

How to overcome the Silver Democracy in Japan?

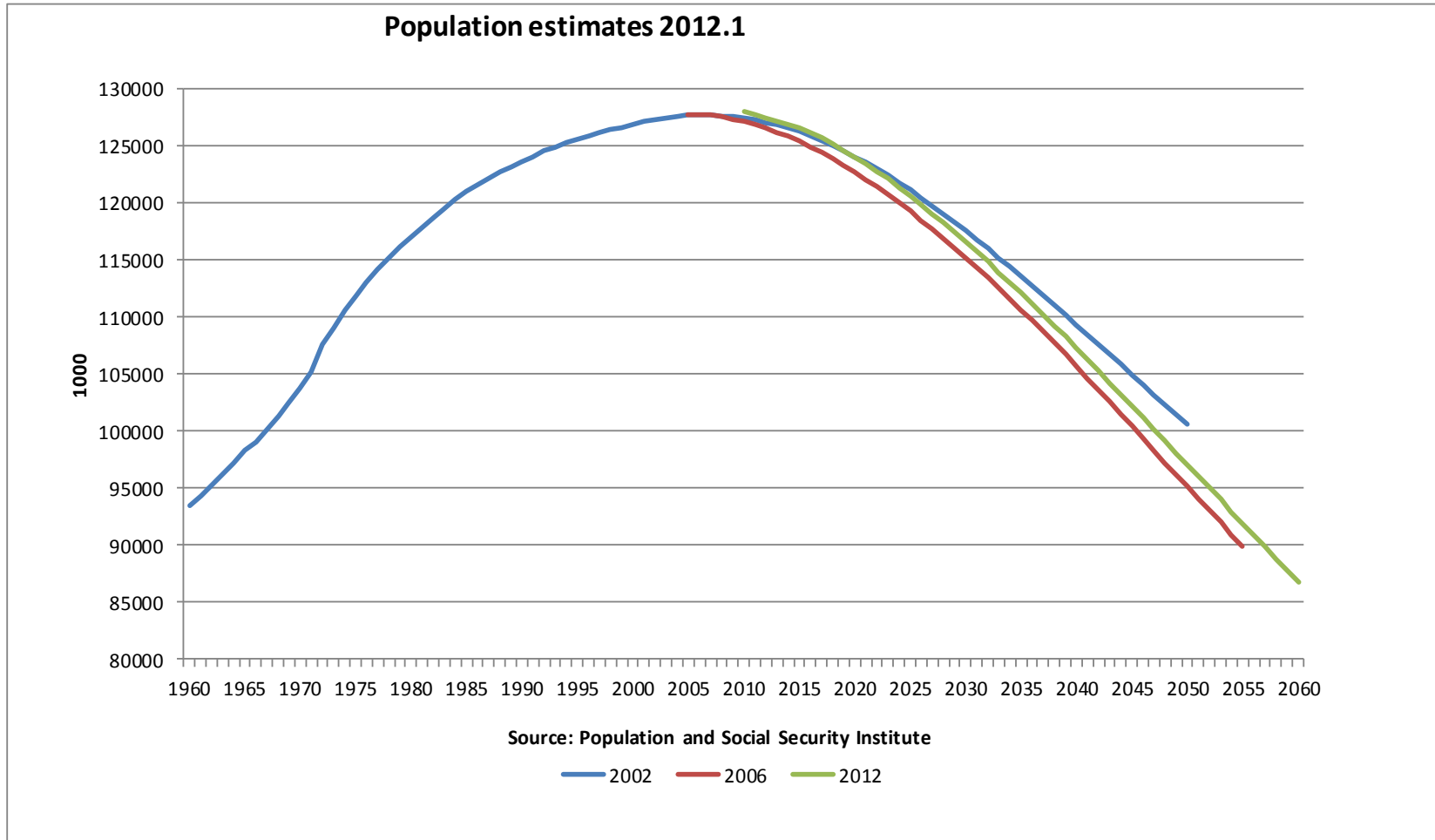
December 3rd, 2014

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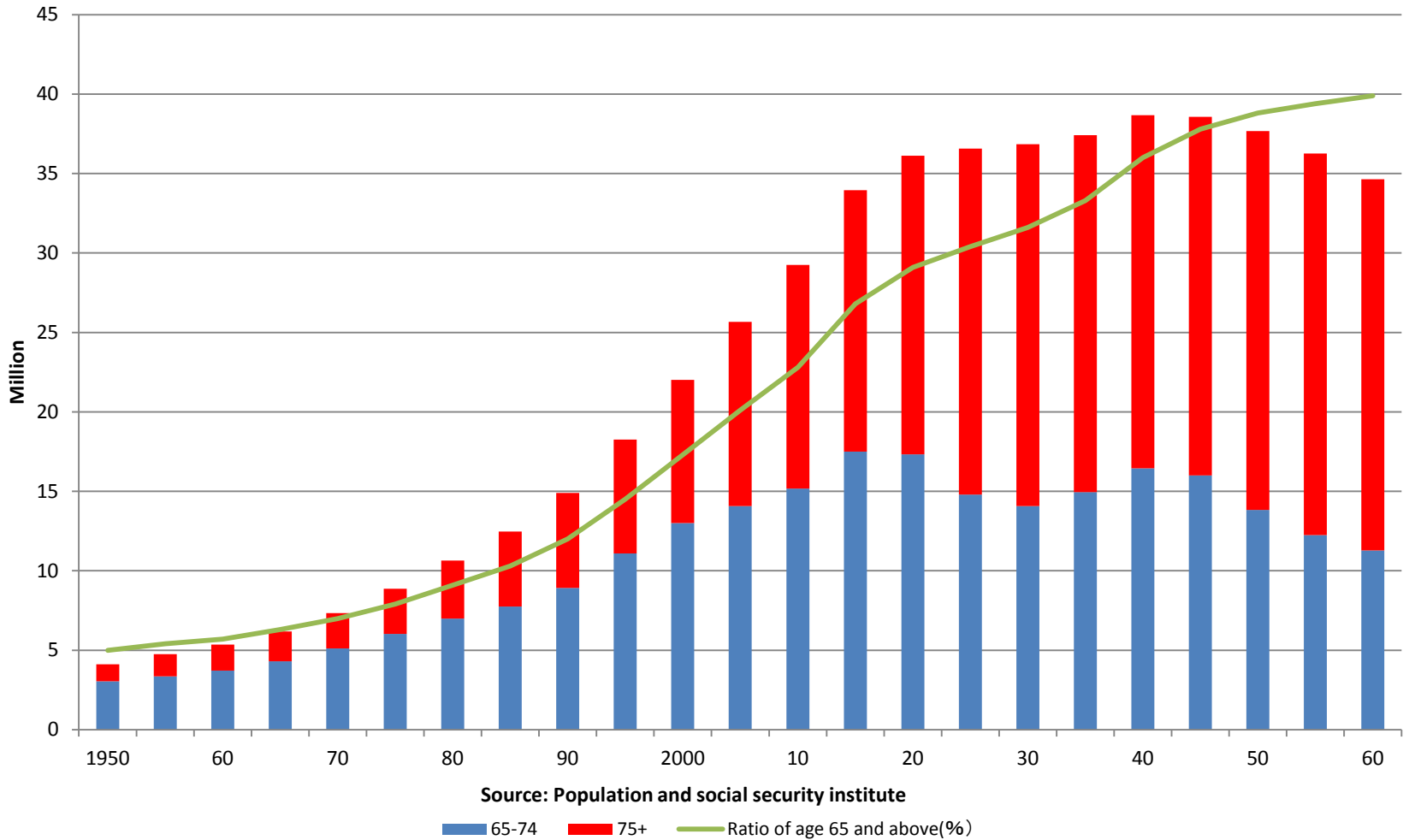
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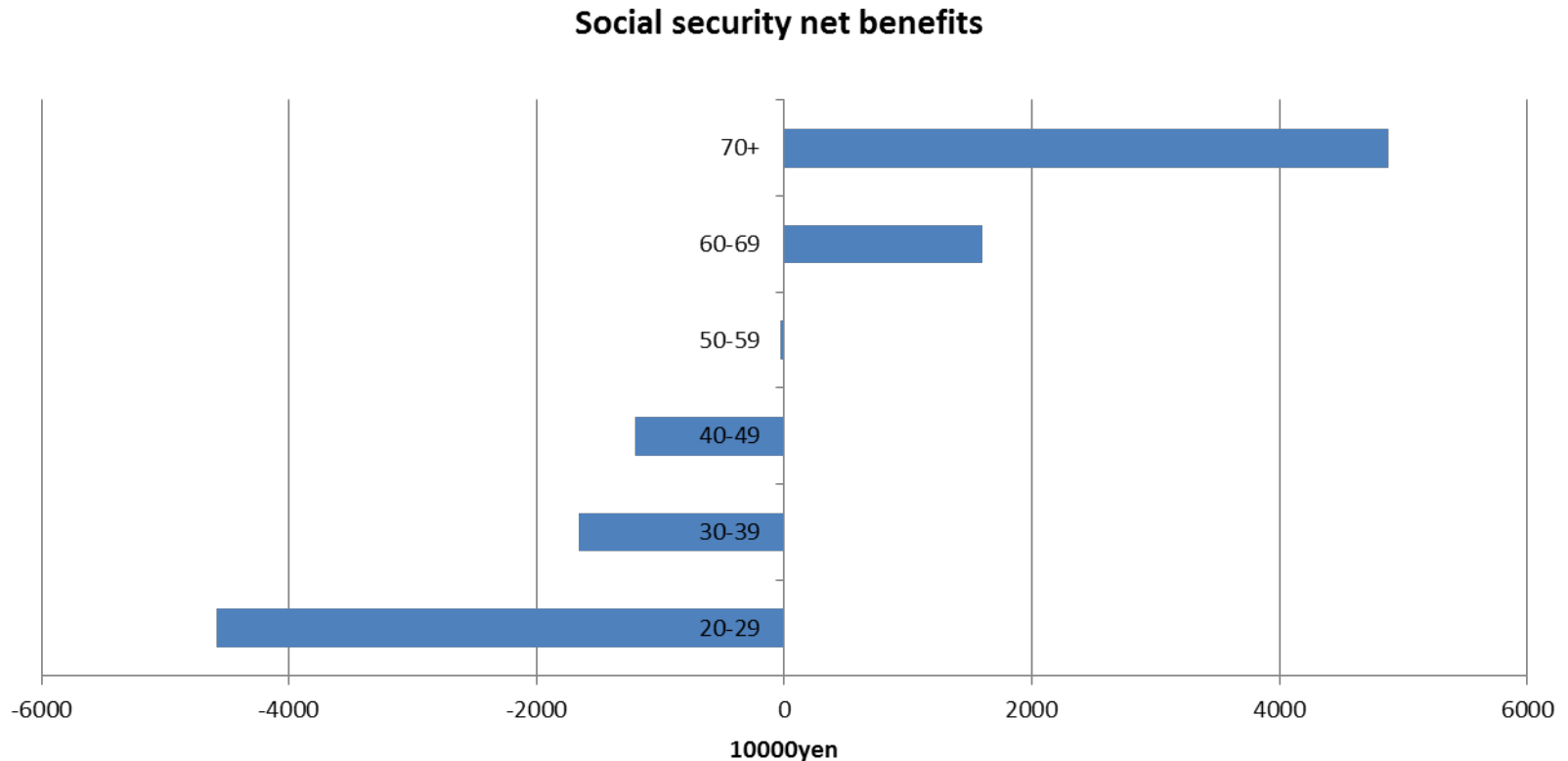
Japan's population will decline from 127 million in 2010 to 87 million in 2060



Rapid aging of the elderly

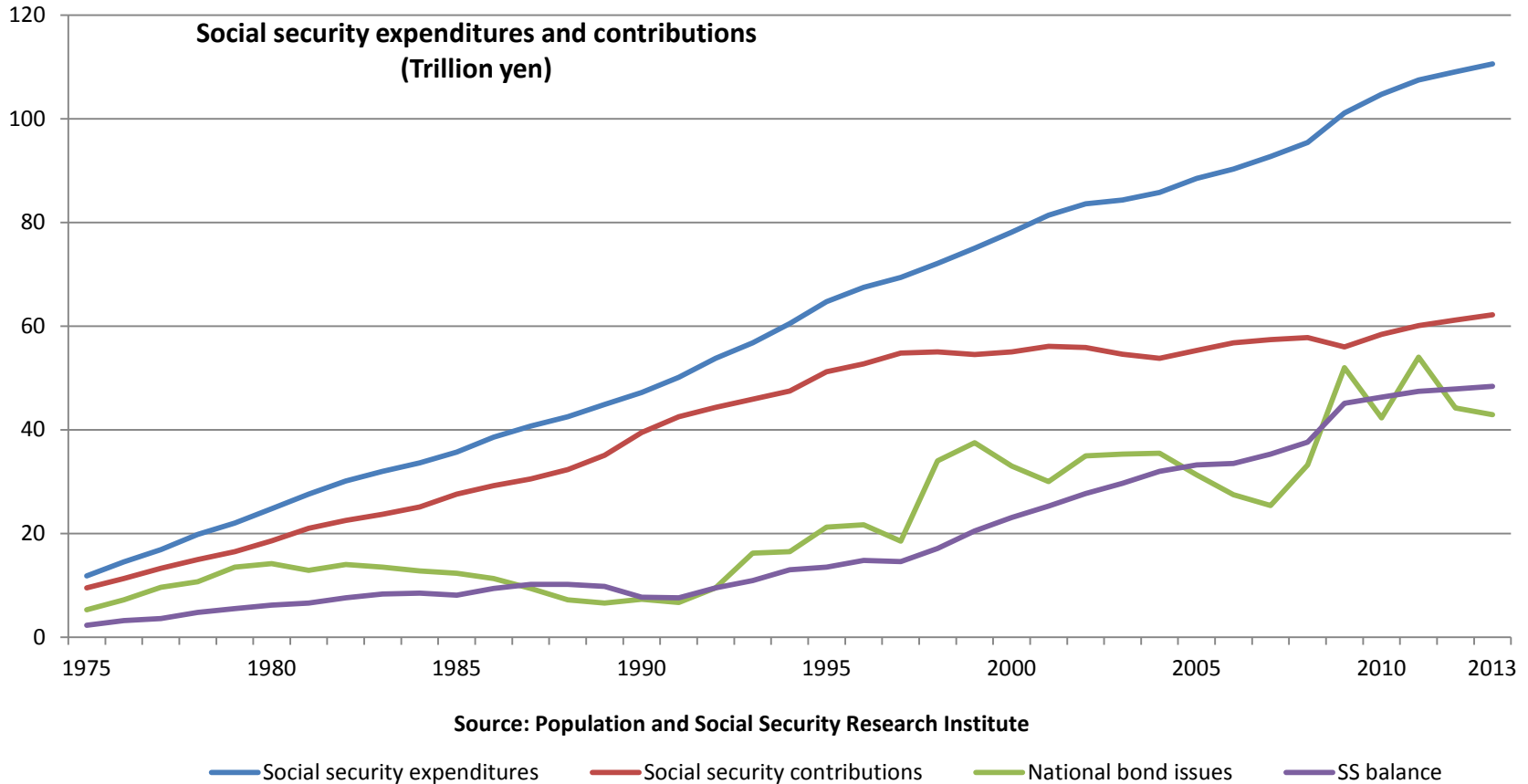


Significant inequality in net social security benefits between generations

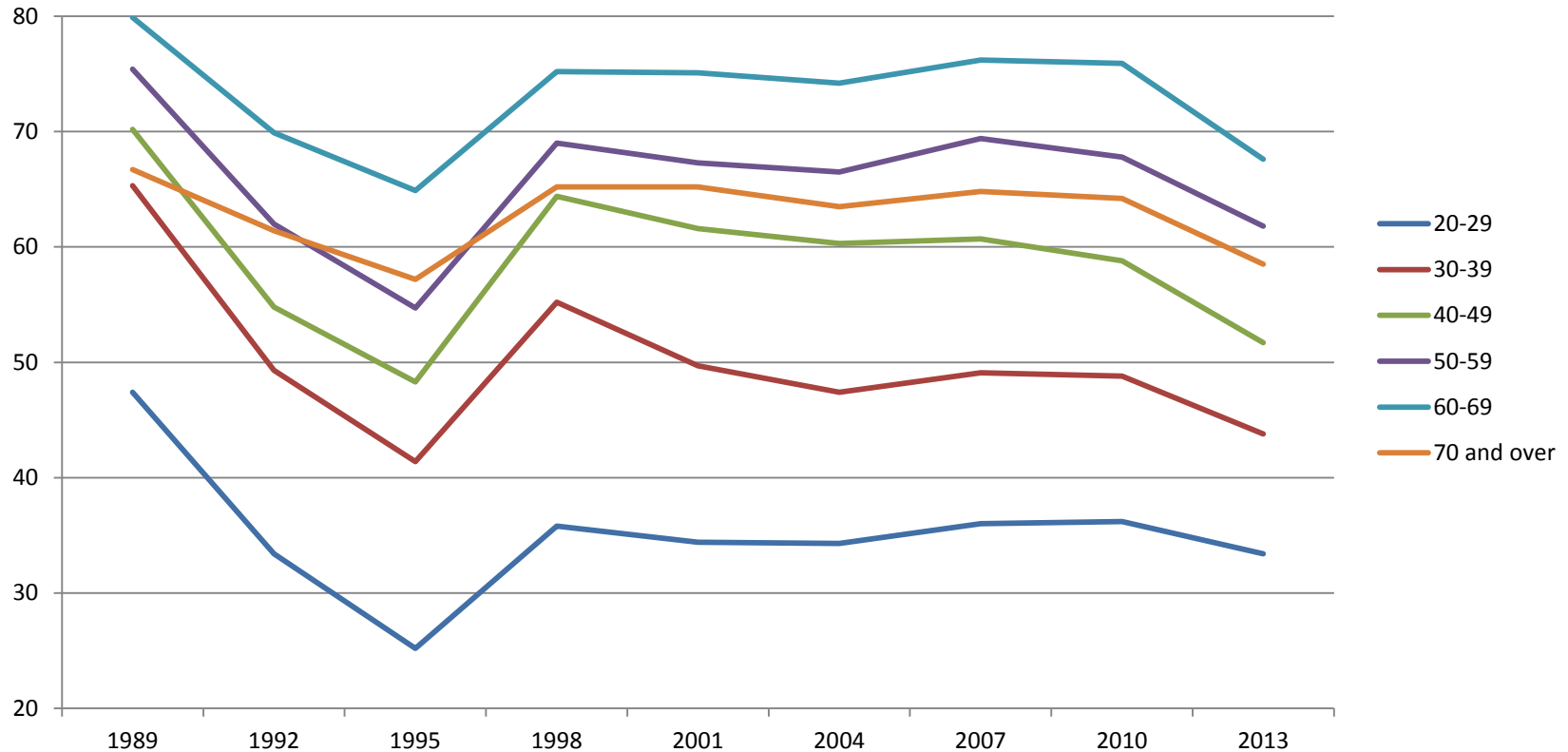


Source: White Paper on Economics and Fiscal Policy 2005

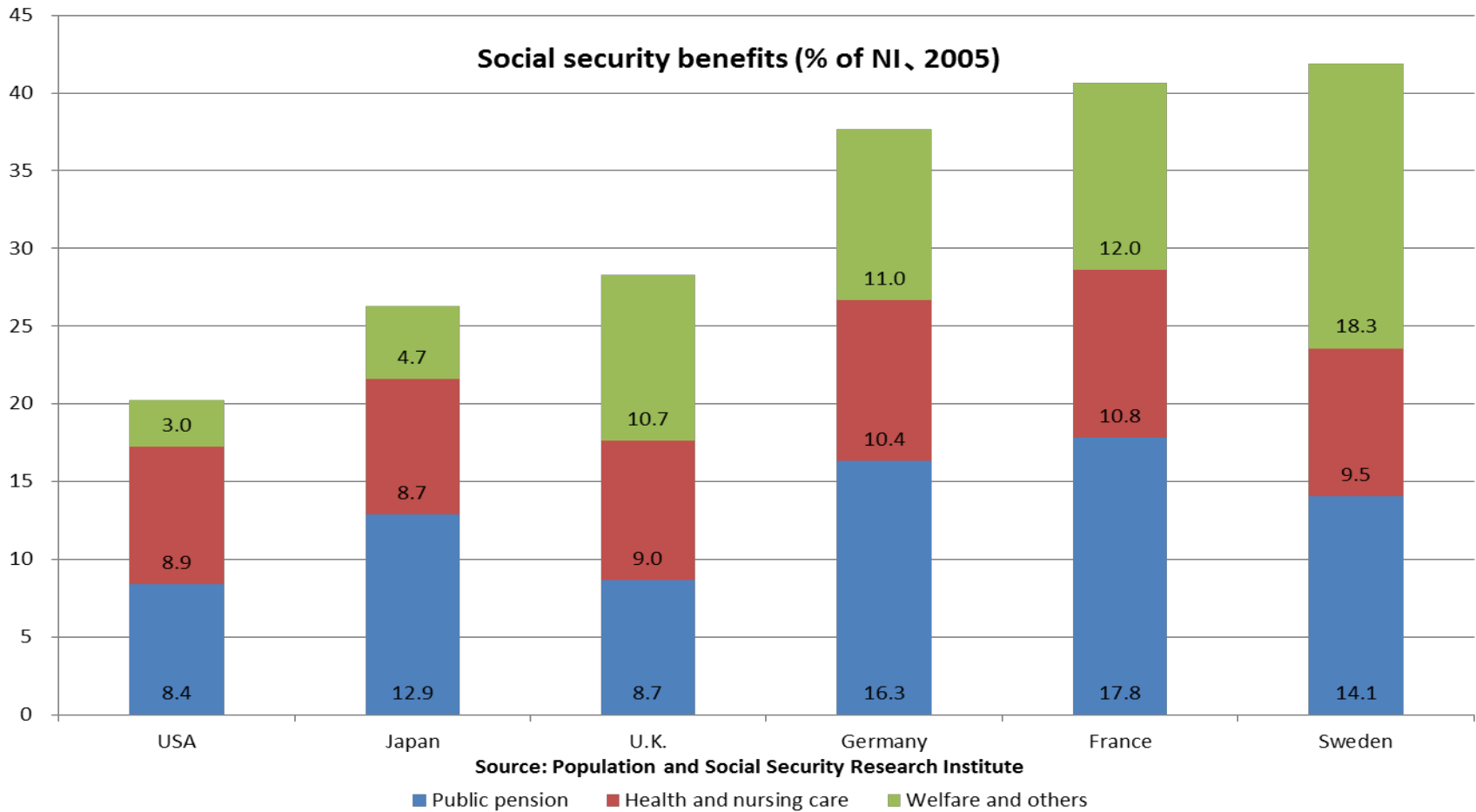
Japan's social security entirely depends on deficit financing



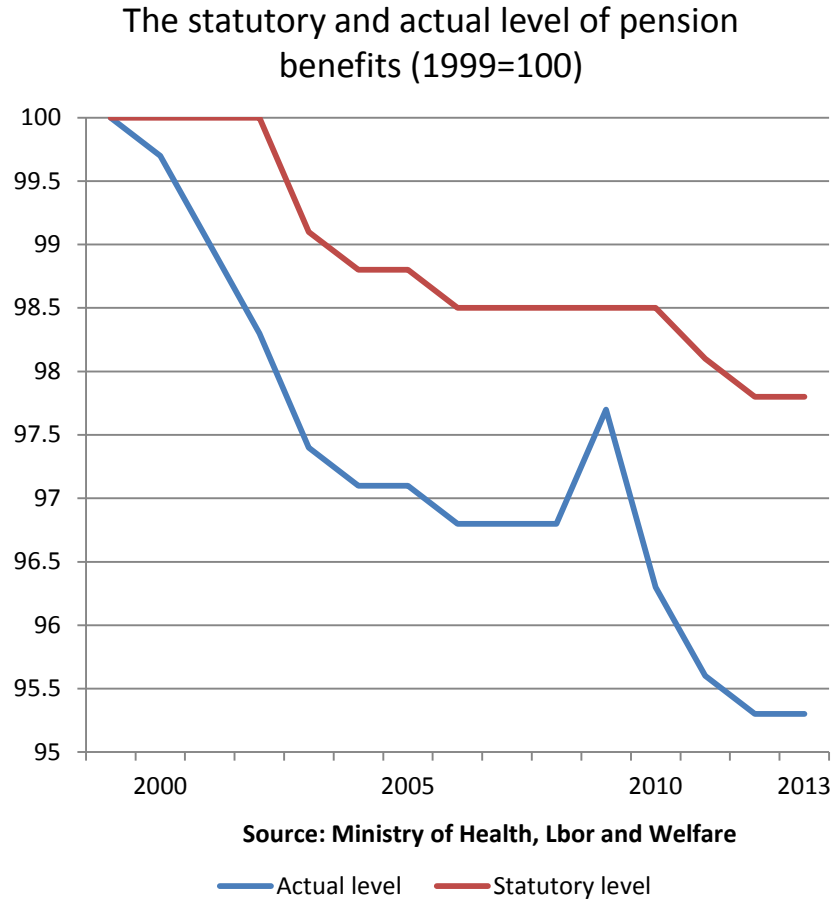
Silver democracy: voting ratios are constantly higher for older age groups



Pensions and medical care for the elderly account for a large share of social security



Political intervention prevented reducing pension benefits due to deflation



- The Pension Law requires automatic adjustments of the benefits according to price changes. But, politicians passed the special law to freeze it in case of deflation.

Proposals for revising the election scheme to reduce the elderly's voice

- Voting rights should be appropriated to parents by the number of their children.
- A Diet member should be proportioned in “young bracket (20-30 year)”
“middle-aged bracket (40-50 year)”, and
“elderly bracket (over 60s years)”.

Who is to bell the cat?

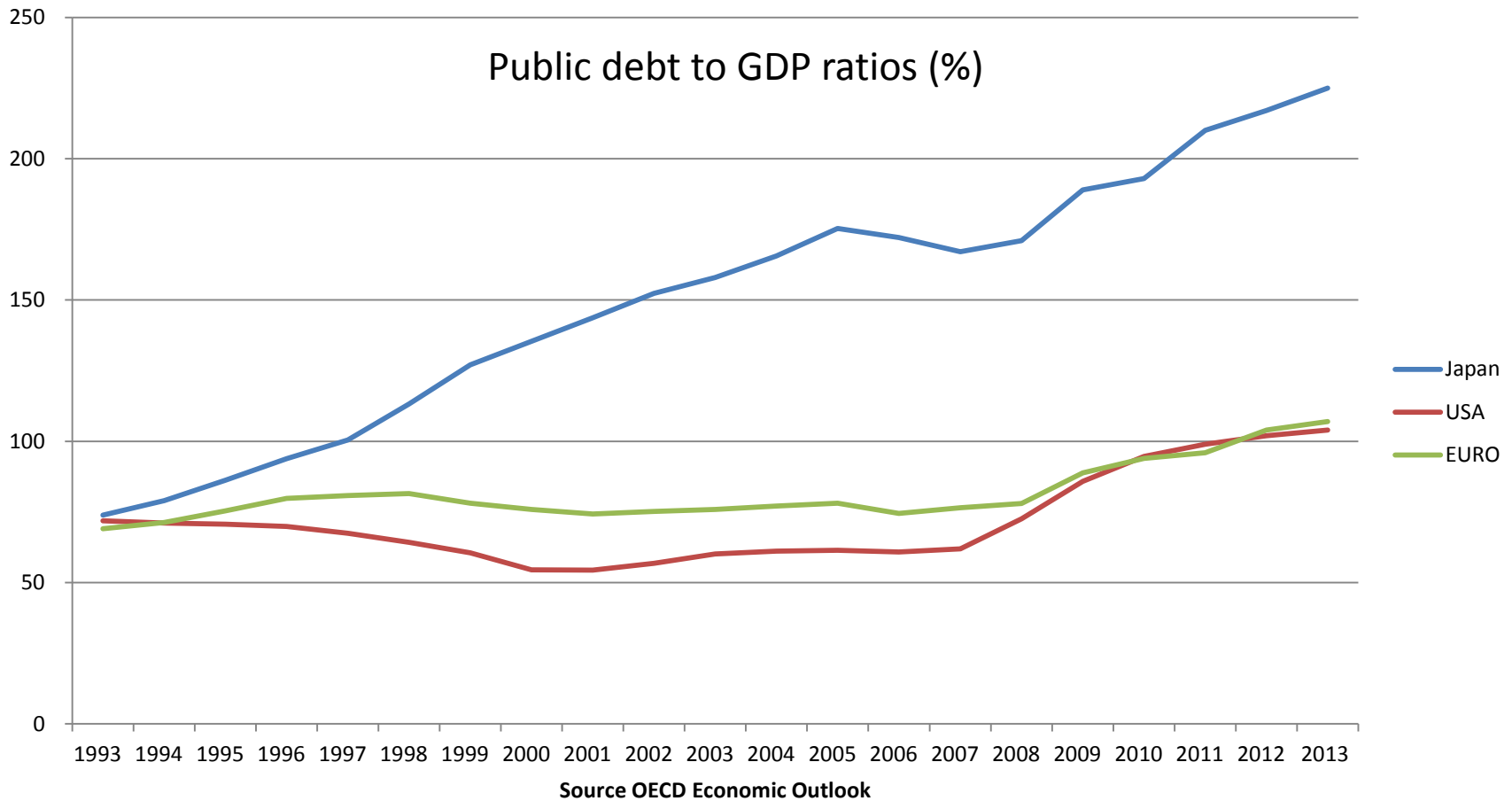


- Any trials to reduce the political power of the elderly are likely to be rejected under the silver democracy.

① Threatening the elderly

- The social security fund has been shrinking, and is likely to be exhausted by 2030.
- If the credibility of national bond declines, 40% of the benefits may well be cut.
- Current social security is “high risk, high return assets” for the elderly.
- By cutting the benefits by 20% now, it becomes “low risk, low return assets”.

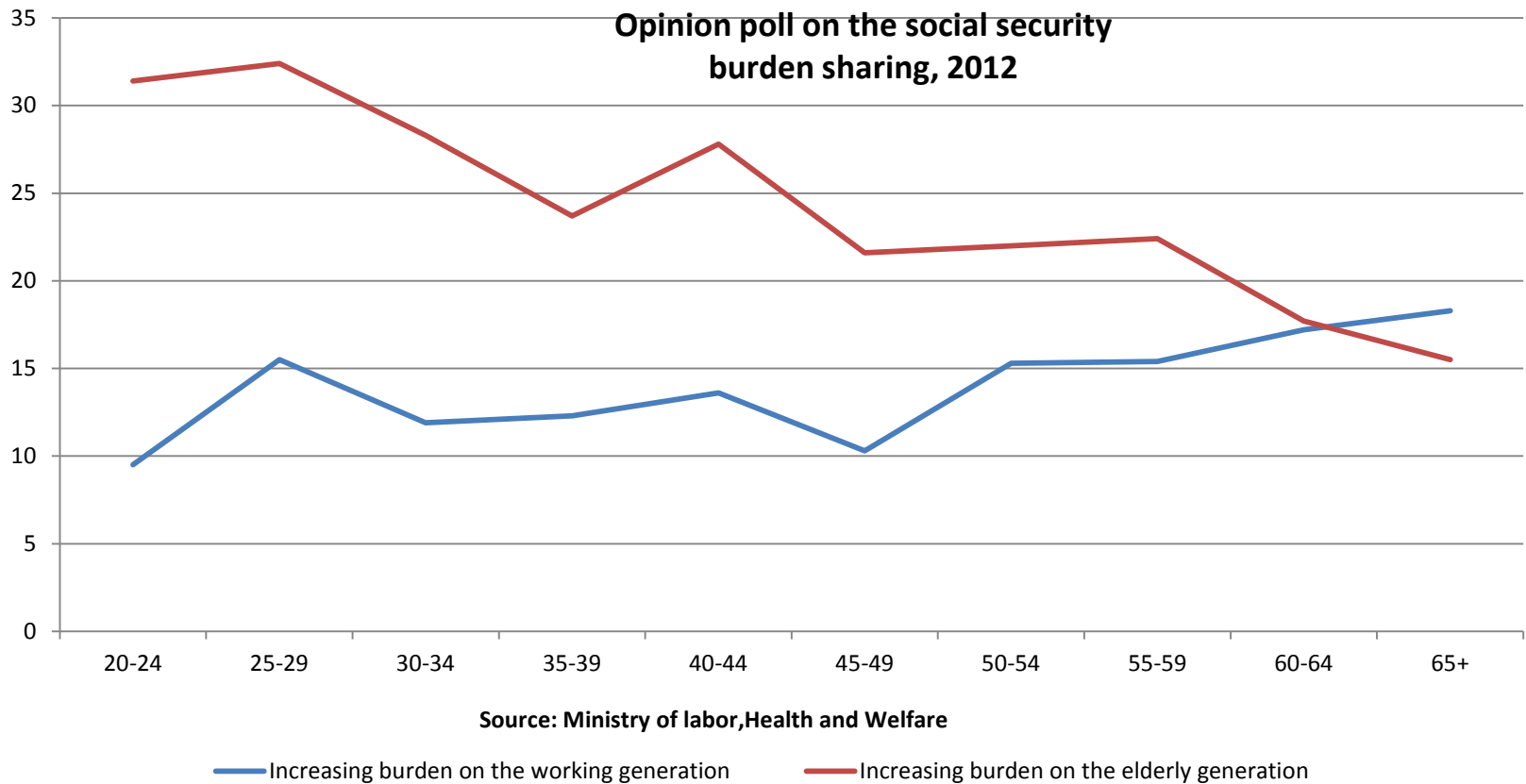
Credibility of government bonds will decline with accumulating debts



② Appealing to altruism of the elderly

- The Japanese elderly do care for their grand- children and spend on average \$2400 in a year for them.
- If the elderly were well informed the current situation on significant income transfers from the grand children's generation, they may well accept cuts in social security benefits.

Small differences in views on social security burden sharing by age groups



Economic revitalization policies to address the demographic challenge

- Higher labor force participation of women and 30% target for female managers;
- Lower corporate tax rate;
- Improving labor market mobility.

	Growth accounting of Japan (%)			
	GDP	Contribution of		
	growth rate	Labor	Capital	TFP
1980–1990	4.64	0.6	2.19	1.84
1991–2000	1.13	-0.48	1.2	0.4
2001–2010	0.76	-0.49	0.48	0.77
Source: Mizuho Research Institute				

Reviewing the role of the Government

- Basic social security and health care provision is the governments responsibility;
- They could be combined with value added private services in the markets;
- Regulatory reform of health and nursing care provision would create production and employment as well as tax revenues.

Summing up

- Aging of the population is gloomy for the public sector with growing expenditures;
- An increase in the elderly population implies growing markets for the private sector;
- Expanding “Silver Markets” through regulatory reform is the key to Japan’s economic revitalization.