. This is a proposal for revising the electoral system to -- how do you say -- (inaudible). And one is voting rights should be appropriate to the parents. So the parents who have two children, their voting right could be tripled. That's one idea. And the other one is (inaudible) members should be in proportion to the young bracket, middle-aged, elderly bracket, such and such. So even if the voting ratio for younger people is low, that doesn't matter because they have a certain amount of seats in the (inaudible). So that's one of the suggestions by the political scientists concerning this asymmetric behavior of the voting ratio.

But I don't think such kind of idea will work. Why? Because who is to bear the account, you see? This is my account and I can put the bearer on my account, but mouses cannot (inaudible). So actually any trials to reduce the political power of the elderly will be rejected under the silver democracy. So we have to find out an alternative way that directly appeals to the elderly people to change their -- well, I mean, to accept the income redistribution across generations.

There are two scenarios. One is threatening the elderly. You see? The social security fund in Japan has been already shrinking from the peak of 2005, I think. And that shouldn't be like that. According to the government projection, it should be accumulating in order to overcome the peak of the aging of the population. So actually, there is a lot of things wrong with government projections. And as I said, the credibility of the national bond declines quite a lot because we have Japanese government public debt to GDP ratio is as high as 200 percent compared with the United States and Europe. And so if the credibility of the national bond declines, then nobody wants to buy Japanese bonds, then 40 percent of the current benefit may well be cut. This 40 percent is a subsidy from the general government, and that will be a very difficult situation for the elderly people.

So the current social security system is, in my view, a high risk, high return asset for the elderly. If elderly people can successfully die before the social security system collapses, he can enjoy a high return. But suppose he still survives, then they are suffering the 40 percent cut of the pension benefit. So why doesn't he offer the elderly people? By cutting the benefit now by 20 percent and it become a low risk, low return asset according to my calculation, if they accept a 20 percent cut of the pension benefit current social security fund, it will be maintained by 2050 or something. So most of the elderly people currently or successfully die before the collapse of the social security.

Anyway. So that is the same method as dealing with nonperforming loans. You see? If you have a nonperforming loan, you have to sacrifice your loans so

that you can get the returns. And current Japanese social security is indeed nonperforming loans but the governments are hiding (inaudible).

But I don't personally like these ideas. My favorite idea is appealing to the elderly people. As somebody said already -- no, it's a comment from the floor -- that elderly people do care for their grandchildren and spend on average about \$2,400 in a year for them. It's a present to the elderly, a present to the grandsons who are inviting to the dinner or inviting to the trip with a grandson. And that's a lot of money. And elderly people -- those elderly people would never think of getting the money from their grandchildren, but actually, they are doing -- they are wasting the credit card of their grandchildren through the social security system. Japanese elderly people never think of that and that's partly -- it's mainly because elderly people are not well informed of the current situation of significant income transferred from the grandchildren. And if (inaudible) elderly people in Japan, nobody wants to do harm to grandchildren. Then I hope that they (inaudible) in the social security benefit. That's an obligation of the politicians, but politicians are too coward to do that anyway.

Actually, there is a significant -- excuse me -- there are rather small differences in views on social security burden sharing by each group. Everybody agrees that shifting the burden to the younger generation is not appropriate. They are not (inaudible). And of course, elderly people don't like the idea that elderly people have to make more a burden, but still the gap is not very much. Even those elderly people or those who accept cutting the benefit in order to help the social security amounts for 15 percent contrary to 30 percent, so I think there is (inaudible) for persuasion. And also, concerning the Abenomics which is now moving toward -- how do you say -- raise the Japanese economic growth that is closely related with the social security reform.

This is a (inaudible) growth accounting of Japan and actually, our labor force is already declining, and that has a negative impact on the economic growth directly. And that lowers the capital productivity and indirectly affects GDP growth and total capital productivity that reflects resource allocation.

So Abenomics, they tried to raise labor force participation of women who are underutilized, not only with quantity but quality. Prime Minister Abe set a target of 30 percent for female (inaudible) just by 2010. It's a bit ambitious target and (inaudible) corporate tax and improving the labor market mobility.

So actually, those things are quite well related to the reform of the social security. Although this is not clearly mentioned by the government, basic social security and healthcare provisions should be the government's responsibility. It's a matter of nobody argues this point. But they could be combined with value-added private services in the market, and actually, they are reforming the health and the nursing care provision which creates a production in employment as well as tax revenue.

Let me elaborate on this point a little bit. Our current Japanese social security system is exactly the same as the former Soviet Union's socialist system. Government sets the prices and not only do they set the price in insurance, that's okay, but the service of healthcare or nursing care services should be the same as the market price. That's nonsense because that could be divided. That could be separated. The government pays -- how do you say -- certain transfer in kind to the people, but the market price could be higher than that. Of course, low income people cannot afford to buy the additional one, but the middle class or higher income people can do that, and that creates an additional market. And that's a very important point.

In summing up, aging of the population is gloomy for the public sector with growing expenditures, obviously, but an increase in the elderly population implies a growing market for the private sector. And this is what we call the silver market. That silver market could be expanded with regulatory reform. That's a key for Japan's economic revitalization. So there is a silver democracy, but we can overcome the demerits of the silver democracy by expanding the silver market. That's the kind of (inaudible).

Thank you very much.

(Applause.)

MS. COLEMAN: Okay. I'm the only one not using PowerPoint today. But I want to thank you all for coming to the talk, and I want to thank the moderators, Dr. Solis and Dr. Burtless for putting together this great panel, and I'm honored to be here with so many other great scholars.

Today I'm talking about Japan's family-friendly welfare state. And Japan's family-friendly social security policies have been very much tied to the issue of the declining birth rate, which is to say a long-term decline in the post-war period.

The declining birth rate first came to public policy attention in 1990, and the first major plan to counteract it came in 1994 with the Angel Plan, and it's developed in successive five-year plans since that time.

Now, up until 1990, there was relatively little social spending on children and families, but the declining birth rate made it clear to policymakers that labor shortages would create a need to bring more women into the workforce to expand the working-age population to support the elderly and people who are receiving benefits.

So that was the initial focus of the reforms, to bring women into the workforce, and that still is the primary focus today of Japan's family-friendly policies. And they've made major progress since the 20 years or so that they've been working on these policies. The pace has been incremental and gradual, but cumulatively, the family-friendly reforms have been reasonably substantial and they've often been based explicitly on models in Western European countries, particularly France, Sweden, Germany, and Great Britain.

Now, overall, Japan spends a small percentage of GDP on families compared to the OECD average, but this doesn't tell the whole story. Japan's welfare state policies are more family-friendly than the aggregate spending numbers would indicate. In terms of the spending numbers, France and Sweden spend about 3 percent - over 3 percent of GDP on children and families, but Japan spends just over 1 percent of GDP on children and families. The OECD average, by contrast, is 2.3 percent of GDP. So the overall spending is on the lower side. But if you drill down to the different

categories of policies and particular metrics, Japan looks a bit better. And far from what you might expect of a silver democracy, there's been progressively more support given to children and families over time, and I think, again, this is driven by an awareness that there's a need to counterbalance the aging trends by keeping up with the size of women in the workforce to support the working-age population over time, which means increased support for work-family reconciliation policies.

And Japan has focused on two major types of family policies to facilitate work and family reconciliation. One is a focus on formal childcare, and relatedly, early childhood education. And then the second is child care leave policies. Japan actually has excellent provision of childcare and early childhood education in the 0 to 5 age range. The overall spending is still lower than the OECD average but it's known to be high-quality care with well-trained staff and excellent staffing ratios, particularly into the 0 to 3 age range.

Usage rates are particularly strong in the 3 to 5 age range. Japan has about 90.3 percent of kids enrolled in formal childcare or early childhood education in the 3 to 5 age range, compared to an OECD average of 80.6 percent. So that's a full 10 percentage points above the OECD average.

On the other hand, usage rates for formal childcare are lower than the OECD average in the 0 to 3 age bracket. In 2010, about 26 percent of children under three were enrolled in formal childcare compared to the OECD average of about 33 percent. With that said, Japan's enrollment for the under-threes is about double what it was 10 years ago.

Now, there are still long waiting lists for daycare in certain parts of Japan, but the current Abe administration has made it a political commitment and a priority to completely eliminate waiting lists for daycare by the year 2017. Now, to do this, the Ministry of Health, Labor, and Welfare estimates that they'll need to create an additional 400,000 new spots to eliminate all current waiting lists for daycare by their target of 2017, and the expansion of -- this childcare expansion is supposed to be financed by the

second increase in the consumption tax from 8 to 10 percent. And as you know, and as has been mentioned, that consumption tax increase has been delayed until April 2017, but the government has said that they will go forward. They will continue to start the expansion of new childcare programs in April 2015 anyway.

There have been other ways. There have been slight setbacks due to financing. Right now, childcare is done on a sliding scale fee, but last year, the government and ruling party set a goal to make it entirely free over time but to do it in stages, starting with kids at age five and then moving backward in time. And also, putting an income test in. But right now they decided to put an income test in place first of all and then only start with 5-year-olds. This particular policy measure has been delayed because of financing questions and problems. But, on the other hand, it's been clearly identified and earmarked as a priority, so it's part of the general progressive trajectory of more social spending on children and families.

Now, as for childcare leave, this has been increasingly generous over time as well. Due to reforms that have been implemented in the last year, there's an entitlement to take -- you can take a year off for childcare with a wage replacement rate of 67 percent for the first six months, 50 percent thereafter. And the 12 months can be used by both parents. And now there's actually a provision where if parents agree to share some of the leave, it can be extended to 14 months. So that's an incentive for fathers to get more involved in child-rearing. Employers are also now legally obligated to offer reduced working hours and flex time if parents have kids under three. So on these two family-friendly policies, formal childcare provision and childcare leave, Japan is doing pretty good and has made strong commitments.

When it comes to direct financial subsidies to families with depending children on the other hand, Japan's welfare state doesn't look so family friendly, especially given the high costs of education in Japan. Many Japanese parents have to pay for a whole range of educational expenses, including tuition, books, uniforms, and additional money on supplementary private education. But Japan has relatively low

public expenditures on education as a share of GDP, so this creates a higher private burden for families.

In 2009, Japan spent 3.1 percent of GDP on education, compared to an OECD average of 4.6 percent. Public spending is particularly low for college and university education. Per expenditure student in 2009 on higher education was \$6,646 per student in Japan compared to an OECD average of \$9,941. So it's substantially lower than average.

These high costs of higher education are bore mostly by parents of the students if they can afford it, and increasingly, many cannot. So while there's high public spending on elderly, there are still a lot of private transfers also to funds to children and youth happening across society, but it's happening in a very uneven way that creates a lot of inequalities across society.

Japan also provides child allowances, which are cash payments to families with children from birth through junior high age kids, and these fall significantly short of OECD averages. It's about 15,000 yen per month for kids under three years old; 10,000 yen per month up through junior high, with a slightly higher benefit for the third and subsequent children. There is a reduced benefit as well due to an income test of 9.6 million yen.

When the opposition Democratic Party of Japan was in power in 2009, they made raising child allowances a key priority but they did not make a lot of progress on this in office, so it's not increased very much in recent years. But what has been increasing is the child poverty rate, which is now up to a high of 16.3 percent. So there are families who increasingly need assistance. And it has one of the highest poverty rates among OECD countries for one-parent households who are mostly single, divorced mothers working non-regular jobs.

So that's the lay of the landscape for Japan's family-friendly policies, and there's a whole host of other programs to help families, too, in the community; parents who are worried, parents who have various concerns about child rearing to prevent child

abuse and provide more information about health and other services. A wide range of policies.

When I think about social security reform for Japan going forward though, I think they're actually on a very good trajectory, so I would recommend a combined strategy of increasing the public expenditures on education, childcare, early childhood education, especially given growing inequalities in society, which would help ensure -- it would reduce the cost of raising children, and you could also see it as a social investment to enhance economic growth and maybe boost productivity in the labor market over the long run, which would also enhance the sustainability of Japan's welfare state.

But on the other hand, I would even more so recommend the government retain its laser-like focus on revising the gender division of labor in society, which is still very deeply rooted and based on a male breadwinner or female caregiver model where women have not been able to fully use their contributions in the workplace because they've been so constrained into exclusively choosing between family or career. And this has been considered one of the most effective ways in various studies to boost birth rates, to make it easier for families, particularly women, to balance work and family commitments. And this has been a particularly difficult problem in Japan because many women in Japan will leave the labor force before they even have their first child. Still today, even with the very generous childcare leave benefits, something like 60 percent of women will quit work before the birth of their first child and don't even take their childcare leave. And it's almost impossible for them to get back to a work position at the same level because companies in Japan have such a high focus on using new college graduates or new high school graduates.

So there are a couple of problems going forward. One is, of course, funding sources. The Cabinet Birth Rate Task Force recommends raising spending on families to 2 percent of GDP from the current level, which would be a shift -- and making a shift in spending from elderly to children, and Japan's Big Business Federation also

recommends shifting spending priorities from elderly to children and families. But as discussed earlier, there are still major problems with public financing and public debt that might make it hard to actually enact these changes.

And one of the other major problems is that even though -- this is maybe even one of the most important issues -- even though Japan has reasonably family-friendly welfare policies, and they're getting better all the time, corporate practices are not family friendly at all because they still operate so much on the model of the male corporate warrior as an ideal where people work such long hours, something like 10 percent of employees work 60 or more hours a week. Men in Japan spend less time on childcare and housework, maybe 60 minutes a day, which is one of the lowest in the OECD averages. And so that makes it hard for women to increase contributions in the workforce as well. And the labor market continues to be very rigid with its preferences for hiring new graduates.

So on some level, Japan's family-friendly policy innovations to really reach and touch people's lives in a more meaningful way, they need to be accompanied by more far-reaching changes in Japanese corporate culture and labor market reforms to make it easier for women and youth to make their contributions.

So I will wrap it up right there. Thank you.

(Applause.)

MR. BURTLESS: Okay. While my colleagues are being mic'd up, I would like to make an observation. There have been two parts of the discussion this morning, and if you listened to the first set of presentations -- not the discussion but the first presentation -- you might have thought that the selfish motor pool is what determines policy, but as Professors Campbell and Schoppa have mentioned, Japanese social welfare policy toward the elderly has, in fact, become more stringent as the share of the voting population that's aged has increased. And Professor Coleman has just shown that policy toward young children, families with young children, has become more friendly as the share of working-age people and youngsters in the population have shrunk.

So from what I understand of pension policy in Japan, everything -- these summaries are emphatically true. Contrary to the naïve selfish median voter political economy model as every voter casts their ballots depending on their own narrow self-interest in the right-of-way, and that a view popularly held in the press. If you read the daily newspapers, Japan's policymaking has not coddled its aging voters since aging voters have become increasing large, influential part of the Japanese electorate. What has changed, I think, is Japan's economic prospects. They deteriorated very markedly over the 1990s compared with the previous three decades before.

And so the political economy I would like to ask the panelists to address is this one -- why is Japan's policymaking almost the opposite with respect to old age welfare policy in particular as is predicted by the selfish median voter model of how the electorate decides what kind of policies it's going to favor in the representatives it elects. And I welcome all of your views on this subject.

MR. YASHIRO: Well, let me point it out. I didn't have time to comment on Professor Campbell's point that Japan's pension benefit is not very good. Professor Campbell compared the OECD, the part-year benefit but it's not the whole story because Japan has the highest life expectancy and our (inaudible) age will be raised to 65 by the year 2025 when Americans and Germans and British, their life expectancies are much lower than Japan, already decided to raise to 67 or 68. And Australia has already decided to raise to 70. So which means that Japanese elderly people -- this is just for the story of May -- enjoys a pension benefit for on average, 15 years compared to 10 years of other countries.

I don't want to think about the women. Their pension benefit is seven years longer than that of men, and so we shouldn't simply compare the part-year benefit. We should compare the total amount of pension benefit. In that sense, Japan should be the most general one because the social system hasn't caught up with the increasing life expectancy. And compared -- coming back to your point, why Japan's long economic stagnation? It's partly because not necessarily the government of Japan made some

mistakes. The government of Japan basically did nothing under the situation of rapidly changing globalization of the economy or aging of the population. So that's because the social security imbalance is growing. That's part one of my response to your question.

MR. BURTLESS: I'm sure Professor Campbell has a different view based on what I heard him say earlier.

MR. CAMPBELL: Well, it's a fair point. It is interesting, and I could have mentioned it, that on the one hand the very generous pension programs of old had a very earlier pensionable age, 60, than most other countries when they had very few old people. As they had more old people, that pensionable age has been raised gradually and will continue to be raised up to 65 and it's going to go higher than that later, as I agree with that. I think they should. I mean, it's another example of how you have more old people and the policy gets tougher on them as Gary said.

Economists tend to worry a lot about intergenerational equity. I've never met anyone who wasn't an economist who cared about it at all but it's a big issue among liberal economists. People in their daily life don't think about the total amount of pension benefit they're going to get so much. They typically talk about how much they're going to have to live on in a year. And if the amount they have to live on in a given year is that much lower than what people in much poorer countries live on, Japan is going to think their pension system (inaudible). The logical response to people having life expectancy is not to cut the pension benefits to even lower than Mexico; it's possibly to raise the pensionable age and to change the structure of benefits to work to encourage older people to work more. Japanese older people already work more than any other population in the world, but many of them desire to work more, and they would if they were encouraged in various ways.

I guess I could go on and on, unless there is something specific.

MR. BURTLESS: Professor Coleman?

MS. COLEMAN: In response to the question of why you do have higher or growing expenditures on children and families in contradiction to a selfish median voter

model, a large part is because as has been mentioned, much of the policymaking process has been driven by bureaucrats in the Ministry of Health, Labor, and Welfare and others, and there's also a national institute that studies demography as well, but that works hand-in-hand with them to look at future trends in society and try to plan ahead. And so they will also do extensive public opinion surveys of what voters want to try to understand, and they also look at foreign models as well to understand where their country might be going on a developmental trajectory 10, 20, 30 years from now and how they can anticipate trends and needs in the future that even if they're not being reflected by voters at the present.

MR. BURTLESS: Well, I think that the view that decision-makers in western and democratic-rich countries are (inaudible) by aged voters is contradicted by the evidence. People who have the impression that rich countries have not made any accommodation to the aging population are completely unfamiliar with the actual decisions that these democratic governments have made over the last 20 years. The OECD has documented a considerable decrease in the generosity of future benefits that are going to be provided to retired people and the United States has raised the age for full benefit entitlement to age 67. That has been entrenched since 1983.

So the democratic government, each, I think, with a different kind of root to decision make, has, in fact, addressed this policy. But the thing that's remarkable about Japan is every five years there seems to be an actuarial review of the pension system in particular, which pushes the diet toward making some further changes to try to make the future system more solvent, and there's no demonstrations in the street, in Japan about these issues, as there have been in Europe. And I'm just amazed that the bureaucracy has such a great amount of power so that this kind of accommodation to an aging population can be made.

MR. YASHIRO: Well, that's optimistic. I showed the example of pension benefit, politicians intervened and they didn't let the pension benefit according to the deflation work. The same can be said with economic growth slide as Professor Schoppa

said. It was established but it never materialized. Do you know why? Because that fancy mechanism could only be effective with inflation around 2 percent, which wasn't possible. And why 2 percent is necessary? Because according to the politicians and bureaucrats, elderly people do (inaudible) if their actual pension benefit is declined. But suppose the pension benefit is increased with inflation -- for example, 2 percent -- and then because of the economic growth slide, that was reduced by 0.9 percent -- they don't notice because they are so stupid. I mean, that's nonsense. Elderly people, I mean, they are smart enough and they never (inaudible) such decline of pension benefit if it actually materialized. I think the same thing happened (inaudible) intervention by politicians on the -- how do you call it -- the deflation slide. So I'm not very optimistic for that.

MR. BURTLESS: I'm guessing you weren't in the United States when John Gruber got in very big trouble for calling the voters stupid.

MR. CAMPBELL: No, he said they weren't stupid. He didn't say they were.

As a political scientist, I would like to say I have never seen the selfish voter model, that general approach to understanding policy ever explain anything interesting, so it isn't surprising to me that it doesn't work here.

Sorry, I'm an aging political scientist myself and I forgot the other point. So I'll wait for another round.

MR. BURTLESS: Okay. We have questions.

MR. YASHIRO: Excuse me. Just one point.

I didn't say the selfish voter model works. Because it's misguided by the government, so the Japanese elderly people are not selfish voters if they are well informed. So in a sense it's a yes and no problem.

MR. CAMPBELL: I'm sorry; I did want to say one other thing.

I had a slide that said -- I mentioned postponing of raising copays in healthcare. The postponing of the -- I mentioned in passing the postponing of the deflation cut in people's pension benefits is certainly true. I called it trivial. It is trivial. In

the big picture, these are differences of like 1 or 2 percent here and there. They don't have -- and you know, that's the kind of political influence that they have, is over these marginal, small changes that would hit people in the pocketbook right away. You're quite right that they're aware of it and they protest. For somewhat similar reasons, there was reluctance to raise -- they fiddled around with the premium that older people pay for long-term care insurance to keep it below 5,000 yen three years ago which required some effort, but they thought that that would be a psychological barrier. It's going to go up to about 6,500 yen. Now they seem to have gotten over that barrier. It leads to little delays, little changes, but doesn't change anything fundamentally, kind of because it's bureaucratically -- I don't know. I don't think -- I have a different view of the way decision-making works. I wrote a book about it called *How Policies Change*. I'm not going to stand up here and describe the way I think it works to you unless somebody really presses me to do so.

MR. BURTLESS: Where's the mic? Here.

We'll take two questions at a time. That was a sensible plan.

SPEAKER: Thanks. My name is (inaudible). I just wonder if you can address the issues a little bit away from the dollar value. You know, GDP is still a good measure of living and you know in America, democracy is not really democracy. Voters, they don't even care how to vote or who to vote. They don't even have information about who are the candidates and what the issues are and what really affects them. And if it affects them, it doesn't affect the politician at all. So if you can address the issues from family structures and from social voters, you know, whether the social benefit in terms of dollar value. Even the dollar value, would they really receive them or they were diverted to benefit some corruptive system?

MR. BURTLESS: I think there was a question right back here.

SPEAKER: This is really for Professor Campbell. You've implied that the healthcare costs have been able to be controlled. Is the system in effect now the same as what was in effect years ago, which essentially was the JMA and the hospitals

and somebody else had a session every two years with Cosatio (phonetic), and then Cosatio adjusted the points and the amount per point and kept it within a budget? Is that still what's in effect now?

MR. CAMPBELL: Yes.

MR. BURTLESS: It sounds very "inside baseball."

Do we want to answer these two questions? Anyone?

MR. CAMPBELL: I'll try the second one.

Basically, yes. It's not the way I would describe the process but it's not an incorrect way to say it. It is based on a negotiation every two years among all the interested parties, including the Liberal Democratic Party and the JMA and the hospitals and the Ministry of Health and Welfare, and the Ministry of Finance. The key to it is that every two years all the healthcare prices in Japan are reviewed. The book of healthcare prices is about this thick. It's a substantial document that lists every procedure, the conditions for providing the service that doctors or hospitals have to obey to do it and all drugs, all medical devices, everything in Japan is controlled with fixed prices. This, of course, to some economists, seems like the USSR system or something like that, but in fact, one way or another, medical care prices are fixed by the government in consultation with providers everywhere in the world except the United States and Switzerland. But the way the Japanese do it is particularly effective because they do go item by item and price by price, and depending on changing economic conditions and depending on the intentions -- the policy intentions of the government or the LDP, they adjust the relative prices to try and affect consumption. And it's a system that works very well. The book I wrote with Ikegami called *The Art of Balance in Health Policy*, which is now about 15 years old, but it still works and describes that in some detail.

MR. YASHIRO: Well, I have a different opinion. I think that kind of procedure is a trivial one. The major reason why Japanese healthcare cost is contained compared with the European or American is because basically, Japanese people (inaudible) you see, compared with non-Japanese people. That can be deflected by the

OECD data or the ratio of overweighed people to total population. Japan's ratio is one-tenth of the United States and maybe 60 percent of the British are like that. So basically, Japan can contain more health costs if the Japanese health care system is more efficient and in competition between the hospitals like that. And also, Japanese people suffered by this socialist system because if Americans enjoy more newly invented drugs, Japanese patients cannot. Most of the Japanese patients cannot because government simply prohibits mixing the drugs offered by the Japanese public insurance and drugs which are not accepted by the public insurance. In that case, if the cancer patient wants to have a new drug which is available in the United States, he has to pay all the cost of the healthcare already covered by the public insurance. That's why, yes, maybe Japanese healthcare costs could be contained but at the same time Japanese pensions sacrifice. In a sense, the top level of medicine or surgery methods cannot be introduced quickly in the case of Japanese society.

MR. CAMPBELL: Can I talk to that or not?

MR. BURTLESS: I think we might want some more questions. And I see that you had one. Or maybe a counter to it.

SPEAKER: It's kind of combined. Maybe Mr. Yashiro would want to explain a little bit more the structure that forces the Japanese politicians to deal every five years with the pension issue. You know, it's been implied, I think maybe in part by me, that this shows bureaucratic dominance, but the basic structure was passed in a previous law, that requires the government to issue these demographic projections and has the effect of framing the issue so that it's not so much should we do -- can we ignore this problem? Should we do something to cut benefits or raise revenues? It's a question of what should we do? What combination of raising revenues and reducing benefits do we need to do to adjust to what we've learned about the demography from the latest population projections?

So it's kind of interesting. You know, compared to how we deal with it in the United States, it's a quite different structure. It's not in the constitution or anything like

that, but it's a basic structure of welfare pension policymaking that exists in Japan and frames things and causes politics to work very differently than what we have in the U.S.

MR. BURTLESS: Well, let me see if I also understand. Your argument, as well as Professor Campbell's, was that, in fact, the actual policy changes that were instigated by this five-year rule, actuarial review, included benefit cuts as well as revenue increases to keep the system solvent. And if I understand Professor Campbell, his argument is, in fact, except for trivial delays that don't amount to much meaningful, they have, in fact, implemented the reforms as intended.

MR. CAMPBELL: Yes; true.

SPEAKER: They're held honest every five years, so you can do some postponing.

MR. BURTLESS: They're held honest but obviously, (inaudible) can overlook that.

MR. CAMPBELL: They can, but it's hard. It's very true, and it's true in long-term care as well. This is sort of a much more public policy perspective rather than this big broad political perspective. But in fact, bureaucratic routines, which force a review -- it used to be called Sunshine Laws or something like that -- actually, can be very salutary, and in those two programs they've worked very well. And, in fact, in the healthcare system it's a review every two years that forces you to look at all the financing and all of the prices and adjust them. And I think that's what contains prices. I think one of the reasons the Japanese population is healthy.

Bill Shou , who is probably the best comparative health economist in the world in my opinion at Harvard, wrote a note that's in the introduction of our book where he tried to do a Bennett cost analysis of why Japanese healthcare costs are so much lower than the U.S. -- this is 15 years ago now. I don't actually remember his numbers, I'm sorry to say, but he thought that the healthier population in the U.S. accounted for about 15 percent of it. And the bias --

MR. BURTLESS: In Japan?

MR. CAMPBELL: About 15 percent of why Japanese is cheaper than the U.S. And the value preference for internal medicine practices rather than surgery and so forth -- and you could call it sort of cultural -- maybe it's cultural. It also has to do with the fact that surgery is unprofitable in Japan and internal medicine is profitable, so it has to do with the fee schedule as well. That was another like 40 percent or something of it. And then the every two years review of the price mechanism or something was another 40 percent, or something or other in that ballpark. Health is a factor. One reason the Japanese are healthier is they eat better. They do that. They also visit the doctor on the average of 12 times a year. It's three times a year in the United States. I think that helps them keep healthy, too.

MR. YASHIRO: But you were saying about the public pension every five years and he's discussing the healthcare. So it's a big difference.

MR. BURTLESS: All right. So pensions, too.

MR. CAMPBELL: It's not that different.

MR. YASHIRO: No, it is different in the case of pension.

Can I discuss on the pension five years?

MR. BURTLESS: Sure. That's his question.

MR. YASHIRO: Well, that's a very good point, but again, face value and actual value is different. Bureaucrats review the public pension benefits every five years, but it's just formalities. Actually, this year are the years of reviewing the long-time public pension but government simply set the economic variables, like interest rate or wages, in their own discretionary way so that the Japanese public pension will continue up to the year 2060 or something. So if it's done by a private insurance company, government should do -- how do you call it -- arrest them. You see, because they are public sectors, they can do that.

And in the case of the United States, I heard that there is some independent government organization who monitored your social security solvency. There is no such organization that exists in Japan. That's the Ministry of Welfare. They

made a long-term plan and they say that they are checking by themselves. Well, I don't believe their way of -- how do you say -- checking the solvencies.

MR. BURTLESS: Well, the United States actually does have a way that has limited the growth in society security benefits. Social security is still the biggest program in the United States. And that is primarily driven by the House Ways and Means Committee but to a lesser extent the Senate Finance Committee. When they make changes in the law, they have to be satisfied that the revenue is going to be available over the future planning horizon, which in the United States is 75 years, to cover the cost. So if they make a change that makes benefits more liberal, they have to come up with a way that either is going to make other benefits less liberal or revenues that will cover the additional costs, and that is driven by the fact that every dollar of social security benefits paid must come out of the trust fund. And when the trust fund is zero or less, Secretary of Treasury cannot send out social security benefits. So that is an action forcing part of the structure of the U.S. national pension system. We just have a very large reserve at the moment, so this isn't very binding, but if Congress wanted to make something more generous, they would have to figure out how to make some other part of the system less generous or they would have to identify the additional sources of financing that are going to cover that cost. And undoubtedly, relative to countries, including Japan where there is a general revenue contribution to the pension system, this does constrain the generosity of pensions in the United States because they have to identify the source of funding from within the system.

Okay. There are other questions, and I see one back there. And I see another one here. So we'll collect two.

MR. SEAMAN: Scott Seaman with Eurasia Group.

This is kind of a combination question, I guess. We talked about the -- or you talked about the behavior of elderly voters and their preferences for policies and spending. But if we assume that Japanese females will become more politically powerful and also commercially powerful as they move into leadership positions in business, et

cetera, how different do older women act from older men in Japan in terms of their voting preferences, their spending behavior? And over time, if women become more powerful, how will that affect the broader elderly population?

MR. BURTLESS: We have another question here.

SPEAKER: Thank you.

I want to direct this question to Liv Coleman. I want to hear your thoughts, comments. I see the sort of this apparent contradictory policies by the Japanese government to support family and children. I see it as also a part of the aging policy in that the way I see it is it's probably an attempt to put social investment in childcare in order to mobilize women's labor market participation and to incentivize women to have more children, so sort of pronatalist kind of impulse is in the long term a way to address some of the demographic aging problem. I wonder if you could sort of comment about these sort of different ways of thinking -- family and childcare policy support as a part of the aging policy strategy.

MR. BURTLESS: Start with you, Professor Coleman.

MS. COLEMAN: Okay. I don't know if I can speak to elderly men versus women, but actually, in terms of voting preferences, elderly voters have had a slight preference for things like support for family values compared to younger families, a younger generation, which are more in favor of expanding work-family reconciliation policies. So as the voting cohorts age, it's possible that they may retain some of those preferences.

On the issue of the way the issue is being framed as part of the aging of society, I think that's absolutely correct that it's a focus on women's employment, not necessarily for the sake of gender equality and using women's talents in the workforce; it's for a higher purpose of revitalizing the economy. So there's been less of an emphasis on bringing men -- increasing men's role in the home, but that's not to say it hasn't been there. It has been there. But it's a lesser emphasis. A different way of thinking about it would be a more wholesale revision or a greater emphasis on getting corporations to

change and provide new economic incentives to get men to reduce their working hours to take the paid vacation that they have or to provide more services on a sense that there's like a universal provision that even regardless of income tests or something else, that child rearing is a responsibility of all society and a more wholesale commitment in that way.

MR. CAMPBELL: On the first question, I don't know of any -- actually, Michio would know better but he doesn't he says -- I don't know of any big studies to show -- I don't think there are major differences in voting behavior. I don't think there are major differences in voting behavior between old and young other than the turnout figures. I certainly don't think there's that much gender difference. Actually, Sherry Martin was here earlier who wrote her dissertation and a book about that subject. And on those grounds she didn't think in voting per se there were big differences.

There are, I think, changes in the old age population but the one I would focus on that I think is quite important is, you know, social change has been so rapid in Japan. Economic growth was so fast. We forget it now. We all talk about stagnation, but you know, the people who are turning -- geez, I have to add and subject quickly -- but the people who are turning 75 now, the people who are retiring now, are people who basically grew up in the post-war years -- the post-war years when really Japan was quite poor. You know, the per capital income was the same as Brazil. Their experiences in childhood were very different and their educational opportunities and so forth. That's changing very rapidly as these new cohorts become older. And that's factor in all countries but it's just faster in Japan and there are more of them. I mean, my main interest here in the substance of public policies and how they work with older people, and I can't say that I have a quick answer as to what difference it's going to make, but the long-term care system in particular is moving toward a model of more community mobilization and more reliance on volunteers alongside the basic fundamental terrific social insurance individual entitlement basis of the fundamental program. And I think that's sort of the direction of change in Japanese social policy right now, and partly

because of the changes in the old age population itself I think it's promising.

MR. YASHIRO: I don't know about voting behaviors, the difference between the genders, but one important change currently taking place is more women started to work and stay in the labor market. And if that is -- I think there is a slight hope against silver democracy because silver democracy does not depend on the biological age. It depends on the ratio of the retired population to the total population. If older people, male or female, continue to work until 60 or 65, or even 70, they are against silver democracy. Because they are a part of the working generation, they don't like the higher tax, higher contributions. So I think most of the Japanese not working, they depend on the husbands, but actually, that situation is changing. And I think that causes the Japanese economy more vivid and more merits than demerits. And that's my observation.

MR. BURTLESS: Those will be the final words. Give this panel some applause.

(Applause.)

MR. BURTLESS: Thank you very much.

MS. SOLIS: Thank you very much. So we have come to the end of our time. I think we had a really robust debate, you know, because of the caliber of the presentations, but also the keen interest from the audience. So thank you so much to everybody today. Have a good day.

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