How to overcome the Silver Democracy in Japan?

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

Source: Population and Social Security Institute
Rapid aging of the elderly

Source: Population and social security institute

- **65-74**
- **75+**
- Ratio of age 65 and above(%)
Significant inequality in net social security benefits between generations

Japan’s social security entirely depends on deficit financing

Social security expenditures and contributions
(Trillion yen)

Source: Population and Social Security Research Institute
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

Source: OECD Economic Outlook
② Appealing to altruism of the elderly

- The Japanese elderly do care for their grandchildren and spend on average $2400 in a year for them.
- If the elderly were well informed of 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

Opinion poll on the social security burden sharing, 2012

Source: Ministry of labor, Health and Welfare

- Increasing burden on the working generation
- Increasing burden on the elderly generation
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.

<table>
<thead>
<tr>
<th>Period</th>
<th>GDP growth rate</th>
<th>Labor</th>
<th>Capital</th>
<th>TFP</th>
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</thead>
<tbody>
<tr>
<td>1980-1990</td>
<td>4.64</td>
<td>0.6</td>
<td>2.19</td>
<td>1.84</td>
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<tr>
<td>1991-2000</td>
<td>1.13</td>
<td>-0.48</td>
<td>1.2</td>
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<td>2001-2010</td>
<td>0.76</td>
<td>-0.49</td>
<td>0.48</td>
<td>0.77</td>
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</tbody>
</table>

Source: Mizuho Research Institute
Reviewing the role of the Government

• Basic social security and health care provision is the government's 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.