

Baby Boomers Face Retirement

Minoru NAKAMURA

Nomura Research Institute

Baby Boomers Face Retirement

Minoru NAKAMURA

- I Baby Boomer Retirement Close at Hand
- II Post-Retirement Lives of Baby Boomers and Taxation and Social Security Systems
 - 1 Declining Population and Expanding Number of Households
 - 2 Increasing Taxation of Public Pension Benefits and Retirement Allowances
 - 3 Polarization in Medical Insurance
 - 4 Living Environment of Seniors
 - 5 Integration of Nursing Care and Terminal Care in the Community
 - 6 Increasingly Important Support Networks for Seniors
 - 7 Asset Management Service for Seniors
- III Increase in Hollowing-Out and the Future of the Working Generation
 - 1 Declining Work Environment
 - 2 Employment Environment in the United States after the 1980s
 - 3 Burdens in a Welfare State, Sweden
 - 4 Responding to Globalization
 - 5 Decline in Number of Marriages
 - 6 Weakened Families
 - 7 Are Young People Socially Weak?
 - 8 Reform of the Labor Market
- IV Need for Sharing Roles among Working and Retired Persons

The social security system in Japan is operated under the principle of intergenerational support. In order to maintain the system, a socio-economic environment that can smoothly sustain reproduction of the next generation without imposing an excessive burden on the working generation is required. To avoid imposing an excessively heavy burden on people of working age, structural reforms should be implemented under the basic principles that consist of reducing social security benefits and increasing system efficiency.

In comparison to past generations, changes have been occurring in the lifestyles of the younger generations now in their twenties and thirties. These changes are represented by increases in the number of individuals who do not take regular employment after university graduation and a higher ratio of unemployed young workers than before. In addition, they are indicated by an increasing number of young part-time workers, a trend towards later marriages and increases in the number of unmarried adults who live with their parents. Many persons take a critical view of these phenomena by referring to such young people as “parasite” singles. It seems to me that young people are reaching a “status of zero” as a result of the long recession in the 1990s. They are forced to depend on their parents’ income. Furthermore, increases in the number of juvenile delinquency and child abuse cases are also attributable to the prolonged economic slowdown, accelerated trends towards nuclear families and increases in the number of working housewives. These circumstances require the establishment of nonprofit organizations (NPOs), activation of volunteers who support family members who are less tightly constrained than in the old days. At the same time, the labor laws should be amended and university education and job training programs should be refined due to job creation for younger people. If employment of younger people—the coming generation—remains unstable and the number of low-wage workers continues to increase, this situation could be considered a national crisis.

Around the time when Japan’s population shifts into a decline, the post-war baby-boomers will reach retirement age. As baby boomers now have an average additional life expectancy of more than 20 years, they are strongly intent on continuing to be an active part of society; many call for the promotion of the employment of senior citizens. However, the working environment surrounding the younger generation who is counted upon to serve as the driving force of Japan’s future is still severe. Consequently, baby boomers are expected to be of assistance to aged people and working people who are experiencing problems through NPO volunteer activities, rather than continued employment.

I Baby Boomer Retirement Close at Hand

With the number of babies born in 2003 being 1.12 million, the declining birth rate continues. It is projected that the annual number of births after ten years will become fewer than 1 million. In contrast, the number of deaths in 2003 was 1.02 million. Under the growing trend toward aging, the annual number of deaths at the beginning of 2010 is estimated to be some 1.2 million. If this tendency continues, the number of deaths will exceed the number of births by around 2006, beginning an age of declining population.

From 2007 to 2010, about 10 million post-war baby boomers will reach retirement age (Table 1). Supposing that 5 million people, half of these baby boomers, receive a retirement allowance of ¥20 million per person. Financial institutions such as banks will find the new ¥100 trillion “retirement market.” Moreover, this will also have an impact on the rents of commercial property in the center of Tokyo.

During this period, the Beijing Olympics (2008) and World Expo 2010 Shanghai are scheduled to be held in China. Around the time when China continues to grow and becomes the country with the largest gross domestic product (GDP) in Asia, Japan needs to shift from the economic supremacy it has so far enjoyed to a policy in accordance with the changes taking place in its social environment—an environment characterized by a declining birth rate, an aging population and a hollowing-out of industry. One trigger for such a shift is the retirement of the baby boomers.

When the baby boomers retire from active service several years from now, their retirement will have a major impact on Japanese society. The following three points should be given careful consideration.

- When the baby-boomer generation reaches retirement, the remaining life expectancy of the husband is about 22 years. On average, the wife will live about ten more years after the death of her husband. How to live for approximately 30 years of post-retirement life is a matter of vital interest, and many books related to life at an old age are popular. While extending the retirement age is recommended because baby boomers have an extremely

high desire to continue to work, it is questionable whether it is appropriate to promote the employment of aged people and deprive younger workers of jobs. An appropriate method of social contribution by seniors will become a major issue in the future.

- While most baby boomers are aware of the unstable status of the social security system accompanying the growing trends toward a declining birth rate and an aging population, their most pressing concern is providing nursing care for their parents. There are also many baby boomers who are concerned over the future of their children. According to a survey conducted by the National Institute of Population and Social Security Research in 2002, 70 percent of unmarried males and 80 percent of unmarried females aged 25 to 29 live with their parents. Baby boomers, who are nearing their sixties, are faced with the problems of attending to their aged parents on one side while taking care of their parasite singles on the other.
- Compared to the generations up to those of their parents, baby boomers have fewer relatives and weaker community relationships. Most baby boomers are also not considering the idea of living with their children during retirement. Many seem to expect to live simply after retirement, as a couple. While the saying of “be guided by your children when you are old” prevailed in the past, current circumstances naturally force baby boomers to “determine everything by themselves even when they become old.”

Although writing a will was not common in the past, the number of people who now write wills is increasing considerably as a result of an accelerated trend toward a nuclear family. The number of probated wills increased from 2,000 in 1975 to 11,000 in 2002. If wills prepared as notarized deeds are also considered, it can be estimated that 2 percent to 3 percent of the deceased leave wills annually (the ratio of inheritance tax payment is about 5 percent of the number of deaths). Because of the consideration given to the bereaved family, it is expected that the number of people writing wills will increase in the future. While aged people must determine everything by themselves in principle, the question is whether an environment that enables seniors to stand on their own is fully available.

Table 1. Number of Births and Year of Retirement

Year of birth	1947	1948	1949	1950	1955	1960
Births (million)	2.68	2.68	2.70	2.34	1.73	1.61
Year of retirement	2007	2008	2009	2010	2015	2020

Source: Ministry of Health, Labour and Welfare.

II Post-Retirement Lives of Baby Boomers and Taxation and Social Security Systems

1 Declining Population and Expanding Number of Households

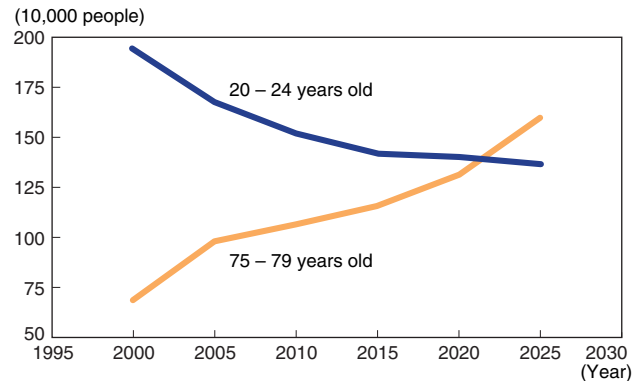
It is projected that people aged 65 or over will account for at least 30 percent of Japan's total population in 2025. In terms of public pension, in the year 2000, four working people supported one retired person. By 2025, however, only two working people will be available to support one retired person. Accordingly, public pension benefits must be reduced to lighten the burden on the working generation. When viewing the social security system from a financial perspective, it becomes necessary to require that wealthy seniors bear a reasonable burden, in addition to promoting the streamlining of benefits.

Turning our eyes to changes in the number of households by 2025, the report entitled, "Household Projections for Japan," compiled by the National Institute of Population and Social Security Research in October 2003, estimates the number of households by household composition, as indicated in Table 2.

Despite a declining population, the number of households will increase. Although the number of households consisting of a couple and children will decrease, the number of households consisting of an aged individual or of only an aged couple will substantially increase. By 2025, this phenomenon will result in a total increase of 2.86 million households as compared to 2000. Moreover, by 2025, households consisting of senior couples aged 65 or over will account for about 60 percent of the 10 million households consisting of only couples. Households consisting of single seniors aged 65 or over will account for 14 percent of all households. If these types of households are combined, the ratio of households consisting of seniors aged 65 or over will increase from 15 percent at present to 26 percent by 2025.

Figure 1 shows the transition in the number of households consisting of singles aged 20 to 24 and 75 to 79. In the early 2020s, the number of households in the latter group will exceed the number of households in the former group. Then, the number of households consist-

Figure 1. Changes in the Number of Households Composed of a Single Individual



Source: "Future Projections on the Number of Households in Japan," October 2003, the National Institute of Population and Social Security Research.

ing of singles aged 75 to 79 will continue to exceed the number of households consisting of singles aged 20 to 24. Because females make up most households consisting of singles aged 75 to 79, one of the major themes in future medical service and nursing care is to establish a structure to provide nursing support for aged females living alone or as terminal care patients.

2 Increasing Taxation of Public Pension Benefits and Retirement Allowances

(1) Pension benefits for salaried workers

Much of post-retirement life is supported by public pension benefits. For baby boomers, the payment of basic pension benefits begins when they are 64 or 65, and the payment of income-related benefits starts when they are 60. This section examines changes in public pension benefits that may stem from the growing trend toward a declining birth rate and an aging population. According to the household spending survey conducted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications for fiscal 2002 (April 2002 – March 2003), an aged couple (husband at least 65 and wife at least 60, and neither employed) spent an average of ¥267,000 per month. Basic expenses (food, clothing, housing, transportation, communications and medical care) accounted for 60 percent of this total, and education, entertainment and social expenses accounted for the remaining 40 percent.

The standard public pension benefit, in which the husband was a salaried worker and the wife did not

Table 2. Changes in the Number of Households by Composition

(Unit: 10,000 households)

Composition	1980	2000 (A)	2025 (B)	B – A
Single individual	710	1,291	1,716	425
Couple only	446	884	1,029	145
Couple and children	1,508	1,492	1,199	- 309
Total (including others)	3,582	4,678	4,964	286

Source: "Household Projections for Japan," October 2003, the National Institute of Population and Social Security Research.

have an outside job, is ¥238,000 and covers 90 percent of the average expenses of a senior couple. In addition, most seniors also received corporate pension benefits, enabling them to have some savings.

One method of maintaining the current public pension benefits under the circumstances of a declining birth rate and aging population is to increase the present pension contribution rate (split fifty-fifty between labor and management) of 13.6 percent to 23 percent by around 2025. However, the working generation does not have sufficient capacity to cover all the costs of aging. While an increase in the contribution rate cannot be avoided, a reduction in public pension benefits also cannot be avoided from a long-term perspective. One point at issue in the public pension reform for fiscal 2004 was to what degree the working generation and the pensioners compromise.

With an acceleration in the declining birth rate and an aging population, the contribution rate has so far only gradually increased. If the matter of the payment of benefits in the future remains obscure, the credibility of the public pension scheme will decline. In order to avoid such a situation, it was first necessary to determine the maximum contribution rate, which represents the burden that the working generation can tolerate. If the maximum is determined, approximate revenues from contributions around 2020 can be estimated. These reform deliberations finally concluded that future public pension benefits would be automatically adjusted within the range consisting of contribution revenues and yearly withdrawals from the public pension reserve fund.

Because the upper limit of the contribution rate was reduced from 23 percent by 2025 to 18.3 percent by 2017 during the last deliberations, the level of benefits to be paid in the future will also be reduced. This means that the burden imposed by a declining birth rate and an aging population will also be borne by pensioners. While the reform report explains that the rate of income substitution by pensions will be maintained at 50 percent, this reduction of the upper limit will correspond to a drop of about 15 percent in average pension benefits (currently about ¥240,000) in the model case (a salaried worker whose wife has not been working).

As stated previously, the current pension benefit level corresponds to about 90 percent of the average consumption by a household of seniors. A drop of 15 percent in the benefit level means that pension benefits will correspond to about 75 percent of average spending. Accordingly, Japan's public pension benefits after the 2004 reform will remain relatively higher in comparison with major Western countries.

One factor that has a major impact on the future of public pension finance is the birth rate. Although the public pension reform plan is based on an unchanging birth rate, the Japanese birth rate has not bottomed out. In order to maintain the public pension system, it is

highly necessary to institute strong policies to stop the declining birth rate.

(2) Taxation on public pension benefits

Until the early 1990s, seniors were considered socially weak, and were treated most favorably in terms of taxation as well. However, in the future, people aged 65 or over will account for 30 percent of the total population. In such a society, it will be necessary to require wealthy seniors to bear an appropriate burden, and to review excessive preferential treatment.

The income tax imposed on public pension benefits is as follows for a monthly pension benefit of ¥240,000, which is almost the same as that in the model case (a salaried worker with a wife who has not been working). Let's assume this for a senior couple aged 70 or over.

Annual public pension revenue (¥):

$$240,000 \times 12 = ¥2,880,000$$

Public pension income after public pension deductions:

$$2,880,000 - (2,880,000 \times 25\% + 750,000) \\ = ¥1,410,000$$

Furthermore, if a taxpayer is at least 65 and has an annual income of ¥10 million or less, the deduction for a senior of ¥500,000 is applied in addition to the basic deduction of ¥380,000. Because the wife has not been working, the spouse deduction of ¥380,000 is also applied (this deduction is ¥480,000 if the wife is 70 or over). Accordingly, the net taxable income after all personal deductions is ¥50,000.

$$1,410,000 - 380,000 - 500,000 - 480,000 = ¥50,000$$

It is assumed that a person living only on pension benefits must also pay annual nursing care insurance and medical insurance contributions of about ¥100,000. Because medical and nursing care insurance contributions are also deducted from income, the actual income tax amount due in the case of this couple is zero. Taxation on pension revenues is extremely low if all of the various deductions are taken into account.

If the husband dies in the model case in which the husband (formerly a salaried worker) and his wife were receiving pension benefits of ¥238,000 (basic pension of ¥67,000 × 2 + income-related benefit of ¥104,000), the wife will receive a survivor's pension (basic pension for a wife + three-quarters of the husband's income-related benefit) of ¥145,000, which will be exempt from taxation.

Public pension deductions are also applied to revenues other than public pension benefits. While an employee can choose either to receive the retirement allowance as a one-time allowance or as private pension benefits, there are cases in which corporate pension benefits are received in addition to public pension benefits by converting the retirement allowance into pension benefits. In such a case, public pension deductions are also applied.

The income tax amount for a household consisting of a senior couple both aged 70 or over who receive the

total pension benefit of ¥350,000 (public pension benefit of ¥250,000 + corporate pension benefit of ¥100,000) monthly is as indicated below. (Medical and nursing care insurance contributions are not taken into account here.) The effective tax rate (income tax amount/pension revenue) is only 2.5 percent.

Pension revenue:

$$350,000 \times 12 = ¥4,200,000$$

Pension income after public pension deduction:

$$4,200,000 - (4,200,000 \times 25\% + 750,000) \\ = ¥2,400,000$$

Taxable income:

$$2,400,000 - 380,000 - 500,000 - 480,000 \\ = ¥1,040,000$$

Income tax:

$$1,040,000 \times 10\% \\ = ¥104,000 \text{ (effective tax rate of 2.5\%)}$$

Let's consider the relationship between the benefits of the welfare pension insurance for which salaried workers pay contributions and taxation. At present, contributions paid while one is working are deducted from income and are tax-exempt. If tax should be imposed on income once, income tax should be imposed on public pension benefits when they are paid. However, because a huge amount of pension deductions is applied and preferential treatment measures designed for seniors are applied to various deductions, pension benefits are almost tax-free in actual terms. In sum, a substantial portion of welfare pension insurance is actually treated as being tax exempt.

Japan's social security system is financed principally by the payment of contributions. However, one-third of the basic pension, 30 percent of medical expenses, and slightly less than 50 percent of nursing care benefits are covered by public expenditures. These public expenditures cannot be ignored. In the case of requiring seniors to bear a reasonable burden as necessitated by the growing trend toward fewer children and an aging population, primary attention tends to be given to an increase in the copayment rate on medical expenses under the medical insurance system. However, if an extensive view including taxation is taken, it is natural to impose tax on pension benefits as long as public pension contributions are deducted from income. The current practice of treating pension benefits as tax-exempt in actual terms should be amended.

The fiscal 2004 tax reform determined that the rate of public expenditure in basic pensions would be increased to one-half and, at the same time, the ¥500,000 tax deduction for seniors would be abolished and the scope of public pension deductions narrowed. This will become effective for tax year 2005.

(3) Taxation on retirement allowances

Taxation on a retirement allowance that is received as a lump-sum payment is as follows. The average retirement allowance provided by large companies in fiscal

2002 (for employees who are university graduates with a 38-year working period) was ¥28 million. This case is used to discuss the taxation system for retirement allowances given below. A withholding tax is imposed on a retirement allowance exclusive of other income. The retirement allowance tax features a large deduction.

If the length of service is 20 years or less:

Deduction: ¥400,000 × number of years of service

If the length of service exceeds 20 years:

Deduction: ¥8,000,000 + ¥700,000 × (number of years of service - 20)

For example, if the length of service is 38 years, the deduction is ¥20.6 million.

$$8,000,000 + 700,000 \times (38 - 20) = ¥20,600,000$$

Since income tax is imposed on half of the retirement allowance after deductions, the taxable income of the retirement allowance is ¥3.7 million.

$$(28,000,000 - 20,600,000) \times 0.5 = ¥3,700,000$$

The income tax rate is 10 percent up to ¥3.3 million and 20 percent up to ¥9 million. Therefore, the amount of tax for a retirement allowance of ¥28 million is ¥410,000 (an effective tax rate of 1.5%).

$$3,300,000 \times 10\% + (3,700,000 - 3,300,000) \times 20\% \\ = ¥410,000$$

If the ¥28 million were not a retirement allowance and were the ordinary wages of a salaried worker, the income tax amount would be ¥6.72 million (an effective tax rate of 24%). The retirement allowance tax rate is only one-sixteenth of the income tax rate. Because a retirement allowance is, of course, an important fund that supports post-retirement life, it deserves preferential treatment in terms of the tax rate. However, similar to public pension deductions as discussed in the previous section, the preferential taxation system for retirement allowances exceeds an appropriate level. It is assumed that the extent of preferential treatment will be reduced in the future.

3 Polarization in Medical Insurance

Another important issue stemming from an aging population with fewer children is the matter of national medical expenditures. In the case of public pensions, the average consumption by seniors can serve as an index in determining the amount of benefits. However, the quality of medical service cannot be allowed to degrade through the process of rationalizing medical expenses. It is important to manage medical expenses adequately while maintaining the quality of medical care. This accomplishment requires major structural reform.

The current national medical expenditure of ¥30 trillion is projected to reach ¥85 trillion by 2030 if the present growth rate of medical expenses continues. However, if all medical costs were fixed at their present levels and only aging is considered, medical expenses

would be ¥40 trillion by 2030. Because of a continuing economic slowdown, a three-fold increase in the contribution burden (total medical expenses of ¥85 trillion) over the current level cannot be allowed. Furthermore, it also is impossible to fix medical costs (i.e., to eliminate all increases in the wages of people engaged in medical services). A total expenditure of ¥40 trillion is unrealistic as well. A reasonable goal must be between ¥40 trillion and ¥85 trillion without degrading the quality of medical care.

An increase in the contribution rate cannot be avoided as long as the trends toward aging with fewer children continue to accelerate. The following four measures are necessary to minimize increases in costs.

- (1) Consolidating some 5,400 health insurance plans dispersed throughout Japan to strengthen their financial basis.
- (2) Establishing a structure that enables health insurance plans, which have become large-scale organizations after consolidation, to accurately check hospital bills issued for medical services.
- (3) Costs of medical and nursing care expenses for seniors must be clarified by integrating medical insurance designed for seniors and long-term nursing care insurance. This integration enables accurate discussion of the burden on the aging society.
- (4) Permitting medical services that combine treatments covered by insurance with those not covered by insurance but are paid for by the patients themselves.

The basic concept of medical services adopted in Japan is that the most advanced medical service should be provided to all people at low cost. However, it is impossible to continually expand the coverage of public medical insurance to keep pace with progress in medical science. Public medical insurance coverage should somehow be limited.

For example, if a hospital is equipped with competent and skilled doctors and nurses, and the latest facilities, medical expenses cannot be covered by medical insurance plans alone. Mixed medical insurance plans that require patients to bear additional expenses when the quality of medical service far exceeds the average should be permitted. Wealthy seniors will accept mixed medical insurance plans, and will willingly pay the additional costs. If the coverage of the public medical insurance plan is limited and patients must bear the additional expenses that exceed such coverage, the need to continue increasing the contribution to compensate for increases in national medical expenditures will be weakened.

While the reform measures described in sections (1) through (4) above are primarily related to the financial aspects of medical service, the medical service frame-

work itself must be reorganized in addition to such financial requirements. The principal feature of medical service in Japan is that anyone can receive medical service from any hospital. While this is a convenient system, the separation of hospital functions will be required in a society in which 30 million persons are aged 65 or over (18 million at present).

This change means a system in which a patient first goes to a family doctor, who will then introduce a general hospital if the problem is serious, which will then send the patient to a specialized hospital if specialized treatment is required. This system enables the reorganization of medical staff members by specialty. It also increases the efficiency of advanced medical services (i.e., establishes a system of division of work where minor diseases and chronic diseases of seniors are treated by family doctors, and more serious diseases are treated by comprehensive hospitals offering advanced services).

Because large hospitals have a need to shorten hospitalization periods to reduce medical expenses, it is necessary to make arrangements in each area to provide patients with follow-up care after their treatment at a larger hospital. This calls for the strengthening of medical services at home by family doctors. Medical reform will have to accelerate the polarization between comprehensive hospitals consisting of specialist groups and family-based health management firmly rooted in the community with a principal role played by family doctors. In the latter category, the importance of addressing aftercare rehabilitation and chronic diseases of the aged will increase, and it will become unrealistic to separate medical services and nursing care.

4 Living Environment of Seniors

The contribution of an average salaried worker in his or her forties to nursing care insurance is about ¥2,500 per month. With the coming increase in the number of seniors, the need for nursing care service benefits will increase, which will then raise the contribution rate. However, such a burden is considered to be substantially low compared to medical expenses. Accordingly, this section describes the need to enhance nursing care services in relation to the living environment.

(1) Determining where to live after retirement

As noted previously, when a baby boomer becomes 60 and reaches retirement age, the average remaining life of the husband is about 22 years. On average, the wife still has about ten more years of life after the death of her husband. Compared to their parents' generation, they have fewer relatives and fewer ties to the community. In many cases, they do not have any plan to live with their children during their retirement years. Giving these circumstances comprehensive consideration, it is vitally important to determine where to live after

retirement because this is also related to terminal care and nursing.

If one's home is determined as the place to live after retirement, it should be made barrier-free before the couple reaches their seventies. Another choice for an aged couple after retirement will be to move to a barrier-free apartment house surrounded by well-equipped facilities such as a community senior services center.

One of features of the real estate market in recent years is intensified competition in the development of housing for seniors. As the provision of nursing service in a "care house for seniors" was included in the coverage of the nursing care insurance, such a house has become an important option as a place to live after retirement and has led to a diversification of services. There are also cases in which a company providing nursing care services constructs rental houses for seniors near a care center operated by the company.

With the acceleration of the aging population, a wide variety of options is becoming available in selecting places to live after retirement. Some examples are care houses, barrier-free apartment houses, rental houses designed for seniors, nursing homes for seniors, etc. While many people tend to permanently reside in their housing in Japan, it is necessary to consider the ways that one's dwelling should best be changed in accordance with changing family conditions, and to consider how and where to live after their seventies.

While some people may rent their house and move to rental housing designed for seniors, in most cases, others will sell their home and move to barrier-free housing for the balance of their lives. In the case of selling one's home and moving to a new house, there are two options in terms of taxation.

One's own home is considered special in terms of taxation on capital gains from selling one's own real estate. With respect to the profit on the sale of one's own home, withholding tax and an income deduction of up to ¥30 million is currently applied. The preferential tax rate of 14 percent (including residential tax) is also currently applied up to capital gains of ¥60 million, and 20 percent for portions exceeding ¥60 million. If capital gains of ¥100 million is acquired by selling one's own home, the taxable income will be ¥70 million after the ¥30 million deduction. The amount of tax will be ¥10.4 million with an effective tax rate of 10.4 percent.

$$60,000,000 \times 14\% + 10,000,000 \times 20\% \\ = ¥10,400,000$$

Besides acquiring cash by selling one's own home, another option is to use exceptional tax treatment for the replacement of real estate by selling the home and purchasing new housing. In the case of selling a home that one has owned for ten years or more and purchasing housing at a price higher than the price of the sold property (floor space of 50 – 280 square meters and land area no greater than 500 square meters), no tax is

imposed on the capital gains realized. Thus, it becomes possible to sell a house purchased for ¥20 million at a price of ¥40 million and pay no tax and move to a house worth ¥50 million by adding ¥10 million.

In the case of selling one's own home to move to a place where one expects to live for the balance of his or her life, there are two obvious choices: simply selling one's own home with the preferential tax rate and purchasing a barrier-free apartment for seniors at a price lower than the selling price and saving the difference or making use of the exceptional tax treatment for replacement by adding additional funds and deferring taxation on capital gains.

The best approach to select—moving to a small house after retirement and saving cash in preparation for shortages or seeking a more comfortable living space—depends on the individuals involved. Under the current taxation system, although tax is imposed on capital gains from simple sales, taxation on capital gains can be deferred if exceptional tax treatment for replacement is selected. This system is causing unnecessary confusion in decision-making. Accordingly, the taxation system should be reformed and no consideration should be given to purchasing/selling profit and loss relative to the purchase/sale of one's principal home.

(2) Providing private rooms within nursing homes and the spread of group homes

Under the current system, nursing homes present two main problems.

One problem relates to the fact that living in a nursing home is less costly than receiving nursing care services at home. Seniors living in a rented house who receive nursing service at home must bear the expenses for food, rent and 10 percent of the nursing service fees by themselves. In contrast, most expenses including food and rent in addition to nursing service fees are covered by nursing care insurance for those seniors living in a special nursing home set up to care for the elderly. Because of such advantages, more than 200,000 seniors are currently waiting to enter special nursing homes. To establish economic equality between receiving nursing care at home and living in a nursing home, the collection of hotel costs (i.e., rent) from those residing in special nursing homes is required.

The second problem concerns the system of sharing rooms adopted by many nursing homes. Instead, the provision of private rooms should be promoted, and the nursing homes should collect appropriate hotel costs. If nursing care service is covered by the nursing care insurance contribution and if expenses for the provision of private rooms can be covered by the collection of hotel costs, the construction of private-room-type nursing facilities would be encouraged because revenues and expenses would be balanced. If wealthy elderly people willingly prefer nursing homes with private

rooms requiring high fees, the overall shortage of nursing homes would be relieved to some extent.

It should be clarified that satisfactory medical and nursing services will be available if the residents bear the additional costs. Construction of private-room-type special nursing homes (collecting hotel costs) has already begun.

The concept of nursing homes has changed substantially in recent years. Within the category of special nursing homes, group homes (a small number of people living in a large house where care is provided without major changes to everyday life), which are regarded as effective in caring for dementia patients, are rapidly spreading. The construction of such small-sized facilities is sharply increasing. The factors behind such increases include low construction costs and the close personal relationships, which are established because the scale of the group home is small. Furthermore, less mental stress occurs because the residents live in a single community and life after entering such a group home does not change very much. Mainstream nursing homes are also shifting from large-scale facilities accommodating many seniors to the format of a group home that offers an environment closer to that of a family.

5 Integration of Nursing Care and Terminal Care in the Community

(1) Arrival of the era of 1.4 million fatalities annually

The annual number of fatalities during Japan's period of high economic growth was approximately 700,000 people. With the acceleration of the aging population, this number continues to increase, and is now projected to reach 1.3 to 1.4 million people annually by 2020 after exceeding 1 million people in 2000.

Currently, about 80 percent of fatalities occur in a hospital. However, to begin with, a hospital is the venue used to treat patients, and efforts are being made to reduce the number of days that patients are hospitalized. It is assumed that the number of cases where people will die in a nursing home or in their own home (while receiving nursing care) will increase. Several surveys also reveal that most people prefer to die in their own home. If so, what should be done to meet such a desire?

The major reasons that people require nursing care include cerebral apoplexy and senility. In recent years, the number of people aged 75 or over who fall into the status that they require nursing care even though they have no special serious diseases or injuries is increasing. The burden on families who take care of such aged people is too great. Yet, there are hesitations to separate aged people from society by sending them to nursing homes. From this perspective, nursing care at home, which is popular in northern Europe, was introduced in Japan and the nursing care insurance system

was established as a means of increasing the quality of life of seniors.

Nursing service at home will eventually lead to terminal care. In addition, home helpers, nurses and doctors who make visits to patients support terminal care. With continuing progress in medical science, it has gradually become possible to provide terminal care at a patient's own home without causing any major pain to the patient. In the future, the number of people who die in their own home in the presence of their family members will certainly increase.

(2) Increasing hospice and terminal care

At present, cancer accounts for one-third of all deaths in Japan. While over 90 percent of cancer patients now die in hospitals, is it appropriate to expect large, multi-function hospitals to provide terminal care for cancer patients?

Modern-day hospices (facilities established to alleviate the physical pain of cancer patients nearing their end and to increase their quality of life) appeared in the 1960s in the United Kingdom after the pain caused to patients by the side effects produced from anti-cancer drugs was reconsidered. This hospice concept was introduced in Japan in the 1980s. Currently, there are more than 100 hospices in Japan with more than 1,500 beds, and the number continues to increase. The rate of recognition of hospices among people is also increasing. According to a survey on the awareness of terminal care conducted by the Ministry of Health, Labour and Welfare, 49 percent of respondents expressed their desire to die in hospices if they are suffering from a fatal illness (32 percent selected hospitals and 9 percent selected their own home).

Hospices are aimed at increasing the quality of life of the patients, alleviating pain and helping patients meet the ends of their lives calmly and with dignity. Although there are various medical issues that must be resolved, attempts to provide hospice treatment at one's own home are gradually being implemented with the cooperation of doctors and visiting nurses. Incidentally, the hospice activities that rapidly expanded in the 1980s in the United States consisted mostly of hospice treatment at one's own home.

As described above, a shift from large special nursing homes to group homes or nursing care at one's own home is occurring with respect to nursing care of aged people. For terminal care as well, a shift is also occurring from hospitals to hospices or hospice treatment at one's own home. As such, the number of cases is increasing in which people select their own home or a small-scale living space where professional support is available as the venue for their final days.

In 1995, the government of Belgium (population: 10 million) embarked on the construction of one terminal care center for every 300,000 inhabitants. The terminal care centers are designed to coordinate continued care

after people leave a hospital until their death. Depending on the patient's preference, a variety of options is available. These include a hospice, a palliative care ward of a hospital (where support is provided for meeting one's end calmly, rather than treating diseases for recovery), and nursing care at the patient's own home with support by visiting nurses making rounds or daytime care. In principle, this terminal care is covered by medical insurance, and all expenses during the last two months are borne by the government.

In the future, polarization will be accelerated in Japan with respect to medical treatment for aged people as well, i.e., multifunction hospitals and a medical and nursing network in a community centered on care by family doctors. In terms of the financial aspects under the structural reform of medical service, the increase in national medical expenditures should be reduced to a level that can be accepted by the working generation. What should be pursued in terms of the medical service aspects includes the "improvement of technical capabilities of multifunction hospitals" and the "establishment of reliable medical and nursing networks in the community."

Family doctors who assume the important roles as part of the latter network should be responsible for determining which type of care is necessary for a patient—medical treatment or nursing care. If nursing care service is considered necessary, a family doctor should encourage a patient to select between receiving nursing care at the patient's own home or entering a nursing home. For patients requiring terminal care, available options include a palliative care ward of a hospital, a hospice, or hospice treatment at one's own home. To provide the optimum environment for people to choose where best to spend their final days, the functions of the at-home nursing (at-home hospice treatment) networks should be strengthened. Furthermore, the construction of additional hospices and palliative care wards at large hospitals would be necessary.

6 Increasingly Important Support Networks for Seniors

Accompanying the growing trend toward an aging population with fewer children, the social security system will face the following three problems in financial terms.

- As is typical with a public pension dispute, pension benefits must be reduced in order to lower the contribution of the working generation. The problem concerns where to place the point of compromise between working people and retired people.
- Seniors should also be required to bear a reasonable burden. For example, the percentage paid by wealthy seniors under medical insurance should be increased. However, at issue is exactly what system should be established.

- Because the burden on the working generation will become excessively heavy if all support for seniors is covered by the insurance system, volunteer activities in the community must be encouraged. Particularly under a society of wobbly relationships with relatives, a support network of seniors should be built in each community.

(1) Support for seniors in Amsterdam

In the Netherlands, local municipalities construct housing for seniors and provide various support services in order to enable them to stand on their own two legs in their own homes as long as possible. This section examines the cases in Amsterdam to see what services are available for a wide range of people from healthy seniors to those having difficulty in supporting themselves. The principle of the city's policies on seniors is "providing all necessary facilities to enable all seniors to support themselves in their own homes as long as possible" (according to the city personnel in charge of this program). The following paragraphs introduce the case of a person who is supporting himself in his own home to show what services are available when a person becomes 65 years old.

- Simple house remodeling: Even though a person is supporting himself, he tends to have weak legs. Accordingly, simple house remodeling, such as installing handrails in a toilet or corridor and eliminating differences in floor heights, is provided free of charge.
- Alarm system: An alarm system is provided at a low cost to enable an aged person living alone to live safely without anxiety (about ¥500 monthly). Pushing a button on a pendant, etc., if having a spasm, falling over or experiencing any other emergency will automatically connect to a center where arrangements for help will be made.
- Transportation service: If ordinary means of public transportation become difficult to use, special buses (group taxis) for seniors and physically handicapped people are provided at costs similar to those of public transportation. Depending on one's income, there is also a system of refunding transportation expenses for alternative means such as taxis.
- Participation in hobby and lifelong learning courses: Although these activities are called social activities, volunteer groups and specialists operate a variety of activities and hold events in the city. The city subsidizes these activities.

In addition, shopping and food preparation services are provided as necessary. There is also a system of providing a community handyman who lends a helping hand for doing small projects such as replacing electric light bulbs, making simple repairs, shopping and escorting an aged person to a hospital.

In sum, a social system that makes it possible to maintain a high “quality of life” during the period until a senior reaches a stage requiring nursing care in the true sense is operated at public expense in the Netherlands.

These types of support measures for seniors are also required in Japan. A major difference from the Netherlands is that the finances of the local governments in Japan have substantially deteriorated and it is not possible to operate all such measures at public expense. During the post-war period of high economic growth, people tended to avoid close relationships with their relatives as well as with their neighbors. In addition, the birth rate is declining and seniors in large cities are feeling increasingly isolated. If there are no alternatives other than purchasing these support services at their own expense, people who are not wealthy will be denied such services. Accordingly, in the future, great expectation must inevitably be placed on support for seniors by the activities of community volunteers.

(2) Charitable activities in the United States

With ongoing changes in the social environment, various types of support are required, including a foster-parent system for ill-treated children and shelters to protect victims of domestic violence, in addition to support for seniors.

Although these figures are out of date, the total amount of donations in the United States in 1996 was about ¥17 trillion. About half of this total represents donations to religious organizations and constitutes the resources of charitable activities by churches. Other statistics reveal that donations by individuals accounted for 80 percent of the total and amounted to approximately ¥13 trillion. The average annual donation per person was \$500 (2% of income) and, generally, the greater the income, the greater the donation. The average volunteer time per week among Americans is about four hours. In the United States where “small government” constitutes a basic principle and the spirit of self-responsibility is firmly rooted, the social security system has not been so fully developed as that in northern Europe. However, active approaches are being taken toward volunteer activities centered on churches, and donations by individuals are actively promoted.

Such a similar spirit is not seen in Japan. Nevertheless, a mechanism must be established where support for seniors by volunteers in each local community brings about satisfaction to both those who receive such services and those who provide such services. In providing life support for seniors, only enhancing medical and nursing care insurance as well as improving the infrastructural aspects, such as constructing barrier-free public facilities is not adequate. To enable seniors to live enhanced lives with peace of mind, donations by individuals should be encouraged and the closely connected local community network that was all but lost through modernization should be reestablished. These

major issues should be properly dealt with in the future.

7 Asset Management Service for Seniors

In the 1990s, nursing care became a major social problem concomitant with the extension of the average life span. The introduction of nursing care insurance has opened a way of providing nursing care in one’s own home, rather than confining aged people in nursing facilities such as special nursing homes. At around the same time, a guardian system for adults was also introduced, under which support is provided to aged people who are in the process of losing their physical and/or mental faculties by fully utilizing their remaining capabilities, rather than simply treating them as incompetent. Both systems are built on the basic concept that seniors have a right to live self-supporting lives as members of society while making the best use of their remaining capabilities.

An aging society means equipping each local community with a system that makes it possible to encourage seniors to live independent, self-supporting lives. The next inevitable question is how seniors should best manage their financial assets.

(1) Intergenerational asset transfer

In an aging society, the timing of transferring assets to children is an important issue. Most ordinary salaried workers purchase a house when they are in the latter half of their thirties, and are faced with the payment of educational expenses for their children when they are in their forties. Assets are not usually transferred from the parents while they are faced with these needs for funds during their active lives, but are transferred around the time when they reach the age of retirement, thanks to a prolonged life span. This situation constitutes a negative factor if viewed from the perspective of activating private consumption in the overall society.

Since the latter half of the 1990s, tax reform has been implemented to encourage asset transfer among generations. The first step of these endeavors was housing support for children. For the purchase of a house, special tax treatment was provided for a gift from one’s parents or grandparents only once in a person’s lifetime (when the child’s income is ¥12 million or less). Currently, no tax is imposed on gifts up to ¥5.5 million, and preferential treatment on gift taxes is given for gifts up to ¥15 million. If a gift of ¥10 million is received for purchasing a house, the gift tax is ¥450,000. In this case, the gift tax without the preferential treatment is ¥2.31 million—a difference of ¥1.86 million.

In addition, an inheritance/gift integration system was also introduced, which radically changed the concept of a gift tax. The high tax rate has so far been applied to a gift tax for the purpose of prohibiting

transactions between parents and children aimed at evading the inheritance tax. However, there is no problem if all transactions between parents and children are recorded and an inheritance tax is finally imposed on the total of such transactions. Therefore, the following system was introduced under the concept that it is necessary to easily transfer the assets of the parents to their children in order to vitalize personal consumption.

With respect to a gift from parents aged 65 or over to children aged 20 or over, if the selection of an inheritance/gift integration system is reported to a tax office, a special deduction of ¥25 million is applied to the gift before the parent's death, and a 20-percent withholding tax is imposed on the portion exceeding ¥25 million as a gift tax. At the time of inheriting the parent's assets, all portions gifted before the parent's death are totaled, and the required inheritance tax payment amount is calculated. The actual inheritance tax payment amount is then calculated by subtracting the gift tax amount paid in the past from this required inheritance payment amount. If a gift before the parent's death is made for purchasing a house, the special deduction will be increased to ¥35 million.

The following is a specific example. Mr. A with two children has property of ¥270 million (assumed only as ordinary deposits). Each child receives ¥50 million by selecting this integration system, and purchases a house. The gift tax on the gift before the father's death is ¥3 million.

$$(50,000,000 - 35,000,000) \times 20\% = ¥3,000,000$$

When Mr. A dies and his two children inherit his property, the basic deduction for the inherited property is ¥70 million.

$$50,000,000 + 10,000,000 \times 2 = ¥70,000,000$$

Although Mr. A's property is reduced by ¥10 million through making a gift before his death because the portion gifted before his death is recalculated with respect to the inherited property, the original ¥270 million is

used for the calculation. The amount of the inherited property after the basic deduction is ¥200 million.

$$270,000,000 - 70,000,000 = ¥200,000,000$$

The inheritance tax table indicates that in the case of a child inheriting ¥100 million, the inheritance tax is ¥23 million.

$$100,000,000 \times 30\% - 7,000,000 = ¥23,000,000$$

The actual inheritance tax payment amount is ¥20 million.

$$23,000,000 - 3,000,000 = ¥20,000,000$$

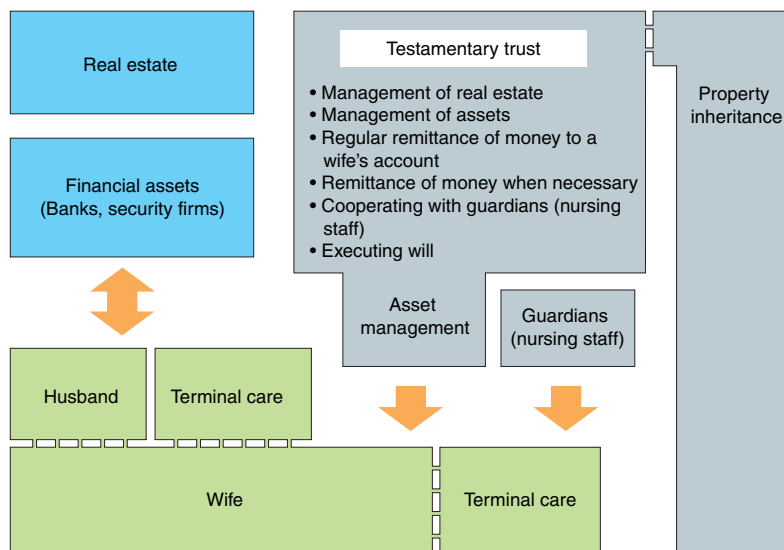
Because the tax payment amount when the ordinary gift tax is imposed on ¥50 million gifted before his death is ¥22 million, the advantage of using the integration system that permits receiving a tax-exempt gift before the parent's death is substantial. If a person has his own house and adequate deposits necessary to live his life through pension benefits after his retirement, it can be said that the costs required to help his children purchase their own houses or raise grandchildren have become considerably low.

Because seniors own a little more than 60 percent of the individual financial assets, the integration system is expected to facilitate fund transfer among generations. Considering the management of assets after retirement under the increasing trend toward longevity, it would be necessary for parents to provide as much support as possible for the housing and educational funds required by children.

(2) Asset management and administration of wills

Life after retirement is covered by effectively operating the retirement allowance and financial assets on hand, with the public pension benefits forming the base. Figure 2 shows the asset management structure for an elderly couple. A problem will be caused if a wife cannot fully manage her property after the death of her husband who was managing the property. In such a case, a testamentary trust, which is popular in the

Figure 2. Structure of Asset Management for Seniors



United States, would be useful if it is available. For example, it is possible to make arrangements in such a way that a trust bank manages the property left by the husband and regularly sends living expenses (including temporary leisure expenses, etc.) to the wife. (After the death of the wife, the remaining property is distributed among her children.)

The dominant principle for the management of financial assets held by individuals, including high-risk products such as stocks and foreign-currency denominated bonds is that individuals should take responsibility for their investments. However, within 20 years, people aged 65 or over will make up 30 percent of the total population. Each person has at least one need. There may be a couple who wants to leave the management of their assets up to professionals. While living in Florida, they can leave the management of their financial assets to an investment-advisory company on Wall Street. I wonder if this is possible while living in Japan.

The era of “land supremacy,” where there were no problems if major assets were held in the form of real estate such as land, has already ended. Today, it has become necessary to manage financial assets for life after retirement. Under these circumstances, there is a high likelihood of leaving property management up to professionals. In the future, it is expected to become common that the financial industry will manage discretionary account trading as faithful trustees.

After retirement, it will become important for seniors to determine where to spend their golden years (making their own home barrier-free by remodeling or purchasing a barrier-free apartment with nursing care) before they reach their seventies. Even if their physical strength declines as a result of a serious disease, etc., living a post-retirement life at home or in an environment similar to their own home will be possible by studying and skillfully using the medical and nursing network of the community (Figure 3).

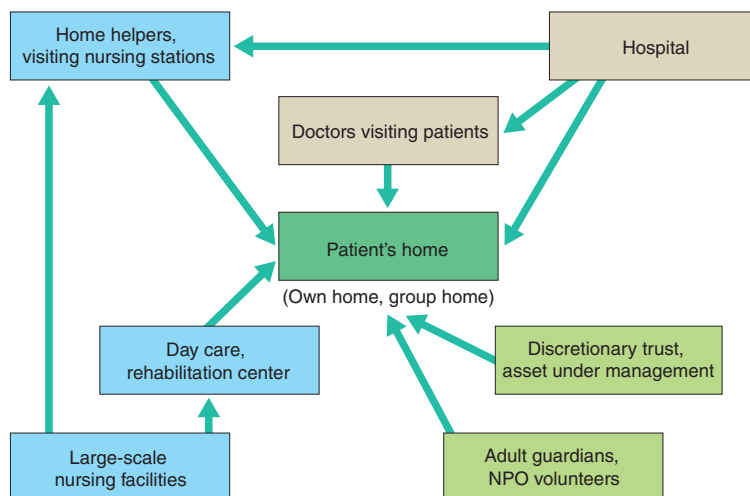
If the management of financial assets can be left to professionals who are faithful trustees, anxiety over life after retirement can be substantially reduced. Expectations are being placed on the fostering of professionals in the management of financial assets who can also cooperate with people in fields other than the financial world, such as adult guardians who assume responsibility for personal management and protection for people whose strength and/or judgment has declined. The management of assets for seniors in linkage with the medical and nursing network will gradually become popular as one of the major retail financial businesses in the 21st century.

III Increase in Hollowing-Out and the Future of the Working Generation

As the social security system in Japan operates under the principle of intergenerational support, it is highly likely that the acceleration of an aging population with fewer children may lead to substantial increases in the burden placed on the working generation. Consequently, it will become necessary to reduce pension benefits and streamline national medical expenditures. In addition, the development of a medical and nursing network in each community is essential for seniors to maintain a high quality of life while fully employing their remaining capabilities. To keep the costs of these networks reasonable, the roles of NPO volunteers are greatly counted upon.

Views and opinions have been taking shape with respect to the reduction and streamlining of social security benefits, albeit at a gradual pace. However, recognition concerning the current status of the working generation seems to be too optimistic. Among

Figure 3. Medical and Nursing Care Network in the Community



Note: NPO = non-profit organization.

people 20 – 34 years old who are neither students nor housewives, the ratio of part-time workers exceeds 20 percent. The actual number is estimated at 4 million, most of whom have an annual income of less than ¥2 million. From a financial perspective, young workers are by no means robust.

Public pension benefits can only be properly maintained if the working generation steadily increases their revenues. To accomplish this, the working generation must consist of a family of at least two children in order to provide for the next generation. The following paragraphs examine the current status of the working generation, the key to the issue, in particular the status of those in their twenties and early thirties.

1 Declining Work Environment

(1) Increase in the ratio of part-time workers

Due to the prolonged economic recession in the 1990s, companies have substantially reduced the number of regular recruits. Conversely, the employment of non-regular workers has been expanded, mostly in the distribution and service industries. Of the total of 50 million employees at the end of 2003, 15 million were non-regular employees, such as temporary employees, part-timers and student part-timers. The number of jobless people aged 20 – 29 years was 1.2 million out of a total of 3.5 million unemployed.

These changes in the environment are exerting a major influence on efforts to find jobs, especially on young females. In the 1970s, it was easy for female workers who had graduated from junior colleges to find positions as clerical workers. In recruiting female workers, companies assumed they would retire when they got married, and preferred female workers who had graduated from junior colleges to those from four-year universities because of lower costs and longer service years. With the introduction of the Equal Employment Opportunity Law, women began applying for career jobs. As the route toward career jobs opened, it seemed as though female participation in society would become much more active.

In the 1990s, when the “bubble” economy collapsed, however, companies gradually shifted from recruiting regular employees to using temporary workers for their clerical positions. Under circumstances featuring a sharp decline in the recruitment for clerical positions, women graduating from four-year universities were forced to choose a career job, become a temporary worker (currently estimated at 2 million) or a part-time worker. The ratio of regular female employees is rapidly declining.

The factors behind these changes include the moves of companies to streamline their operations. Part-timers accounted for 89 percent (or 3.8 million workers) of the total number of 4.3 million employees in the food service industry as forerunners of drastic price reductions.

Many were young workers who were faced with the flexibility of part-time work. As symbolized by this phenomenon, companies gradually increased the number of low-wage, non-regular workers who were easy to dismiss under a prolonged economic recession. A noteworthy point in considering Japan’s future employment situation is that the number of workers (3.5 million) employed by Japanese companies overseas is almost the same as the number of jobless people (3.5 million) in Japan. The contents of Japan’s direct overseas investment have been undergoing substantial change.

(2) Acceleration of hollowing-out

The latter half of the 1980s saw rapid increases in Japan’s direct overseas investments in Europe and the United States. Direct investment in the United States represented local production in order to avoid trade friction between Japan and the United States. The need to establish production bases in Europe with the nearing inauguration of the European Union (EU) made up the background behind direct investment in Europe. While such direct investments had the effect of reducing exports, it could not exert a major impact on Japan’s domestic market.

In the 1990s, the target of direct overseas investment was shifted to the Asian markets, and direct investment in China has been sharply increased in recent years. Because of the increases in direct investment in Asia, Japan’s domestic market was flooded by home appliances and clothing (as represented by UNIQLO) manufactured in Asia. As a result, companies were pressed by needs to reorganize their business portfolios. In other words, as low-price completed products manufactured in Asia, especially in China where low-cost labor is available, have steadily encroached upon the domestic market, the production scale in the domestic manufacturing industries has been cut down and employment has also been reduced. Consequently, the mainstream labor market in the 1990s consisted of the distribution and service industries.

In the face of continuing deflation, these industries needed a low-cost workforce in the quantities they require and at the time they require in order to win an intensified price competition. These moves resulted in an increase in non-regular workers, such as part-timers, and this tendency continues even today. Such a mobile workforce that can be employed according to need is even starting to be required for general clerical work, leading to an increase in temporary workers. This situation is expected to continue in the foreseeable future.

Large-scale manufacturers that target the world market select optimal production sites from a global perspective, and will more explicitly pursue this strategy to win the global competition. If increases in direct overseas investments continue, it is feared that the trends toward hollowing-out may be further accelerated along with a further reduction of domestic production,

an increase in the ratio of imports, and a further rise in the rate of domestic unemployment.

The government is now striving to maintain employment opportunities by expanding the budget deficit against a rise in the unemployment ratio. However, the manufacturing industry is continuing an active approach to the expansion of production bases in Southeast Asia, especially in China, for the purpose of pursuing lower-cost production and in preparation for the expansion of the future Chinese market. As investment and employment by companies increases overseas, discrepancies have begun to emerge between the government's economic policy and the expectations of large multinational corporations.

In essence, to win a worldwide market share, the multinationals must build an optimal production structure for their products on a global basis, while taking into account labor quality and cost. Actually, the overseas production ratio of the manufacturing industry increased from 6 percent in fiscal 1991 to 14 percent in fiscal 2001, and is expected to rise to 16 percent in fiscal 2006. This tendency is more noticeable in the case of fabricating manufacturers that include many world-class companies. The overseas production ratio of this industry is expected to increase from 17 percent in fiscal 2001 to 23 percent in fiscal 2006, i.e., overseas production will account for about one-fourth of total production. This means that little, if any, increase in domestic employment can be expected from the global manufacturing industry.

The recent trends also include the strengthened decentralization of authority to the front-line business operation headquarters as part of business strategy. Accordingly, importance is placed on decision-making by the front-line operations, and a flat organization is increasingly being adopted in pursuit of speedy management. This climate has resulted in a trend toward a fewer number of middle managers with superior capabilities (as a result of outsourcing arrangements such as accounting work outsourced to accountants, legal affairs outsourced to lawyers, and accounting processing outsourced to system houses).

In the latter half of the 1980s, the chain of command was simplified in the United States to facilitate decision-making. This simplification resulted in a substantial decrease in the number of headquarters personnel, and led to the white-collar recession. While the employment burden of a company is expected to be substantially reduced due to the retirement of baby boomers in Japan as well, it is also highly likely that a trend toward a flat organization is being promoted.

(3) Changes in the employment format

In the future, it will no longer be possible for Japanese companies to maintain a lifetime employment system and a seniority wage system predicated on long-term continued increases in sales as existed during the period

of high economic growth. Instead, Japanese companies will increasingly introduce a performance-based pay system and adopt personnel strategies that avoid fixing personnel costs through establishing links between personnel costs and revenues. The increase in the number of non-regular employees is also continuing. If consideration is given to outsourcing as many operations as possible and limiting the specialties of core employees to a certain range in pursuit of the goal of the "selection and concentration" of management resources, the near future intra-company personnel makeup is expected to be as follows:

- ① Core employees to whom an incentive-based pay system is applied
- ② Employees who are subject to adjustment in accordance with fluctuations in work volume
- ③ Employees engaged in marketing and sales operations with stronger incentive than that given to employees specified in ①
- ④ Lawyers, certified public accountants, outside specialists having professional expertise, and outsourcing firms such as outside system houses that perform system processing for client companies

It is becoming common to use temporary workers as those in category ④, in addition to as those in category ②. Expectations are also placed on using temporary workers as those in category ①. Through deregulation in 2001, temporary staff companies were approved to dispatch their employees to client companies with the possibility of becoming a regular employee of the client company in the future. In the Netherlands, young people register in a temporary staff company and work at several companies in order to learn about different companies. They are dispatched on a long-term basis to a company they select, and will become a regular employee of that company through subsequent negotiations. The case of flight attendants who first join an airline company as contract workers, then become regular employees can be regarded as the Japanese version of the Dutch system.

Even under today's harsh employment climate, the rate of switching jobs among young workers three years after joining a company is considerably high. In other words, mismatches are occurring between workers and employers. Working as temporary workers can serve as a means of correcting such discrepancies.

Furthermore, not only hiring new recruits, but also mid-career hiring of young workers is also becoming common. Job selections are being expanded in addition to the simple process in which one graduates from a good university and immediately joins a good company. Cases are now frequently seen in which a student works for a company as a part-timer and is later hired as a regular employee and in which a person who worked in a shop as a part-timer is subsequently chosen as shop

manager. The era where most students can be hired as regular employees based on their impression at the time of the interview and a diploma is over. Instead, the coming era is one in which treatment is determined in accordance with performance.

The current problem is that an increasing number of part-time and temporary workers belong to category ②, and their status and future remain uncertain.

2 Employment Environment in the United States after the 1980s

Because of the growing trend toward globalization in the manufacturing industry, non-manufacturing industries assumed the main role of providing employment. Cases in the United States will serve as reference in considering the employment situation in Japan. Figure 4 indicates changes in the number of people employed by type of business after 1980. In the United States, the distribution and service industries assumed the principal role in providing employment opportunities. In terms of jobs in the service industry, a high value is placed on medical and nursing services, social welfare, data processing and the dispatch of temporary workers. If the acceleration of an aging population with fewer children and progress in information technology are also taken into consideration, it is likely that Japan will follow a similar path.

The fact that distribution and service industries have become the main source of employment opportunities suggests an acceleration in the active participation of working women in society. Indeed, in the United States, females accounted for 60 percent of the total increase in the number of persons employed during this period. While males accounted for the majority during the period of growth centered on the heavy and chemi-

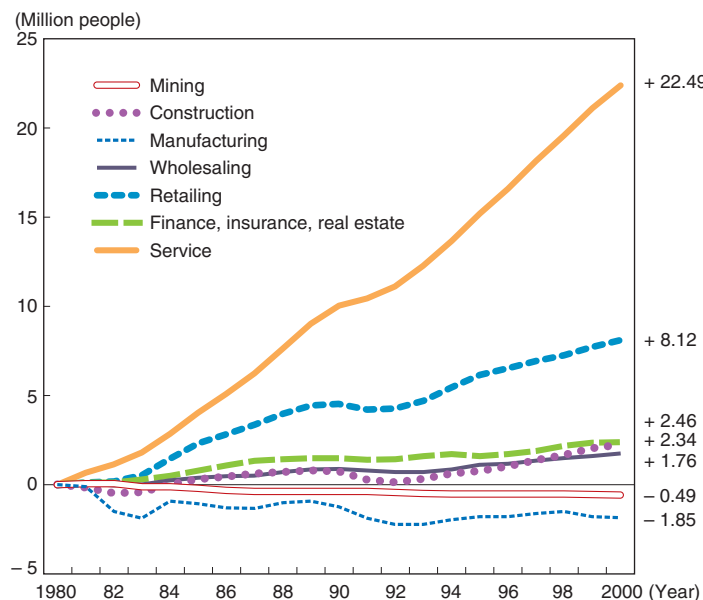
cal industries, it would be natural that positions for females would increase if the ratio of medical/nursing services and office work increases.

While the number of employed workers increased by 36 million people in the United States since the 1980s, a strained supply and demand relationship in the labor market prevented much in the way of wage increases. Almost no increases were made in actual wages. Rather, such increases amounted to the creation of employment opportunities in labor-intensive retailing, medical and nursing services. Because actual wages were not increased even though employment was expanded and because of the greater participation of women in the labor market, a gap close to \$30,000 has been generated in the annual income between households in which only the husband works (average income of \$36,000) and those in which the husband and wife both work (average income of \$61,000). As the incomes increase because of working wives, husbands began to support working wives by helping with domestic chores.

The ratio of double-income families has continued to increase in the United States since the 1970s, and currently exceeds 60 percent. In northern Europe, specifically Sweden, the ratio of double-income families exceeds 80 percent. Broadly speaking, an increase in the ratio of female workers increases a company's profits because of their lower wages, which then enables the expansion of employment opportunities. In addition to protecting the middle-class life by earning a double income, promoting the participation of female employees in society has resulted in increased outsourcing of household work and the expansion of employment in the service industry.

In Japan as well, employment expansion will continue mostly among female workers in the distribution,

Figure 4. Trends in Employment in the United States by Business Type (Changes since 1980)



Source: Compiled based on "Employment Situation," United States Department of Labor.

medical/nursing and service industries that primarily target the domestic market. However, it would be difficult to expect these types of businesses to offer high wages. Accordingly, similar to the United States, double-income families will gradually take root in Japan. The following two points are considered critical in the future labor market of people in their twenties and thirties:

- ① Addressing the hollowing-out of domestic industries caused by the increase in direct overseas investment by the manufacturing industry.
- ② Non-manufacturing industries such as the distribution and service industries will continue to assume the main role of providing jobs in the future. In the event that wage increases cannot be expected and if such low wages are covered by double income, an environment that enables people to engage in both raising children and working must be developed.

3 Burdens in a Welfare State, Sweden

If the government cannot directly regulate the global strategy of multinational companies by means of its current policy, what policy should it adopt to protect domestic employment? A strategy is needed that establishes an economic environment that does not lead to hollowing-out and that restrains the expansion of overseas employment by Japanese companies. For reference purposes, this section examines the status of Sweden.

Sweden, which is noted as an advanced welfare state, ranks first in Europe in terms of the number of large companies per capita (3.6 companies per 1 million people) even though the total population is slightly less than 10 million. Representative companies include Volvo and Saab, automobile manufacturers, and Ericsson, a mobile telephone manufacturer. As a high tax burden is required in advanced welfare states, a company's personnel cost, which in a broad sense includes corporate taxes and social insurance contributions, naturally increases. This appears to constitute a disadvantage from the standpoint of business operations. Why, then, do many world-famous multinational companies exist in Sweden?

Let's first look at the corporate tax. In Sweden, the corporate tax includes only a national tax of 28 percent. If comparisons are made in terms of national tax, it is 30 percent in Japan and 35 percent in the United States. However, because local taxes are imposed in both Japan and the United States in addition to the national tax, the rate is far lower in Sweden in terms of an effective tax rate. Moreover, an analysis of exchange rates indicates that Sweden, which experienced an economic recession in the mid-1980s and mid-1990s, covered such sluggishness by a strategy of currency depreciation.

Then, what is the revenue source for the high level of welfare? The ratio of individual income tax to nominal GDP is 18.6 percent, and the ratio of corporate tax to nominal GDP is 3.2 percent. As far as taxation is concerned, the tax rate burden assumed by individuals is high. Now, let's look at personnel costs in a broader sense. Comparisons of social insurance contributions between Sweden and the average of the Euro block countries reveal that companies in Sweden have a heavier burden (Table 3). When the ratio of taxes (direct taxes only) and social contributions to GDP is compared with the average in the Euro block, the burden assumed by individuals is close to double that assumed by companies in Sweden. This indicates that Sweden imposes a heavier burden on individuals, and limits the burden imposed on companies to a level that is slightly higher than the Euro block average.

The notable characteristic of advanced welfare with a high burden in Sweden can be found in the lighter burden imposed on companies versus the heavier burden imposed on individuals. Companies are well aware of this strategy. Swedish companies consider that while the high burden is true, Sweden offers lower costs within Europe (except for eastern Europe) for the manufacturing industry if the corporate tax rate, exchange rate, and worker ability are all taken into account.

According to a survey issued by the Organization for Economic Cooperation and Development (OECD) in 2000, Sweden ranks twelfth among the 30 OECD nations in terms of labor cost per person including the social insurance contribution assumed by companies. While it is difficult to express worker ability in statistical data, Sweden has a reputation for a high level of education, although the ratio of students going to universities is not so high. Sweden also maintains a tradition of adult education. In other words, if personal ability is taken into account, Sweden is not a high-cost country at all.

Moreover, Sweden offers the lowest electric power costs among major advanced countries. In sum, Sweden has become a country that ranks first in Europe in terms of the number of large companies located in the country although it is a country featuring advanced welfare with

Table 3. Rate of Taxes and Social Insurance Contributions to Nominal GDP (Fiscal 1999)

(Unit: %)

	Sweden	Average in Euro Block
Taxes		
Individual income tax	18.6	9.1
Corporate tax	3.2	3.6
Social insurance contributions		
Burden assumed by individuals	3.0	3.6
Burden assumed by companies	10.0	6.6
Total burden		
Individual	21.6	12.7
Company	13.2	10.2

Source: Compiled based on OECD statistics.

a high tax burden, due to the following factors: the cost of labor is reasonable within the Euro block as the social security burden on companies is lightened and if personal ability is taken into account, the effective tax rate of the corporate tax is low, infrastructural costs such as for electric power are low and currency depreciation strategies could be adopted as measures against economic recession. The corporate taxes from these large companies and employee income taxes contribute to securing a source for people's comfortable lives after retirement.

In recent years, a shadow has started to fall on this strategy of Sweden that is filled with good things. This is because global mega-companies embarked on a full-scale reorganization of their business portfolios in order to further strengthen competitiveness. For example, Volvo sold its passenger car sector located in Sweden to Ford Motor, and specialized in the manufacturing of trucks. Similarly, Saab sold its automotive sector to General Motors, and focused on the military industry. As such, cases are emerging in which vital business sectors of Swedish companies are being controlled by overseas companies.

At the same time, the EU is expanding its coverage to include Eastern Europe. Romania, the Czech Republic, Slovakia, Poland and the Baltic states are planning to join the EU. Because of the participation of Central and Eastern Europe where labor costs are extremely low, manufacturers in Sweden are facing severe competition in terms of wages. A home appliance manufacturer also points out that research and development functions are no exception, in addition to competition in production bases. When this company conducted in-house studies to determine the future site of a research and development center, Sankt-Peterburg (Saint Petersburg) in Russia was selected as the most suitable place for the principal reasons that personnel costs are low and it is home to a high-level institute of technology.

The reorganization of global companies and the participation of low-wage eastern nations in the markets as a result of the expansion of the EU have been influencing the advanced welfare policy of Sweden. In the fall of 2003, Sweden held a national referendum on participation in the unified European currency, the euro, which was voted down. One reason for this is that if currencies are unified, Sweden's currency depreciation policy that was utilized in the past would no longer be possible. A further question concerns whether Sweden can maintain its current status as an advanced welfare nation if it becomes impossible to remain a low-cost country within the EU after the Eastern European nations begin participating in the EU.

While Sweden is currently similar to Japan in that both countries are exposed to the risk of hollowing-out, Sweden is further challenged by a restrictive situation in light of the unification of currencies and the expansion of the unified euro market.

4 Responding to Globalization

In light of the happenings in Sweden, it is important that Japan advance the abilities of its human resources. Because of growing interdependence in the economies of East Asia, high wage costs can only be justified by high productivity. A university reform movement that has been progressing in recent years should be aimed at recovering the competitiveness of Japan's human resources. Furthermore, unemployment measures must chiefly consist of strengthening occupational training rather than expanding budget deficits.

It is also necessary to correct a rigid wage system and to establish a system of "the more you do the more you are rewarded" by shifting from a seniority wage system to an incentive-based wage system. Specific measures to build a wage system corresponding to productivity include increasing the ratio of bonuses in the annual income and linking personnel costs with revenues.

While social insurance contributions constitute personnel costs in a broad sense together with cash wages, a company's burden of social insurance contributions will increase with the acceleration of an aging population with fewer children. This will obviously result in an increase in personnel costs. Although increased contributions are necessary to some extent in order to provide an environment for seniors to live their lives with peace of mind, efforts should be made to avoid imposing heavy burdens on companies. This can be accomplished by applying a greater increase in the rate assumed by individuals than that applied to companies, rather than adopting the principle of going fifty-fifty between management and labor. Further, the effective corporate tax rate should be held, at least, to a level that is lower than that in the United States.

The development of the basic infrastructure such as roads, communications, electric power, gas and harbors, should not be linked to measures addressing economic recession. Rather, the underlying concept for such development should be to strengthen international competitiveness by adopting policies to promote competition. Japan's infrastructure for the distribution of goods is far behind that of Europe and the United States. The most representative example is the highway system, which has led to arguments over the privatization of highway-related public corporations (Table 4). The matter of the development of Japan's domestic infrastructure should be argued from the viewpoint of whether the cost of the industrial infrastructure contributes to the improvement of international competitiveness in the manufacturing industry, rather than primarily focusing on a policy of expanding total demand.

The same mindset can be applied to airports. Although the Osaka International Airport was opened in 1994, the old airport in Itami, just north of Osaka, continues to be used. Landing charges at the Narita and Kansai International Airports are the highest among

Table 4. Comparison of Highway Fees (4-ton Trucks)

	Distance (km)	Charge (¥)
Japan (Tokyo – Sakai)	550	14,450
Germany (Hamburg – Wiesbaden)	530	825
France (Le Havre – Nancy)	570	6,311

Source: Compiled based on “The Survey on Actual Conditions Regarding Access to Japan,” Japan External Trade Organization (JETRO).

major countries. Because there are huge airports in Incheon, Korea, and Pudong, China (serving Shanghai), people will bypass Japan if this status remains. People naturally expect round-the-clock operations at international airports, and it makes no sense if customs procedures are not available 24 hours in ports. In Singapore and Hong Kong, it is possible to complete procedures online before arrival, and 24-hour entry into those ports is available.

So far, Japan’s manufacturers have reduced the costs of procuring material, equipment and services in order to compete with East Asia nations. However, public costs, such as electric power and road charges, which have never been reduced, continue to burden manufacturers. If infrastructural costs are not lowered, manufacturers operating globally cannot help but move their production bases overseas.

To prevent the hollowing-out of Japan, three measures are essential: improving the capability of human resources and making personnel costs variable, not imposing heavy corporate taxes and social security contributions on companies and making the public infrastructure available at low cost. It is also necessary to adopt a policy to promote competition for company groups targeting Japan’s domestic market (distribution of goods, distribution/service, finance, medical/nursing and housing/construction).

If wages in East Asia are to be determined after considering productivity as a result of the progress in globalization, they cannot be expected to increase at the rate seen during the past period of high economic growth. Therefore, to prevent a decline in the standard of living in an environment that does not allow for significant wage increases, final consumer goods for the domestic market must reflect the price mechanism. Addressing Japan’s hollowing-out essentially means keeping personnel costs in a broad sense relatively lower than the actual capabilities of its human resources and building an efficient industrial infrastructure.

People in their twenties and thirties are not fully employed by multinational companies. Many workers are engaged in non-manufacturing industries, i.e., distribution and services for the domestic market, and a matter of recent concern is the increase in the ratio of part-time workers. This has resulted in a situation of unstable employment and an increased number of low-wage workers. Stable employment of young workers must be promoted along with an improvement in the capability of human resources.

In addition to the employment environment, the mindset about what constitutes a family is also undergoing major change. The post-war economic policy simply pursued a goal of catching up with advanced countries based on an assumption of stable increases in the population. However, a view of the current status leads to the question about whether the next generation is being suitably fostered. As we entered the 1990s, measures to deal with an aging population began to be actively implemented mainly in the medical and nursing fields under the growing trend toward an aging population. In recent years, interest in public pensions has increased from the standpoint of guaranteeing an income for seniors. Protecting a stable quality of life for seniors, however, requires a base of an appropriate family posture in the working generations, especially among people in their twenties and thirties.

In the future, studies are required that focus on fostering stable family conditions that sustain the next generation and on improving the employment environment of young workers.

5 Decline in Number of Marriages

(1) Declining birth rate

A declining trend is seen in the number of marriages. Although the second round of baby boomers (those born in 1970 – 1975) have already reached the marriageable age, the annual number of marriages has remained at less than 800,000 for the past several years (in 2003 the number of marriages was 740,000). In 2002, the average age for the first marriage was 28.5 for men and 26.8 for women. In the past 15 years, the age for the first marriage for women increased by 1.5 years.

Tables 5 and 6 indicate the results of surveys conducted by the National Institute of Population and Social Security Research and Nihon Keizai Shimbun, Inc. These surveys reveal that an increasing number of singles are taking an extremely calm attitude toward marriage. The number of people who consider that “Do not care about remaining single until an ideal partner is found” is increasing, which is partly attributable to late marriages (the rate of unmarried women aged 30 – 34 in Tokyo is approximately 40 percent). The number of single men in the first half of their thirties who consider that “There are advantages in being married” is decreasing. Furthermore, the phenomenon of “all the romance is gone from my life” can be observed among many single women in their early thirties. This situation

seems to suggest a growing disenchantment with marriage.

While strong objections are raised to the traditional values represented by “Married couples should have children” and “The husband works outside while the wife takes care of the family,” young people are not evaluating single life as highly as might be anticipated. It appears that young people are not denying the reality of marriage itself.

Let’s turn again to the surveys conducted by the institute. The survey asked couples who had been married 15 – 19 years how many children they had. Their answers are called “completed cohort fertility,” and are defined as the average total number of children born to the birth cohort of each woman. As indicated in Table 7, completed cohort fertility is very stable. In Japan, it is considered that the birth rate is determined by the average age at first marriage and the completed cohort fertility of married women. Stable completed cohort fertility suggests that a major factor behind the trend toward fewer children is late marriage. The lowest level in

terms of the average number of births in a woman’s lifetime has reached 1.32, and there are no signs of recovery. Furthermore, women aged 30 or above account for more than half of the total births.

Since the social security system operates under the principle of intergenerational support, accelerations in the trends toward aging and having fewer children require institutional reforms. While the principal cause of aging is increased longevity as realized by progress in medical science, the falling birth rate is primarily attributable to late marriage. An increasing number of young people, both men and women, continue to live with their parents, which constitutes a factor of providing support to “late marriage” from an economic standpoint. It seems that the parents’ roof has truly become a so-called “shelter.”

(2) Working and raising children at the same time

The following section examines a survey conducted by the National Institute of Population and Social Security Research concerning women’s lifestyles after marriage (Table 8).

Table 5. Views on Marriage by Singles Aged 18 – 34

(Unit: %)

View	Gender	1992 (A)	2002 (B)	B – A
Intends to marry by a certain age	Men	52.8	48.1	– 4.7
	Women	49.2	43.6	– 5.6
Does not care about remaining single until an ideal partner is found	Men	45.5	50.5	5.0
	Women	49.6	55.2	5.6
Thinks there are advantages in marriage (aged 30 – 34)	Men	79.4	69.6	– 9.8
	Women	76.5	74.0	– 2.5
Objects to “Married couples should have children”	Men	6.8	15.6	8.8
	Women	9.9	24.4	14.5
Objects to “After marriage, the husband works outside while the wife takes care of the family”	Men	32.5	51.8	19.3
	Women	45.8	64.7	18.9
Singles living with their parents (aged 30 – 34)	Men	68.0	72.4	4.4
	Women	69.2	76.1	6.9
Objects to “Remaining single throughout one’s life is not desirable”	Men	29.1	31.0	1.9
	Women	38.4	40.2	1.8

Source: “National Survey on Marriage and Birth” by the National Institute of Population and Social Security Research.

Table 6. Survey by *Nikkei Woman* (May 2003 issue)

<ul style="list-style-type: none"> • To the question of “Does marriage give women happiness?” to single respondents, 65% of male respondents and 71% of female respondents selected “Can’t say.”
<ul style="list-style-type: none"> • 44% of single female respondents (aged 30 – 34) selected “Have no person to date.” To the question of “Do you actively look for someone when you don’t have a person to date,” 75% selected “No.”
<ul style="list-style-type: none"> • The following are answers to the question “When do you feel fully satisfied in your private life” to single women in their thirties (multiple choice answers): First choice: “When relaxing at home” Second choice: “When engaged in my hobby and/or learning”

Source: *Nihon Keizai Shimbun*, July 7, 2003.

Table 7. Distribution of Completed Cohort Fertility

(Unit: %)

	0 person	1 person	2 persons	3 persons	4 persons or more	Average
1982	3.2	9.2	55.6	27.3	4.9	2.23 persons
2002	3.4	8.9	53.2	30.2	4.2	2.23 persons

Source: “National Survey on Marriage and Birth” by the National Institute of Population and Social Security Research.

Table 8. Lifestyles of Single Women (Ideal and Actual Plan)

		(Unit: %)		
		1992 (A)	2002 (B)	B - A
Housewife without outside work	Ideal	33	19	- 14
	Actual plan	24	14	- 10
Re-entry into employment	Ideal	30	37	7
	Actual plan	46	42	- 4
Both outside work and raising children	Ideal	19	28	9
	Actual plan	15	18	3
Unmarried with outside work	Ideal	3	5	2
	Actual plan	10	12	2
(Reference) Expectations of women by single men	• Housewife without outside work	30	18	- 12
	• Re-entry into employment	44	47	3
	• Both outside work and raising children	11	19	8

Source: "National Survey on Marriage and Birth" by the National Institute of Population and Social Security Research.

Similar to the situation in the United States where the ratio of double income families has been increasing, the number of single women intending to remain housewives without working after marriage is also decreasing in Japan. The matter generally concerns choosing between continuing to work at the same company after marriage and childbearing or retiring from the company at the time of marriage or childbearing, then working as a part-timer after a certain period. The survey indicates that many women feel they must retire from the company after childbirth although they would prefer to continue to work at the same company and raise their children. In addition, the number of men who want their wives to continue to work is also increasing, probably from the standpoint of increasing revenue.

However, it appears that the public as a whole is not taking a positive view on double-income families. According to the "World Values Survey" conducted in 2000 by Professor Ronald Inglehart, et al. of the University of Michigan in the United States, 38.5 percent of male respondents and 38.9 percent of female respondents in Japan endorse working by both husband and wife. In particular, such an endorsement by seniors is low. Looking at other countries, 96.1 percent of both male and female respondents in China and 70.1 percent of male respondents and 74.3 percent of female respondents in Korea endorsed working by both husband and wife. The low level of endorsement of working by both husband and wife in Japan is seen as extraordinary in East Asia.

The fact that a system to permit adopting different surnames by a couple after marriage, which was proposed in a bill to amend Japan's Civil Law, was not enacted due to strong opposition by advocates of traditional family values suggests that there are still many people who object to the social trend of working by both husband and wife. Under the current status of Japan's society, young couples face difficulties in realizing their desire to raise children while both partners also work outside the home.

There is a major difference between regular and non-regular employees in receiving support for childbear-

ing. According to the "Twenty-first Century Birth Survey" by the National Institute of Population and Social Security Research, 67.4 percent of women who were working in 2000 and had their first child in 2001 retired from their company. The rate of quitting one's job is extremely high for part-time workers. Nearly 60 percent of all mothers who have a child (children) aged 1 or above have never used a maternity/childcare leave system or nurseries. More than 90 percent of mothers who are regular employees working at companies with 100 or more employees have used a maternity/child-care leave system.

Although many women would like to work at the same company after taking maternity/childcare leave, the realization of their desire is prevented by the actual working environment, discrimination against non-regular employees and a shortage of nurseries.

As of April 2003, about 5,000 children were listed as waiting to enter nurseries in Tokyo (30,000 to 40,000 children in Japan). Various attempts have been made in the private sector such as introducing intra-company nurseries. However, the necessary administrative measures are not being implemented in a timely and rapid manner. Because of the prolonged economic recession in the 1990s, the ratio of non-regular employees among young workers continues to rise. Japanese terms such as *shunto* (annual wage negotiations) and *base-up* (increase in base wages) are becoming obsolete words. In order for young couples to work while raising children, it is necessary to take measures such as constructing additional nurseries, increasing the childcare allowance and fully implementing a maternity/child-care leave system.

As of May 2003, there were 14,000 nursing facilities for schoolchildren of families where both parents are working after school is over; 540,000 children were using these facilities. Similar to nurseries, these facilities are also in short supply. While private organizations and municipalities operate these facilities by using unused classrooms in elementary schools, etc., there are many problems, such as difficulties in securing space and the lack of qualified attendants.

Recently, greater activity is being seen mainly among NPOs to secure places for older children (junior high and high school students) to stay after school is over for the day. Within the next two to three years, the Ministry of Education, Culture, Sports, Science and Technology plans to create community sites where junior high and high school students can freely get together. As background behind these moves, there are problems such as increasing rates of juvenile delinquency, students not going to school and staying at home.

6 Weakened Families

In 2001, the number of recognized crimes (cases recognized by police as crimes after receiving reports) was 2.74 million, and the number of crimes per 100,000 population was 2,200, the largest number after World War II. The number of major crimes, such as burglary, indecent assault, violence, threat, injury and theft, is sharply increasing. At the same time, the arrest rate for such serious crimes is below 50 percent and public peace and order is rapidly deteriorating.

While one of the causes for this situation is an increase in non-Japanese criminals (out of four defendants in the Tokyo District Court, one or more is a foreigner), the increase in juvenile delinquency is another major factor. Although persons aged 14 or above and less than 20, who are classified as juveniles under the Criminal Law, account for 7 percent or less of the total population, juveniles make up 40 percent of all criminals. This represents a crime rate about eight times greater than that of adults (2001).

Because it is projected that Japan's population will decline over the long term, it will not be possible to stop the increase in the number of foreign workers. However, it should be noted that the increase in the number of foreign workers would tend to lead to an increase in major crimes in large cities. Efforts must be made as a society to minimize such side effects.

While the majority of juvenile crimes consists of shoplifting, the number of burglary and blackmailing cases has recently been increasing, and juveniles aged 14 – 17 present the highest probability of committing burglary among all age categories. Moreover, the number of crimes committed by women is also increasing. In particular, young girls account for about half of all burglary arrests. In the past, an extraordinary situation was seen in Japan where the adult crime rate was low although there were many juvenile delinquents. However, under the recent circumstances consisting of an increase in the juvenile crime rate as well as in unemployment, the adult crime rate is also increasing. In order to maintain public peace and order in all of society, it is necessary to reduce the number of crimes committed by the younger generation.

The number of juveniles who committed major crimes including homicide and burglary in 2003 was

2,212 persons, up by 11.4 percentage points over the previous year. At the same time, the number of juvenile victims also increased (to 390,000). This is the worst annual record since the start of taking crime statistics, with 415 cases of juvenile kidnapping and 6,200 cases of indecent assault on minors. Juveniles have become the attackers and the victims as well.

The assumed causes for juvenile delinquency include inadequate monitoring by the community society, lack of home discipline and insufficient links between school and family. However, if attention is paid to the changes in the social environment, the high degree of interrelationship between the active participation of women in society and the increase in divorces since the mid-1970s, and the rise in juvenile delinquency cannot be ignored.

The number of divorces has sharply increased from 150,000 in 1990 to 290,000 in 2002 (the number of marriages in 2002 was 760,000). Since the latter half of the 1970s, women's perception of divorce has changed as the number of women who have outside jobs increases. (In the 1990s, the Japanese term *batsuichi* [meaning having experienced divorce once] emerged, which conveys a positive view of divorce.) Although the number of divorced seniors has recently been rising, divorce within ten years after marriage accounts for 60 percent of all divorces. As the basic concept adopted under the Family Law has also been shifting to the rule of no-fault divorce (claims for divorce are simply approved based on broken status even if neither side is at fault), the number of divorces is expected to continue to increase further. The issue is whether a social mechanism is available for children who will be thrown into a somewhat distressing status by their parents' divorce to protect them from crime.

Since an increase in the number of working women is unavoidable, the number of divorces will also increase as the economic power of women increases. However, divorce almost always affects the children. It is the responsibility of society to stem such increases in juvenile delinquency. Europe has a system in which the government bodies in charge of tax administration or social insurance make payments for a sustenance allowance and educational expenses. Without such a system in Japan, the average annual income of a fatherless family is only about one-third that of an ordinary family, or ¥2.3 million.

Furthermore, the number of jobless people has been increasing due to the prolonged recession, creating an environment likely to promote kidnapping and sexually related crimes. With the end of the period of economic growth, substantial efforts are now required to protect children from crime and, at the same time, not to make children into criminals.

While the number of school violence cases within elementary and junior high schools has been hovering in the past two to three years (29,000 in fiscal 2002),

these cases have been occurring in about 20 percent of all elementary and junior high schools. The number of “bully” cases has been declining consecutively for the past seven years, with 22,000 cases in fiscal 2002, a drop of 10 percent from the previous year. This indicates that remedial measures taken in the schools have been taking effect.

However, something must be done about sexual morality. The rate of artificial abortion among children in their teens increased from 0.3 percent in 1975 to 1.2 percent in 2001. If improved morals cannot be expected, sexual education must be fully provided because the issue of AIDS is also involved. The reckless acts of juveniles must be stopped in cooperation with their families by assigning teachers, police and counselors in each community.

The sharp increase in the number of children who refused to go to school in the early 1990s decreased from the previous year for the first time after the 1990s to 130,000 children in fiscal 2002 (among them, 105,000 junior high school students). Children who refused to go to school made up 0.5 percent of all elementary school students and 2.5 percent of all junior high school students. Because there are many cases in which children who do not go to school stay at home, a more active approach is needed in providing support.

Conversely, the number of consultation cases concerning poorly treated children at child consultation centers has been greatly increasing—from 1,100 cases in 1991 to 24,000 cases in 2002. The number of cases in which mothers abuse their children is increasing. These increases result from the accelerating trend towards fewer family members, a sense of unease about raising children without support, or situations in which young mothers are not yet mature.

With changes in the social environment, working by both the husband and wife has no longer become special, and the era in which the role of raising the children is assumed by only the mother is also passing. However, the social environment that facilitates both working and raising children without any special efforts has not yet emerged. There are still many cases in which a mother has no one around (or thinks she has no one around) to ask for advice. Divorce has become common. Community relationships have weakened, leading to insufficient community supervision of children. The basic principles of discipline in society as a whole remain vague.

Community relationships must be strengthened to permit child raising by working couples without any special efforts and to stop the increase in juvenile delinquency. Teachers, police, counselors and family must unite in dealing with these problems. Specifically, measures urgently required include: the additional installation of nurseries, nurseries serving as child-care centers in the community and at the same time as consultation centers for those having problems in raising

children, the enhancement of care for schoolchildren at elementary and junior high schools after school and the construction of consultation centers that provide advice to parents who have concerns over their children. Group homes that accept poorly treated children and women distressed with domestic violence are also required.

The economic policies adopted in the past assumed that the next generations would be reproduced smoothly. However, this assumption is collapsing. In order to maintain future generations on a stable basis, social support is required. Changes are taking place in family status, and family relationships have been weakened. What is called for is the establishment of a living environment that enables working couples to spend more time with their children.

7 Are Young People Socially Weak?

As of March 2002, the number of students who graduated from a school, but neither entered a school of a higher grade nor went to work, amounted to 285,000 – 120,000 university graduates, 25,000 junior college graduates and 140,000 high school graduates. If our attention is limited to the university graduates, of the 610,000 who entered universities in 1998 and, after excluding those who got jobs, left university before graduation or went on to postgraduate courses, about 20 percent did none of these. There is a high probability that the majority of graduates without specific jobs in mind become part-time employees.

The rate of high school graduates (i.e., the rate among all high school graduates who enter society) who neither attend school nor work increased from slightly more than 12 percent in 1990 to about 35 percent in 2000. In the case of university graduates, the rate also increased, from slightly over 7 percent in 1990 to more than 25 percent in 2000. From the early 1990s to the present, the number of people who completed higher education but then participated in society without regular jobs has continued to increase. At the same time, during the 1990s, the rate of unemployment of persons aged 20 – 24 increased from 4 percent to 9 percent. The rate of unemployment of persons aged 25 – 29 during the same period increased from 3 percent to 7 percent. Both groups greatly exceeded the average rate of unemployment.

Some might believe that different criteria should be applied for pursuing an education and for becoming employed. Nevertheless, of all students scheduled to graduate from universities in March 2004, only 73.5 percent have had offers for regular jobs and the remaining students have no alternative other than becoming jobless or part-time workers. In light of this situation, I wonder if today’s young people are becoming the “weak generation.”

It is considered that adolescence nears its end when a person gets a job and becomes a regular member of

society, and that it actually ends when the person gets married and has a child. In actuality, this assumption represented a quite common social process. Since the 1990s, however, the number of persons who cannot really be called youth and yet who cannot be considered full-fledged adults even though they are slightly more than 30 years old has been increasing. This is because of prevailing phenomena such as the growing trend toward late marriage, the increase in the rate of part-time employees, the rise in the rate of unemployment among young people and the increase in the rate of university graduates who are neither taking post-graduate courses nor are working regularly.

In Europe, young people who deferred their decision on their future appeared in the latter half of the 1970s in an affluent society. These people were referred to as young people in their “moratorium” phase. From among this group of “moratorium young people,” even homeless young people emerged in the latter half of the 1980s.

As long as parents can provide a shelter, it is fully possible for young people to live unstable lives such as part-time workers and to defer decisions on their future. However, if this shelter were no longer available due to the parents’ loss of jobs or divorce, such young people would have no choice but to become homeless young people. “Moratorium young people” should not have been criticized from an ethical standpoint. Rather, they should have been recognized as those who could not stand on their own two feet and who had a status of zero. As the increasing trend in the divorce rate and the rate of part-time workers has been seen in Japan as well, there is a possibility that Japan may face a situation similar to that in Europe.

In dealing with the increase in the number of zero-status people, the United Kingdom strengthened its programs of occupational training. Inability to get a job during adolescence when one should be accumulating experience by working can cause major damage to one’s life. At the same time, it was feared that young people who would become socially weak would gradually descend to the lowest stratum of society and would become an unstable factor in society. In Japan as well, young people who are looked upon as the driving force of future society should be afforded more protection than seniors.

Although there is a tendency to ethically and implicitly criticize so-called “parasite singles” who live with their parents, this phenomenon should be viewed from the perspective that they must live with their parents because the number of part-time workers whose annual income is less than ¥2 million is increasing. If the parents on whom these people rely face a crisis such as the loss of a job or a divorce, it can be readily imagined that the same error as occurred in Europe might occur in Japan as well. If no measures to deal with these problems are taken, it is highly likely that this genera-

tion will become the socially weak just around the time when they reach their thirties.

Japan’s economic policy in the 1990s consisted mostly of an increase in public investment and an enhancement of social security on the assumption of budget deficits. What should be most stressed, however, are the measures taken for the employment of young people. Steps should be taken to acquaint young people with worthwhile occupational skills that can be used throughout their lives, and to prevent them from reaching their thirties as unskilled, part-time and poorly paid workers.

In addition, the work environment must also be improved. When free-spirited part-timers (known as “freeters” in Japan) started to appear during the latter half of the 1980s, they were regarded as a new breed of young people who worked when necessary and lived their lives while endeavoring to discover something out of life that they truly wanted. Under the prolonged economic recession in the 1990s, however, the number of couples both of whom are part-time employees but want to be regular employees has been increasing. Part-time employees are at a significant disadvantage in comparison to regular employees in terms of job security and welfare benefits. Such disadvantages also constitute a factor for part-timers who are reluctant to have children.

8 Reform of the Labor Market

As domestic industries need major structural changes due to the acceleration of hollowing-out, it is worth giving a thought to the concept of work sharing in Europe under the situation in which the overall demand for labor is unable to sustain. This method essentially means reducing the number of jobless people by reducing the number of working hours for employed workers or by maintaining the employment of young people by encouraging early retirement.

So far, companies in Japan have taken measures to reduce costs by reducing the employment of regular employees and by increasing the number of low-paid, part-time employees. Companies were successful in reducing costs by regarding differences in status as differences in treatment. Nevertheless, even though early retirement of seniors has been encouraged, this practice does not appear to have taken root as part of the social system, and there are no signs of a decline in the rate of unemployment among people in their twenties. Rather, considering the trend toward prolonged longevity, many proposals presented so far concern a policy of facilitating the employment of seniors. Society should be more concerned about the high unemployment rate among young people and the rise in the ratio of part-time employees.

(1) Work sharing in the Netherlands

In the 1990s, a new type of work sharing spread rapidly in the Netherlands. As a measure against stagflation (a

rise in the rate of unemployment under price inflation), work sharing was started as a result of the Agreement of Wassenaar in 1982 (an agreement on the restriction of wage hikes and the liberalization of the labor market made at a conference in Wassenaar, the Hague). It was agreed that wages should be determined between enterprises and labor unions with no governmental intervention. As a result, wage increases based on a sliding scale were no longer applied, and work time was reduced in return for restricting wage increases. From 1982 to 1990, a 6-percent reduction of standard work hours of full-time employees was implemented in order to maintain employment.

Since revenues were unable to grow after inflation was brought to an end, the need for both husband and wife to work increased. As the wife was traditionally expected to take care of the family in the Netherlands, an environment permitting couples to work was not fully available. While the starting point of work sharing was to reduce the number of work hours of all workers for the benefit of jobless people, attention was also paid to the fact that the increase in the number of people working on a reduced-time basis might lead to an expansion of employment.

Although the wages of the husband who works on a full-time basis would be reduced due to the reduction of work time, the total revenue would be increased if the wife also works. Besides, if neither husband nor wife works on a full-time basis, the couple could use some of the time to take care of their children. In terms of the industrial structure, the development of businesses related to the distribution/service and nursing/medical fields that are suitable for part-time work provided an advantage in the pursuit of work sharing.

In the Netherlands, work sharing was also promoted in terms of policy. To avoid any imbalance between part-time and full-time work, the principle of the same wage for the same work (including social security contributions borne by companies) was adopted under the amended Labor Law in 1996. In the Netherlands, part-time and regular employees who perform the same work are paid the same wage per hour. This is not the case in Japan.

The 1996 amendment also added provisions that “employers must consider the responsibility of workers for raising children and providing nursing care in determining employee work time” in recognition that this is now an era in which employees should spend time for these purposes and from the standpoint of promoting work sharing. As a result, it has become no longer possible for employers to neglect requests for reducing work time by employees who are responsible for child raising and nursing care. This is the “family-friendly employment” of the Netherlands.

This new format of working has primarily penetrated into the public sector and the private sector, such as medical/nursing-related NPOs, hotels, distribution, ser-

vice, and financial industries, which fall under the labor-intensive business categories for the domestic market, rather than into multinational companies. Many part-time employees are women.

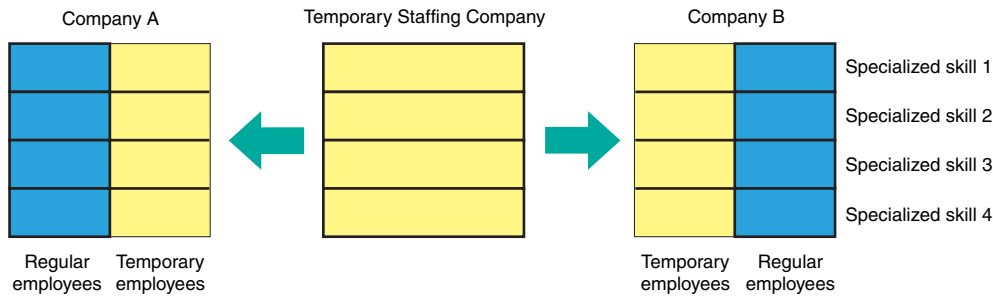
Reform of the labor market is also required in Japan in order to reduce work time, prevent unemployment and ensure the fostering of future generations. There are large gaps in wages between part-time and regular employees even when they perform the same job. Furthermore, there is no stress-free environment currently available to working couples for raising their children in the three major economic blocs. Measures should be taken to provide working couples with stable revenues as well as time for childcare. One way of doing this would be by introducing the Netherlands version of work sharing (with the principle of paying the same wage for the same work) in the distribution/service and financial industries that target the domestic market, as well as in the public sector.

(2) Increasing importance of temporary staffing companies

Since sales fluctuate in the face of global competition and because of the conversion of the industrial structure, companies can no longer increase the ratio of their regular employees from the current level. Future employment policy will need to pursue work standardization to the maximum possible extent on the assumption of an outside labor market, rather than an internal staff. Active efforts will also be made to develop new employment systems by targeting the time when baby boomers will reach retirement. Because companies are expected to limit regular employees to core employees (management executives, core engineers and skilled engineers) and to rely on outsourcing firms or temporary staffing companies for those parts of their operations that can be standardized, temporary staffing companies will be counted on to provide a fixed number of workers on a constant basis. Accordingly, the importance of temporary staffing companies will increase.

In the 1990s, many companies used temporary workers in place of female clerical and secretarial workers. However, more recently, there has been an increasing number of temporary workers in the front-line operations of manufacturers. Although most temporary workers now do clerical work, the ratio of regular workers will further decline if temporary staffing companies can provide personnel well versed in professional work such as the maintenance of local computer networks. As a means of preventing early resignation due to a gap between one's desire and actual status at the company, which has recently been seen among young people, a path from temporary positions (during which one can learn about the company) to regular employment should also be provided. With respect to welfare benefits, persons registered at temporary staffing companies should be covered by the welfare pension insurance program and the national

Figure 5. Functional Classifications of Regular and Temporary Employees



health insurance program in the same way as ordinary salaried workers.

While there are people such as independent contractors in the United States (those who contract with a company personally and receive remuneration accordingly) and entrepreneurs who start their own businesses, the ratio of salaried workers will not decline from an overall perspective. In the future, temporary staffing companies will have a large number of registered workers with high levels of expertise in many specialized fields. Therefore, it is highly likely that companies will pursue business operations on the assumption that they can secure only the required number of highly skilled personnel from outside sources (Figure 5).

When we look at competitive status in East Asia, the lifetime employment system that characterized Japan’s labor market is collapsing. The era in which many companies can continue to grow over a long period and new recruits can naturally work until retirement in the same company has ended. It appears that salaried workers will be divided into two groups: those who pursue improvement of their status and capability in a single company after becoming experts in specialized fields and those who demonstrate their ability by moving from one company to another. Under the prolonged economic recession that began in the 1990s and the continuing competition with East Asian countries, the domestic labor market will enter an era where each person must decide which is the most suitable work group.

As seen in the Netherlands, a system is required that does not discriminate between full- and part-time employees whose work time is shorter (② and ④ in Table 9) and that limits differences in the treatment of regular and temporary workers within the range of economic rationality. No disadvantage in terms of treatment should be permitted in the event that work time is changed at the request of a worker because of a need for additional time for childcare and/or nursing care.

There is always a possibility that a person’s specialty will become obsolete because of changes in industrial and business structures. Accordingly, it is also necessary to establish a system that offers low-cost occupational training in order to provide timely “specialists,” such as the development of special technical schools for adults.

Table 9. Classification of Full- and Part-Time Employees

	Regular	Temporary	Short-term assignment
Full-time	①	③	
Part-time	②	④	⑤

Note: Part-time employees are those persons working fewer hours per week than the number of hours worked by full-time employees.

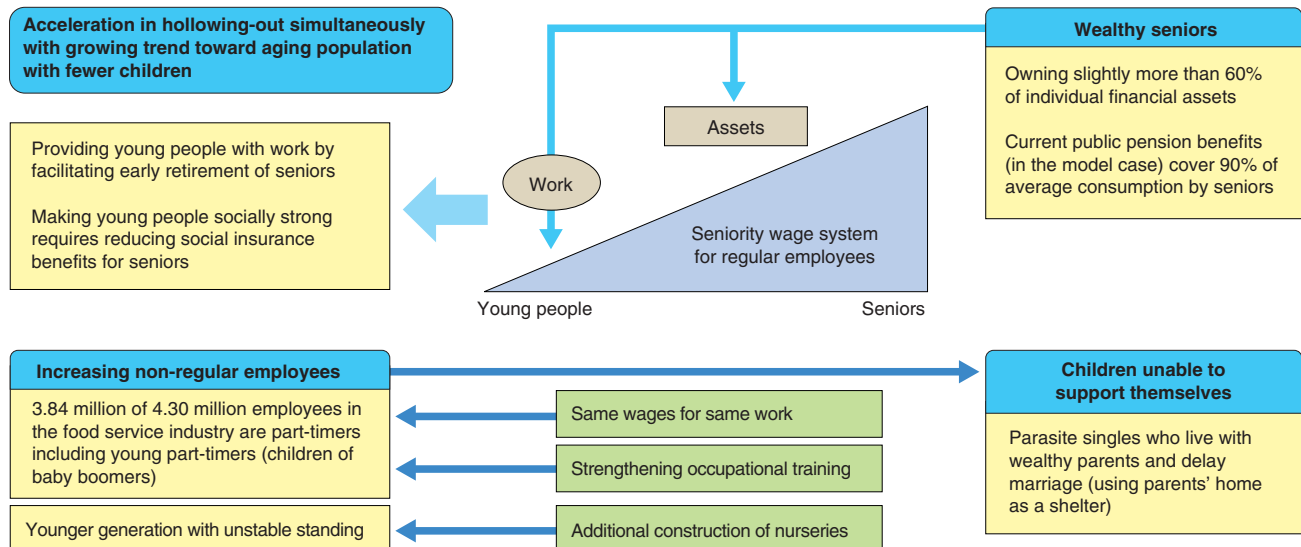
IV Need for Sharing Roles among Working and Retired Persons

Figure 6 summarizes the interdependence between the generation of working persons and that of retired persons. Even though changes are gradually taking place, the seniority system still forms the base of Japan’s seniority wage structure. In the 1990s, company revenues declined, and the number of new recruits was substantially reduced in order to maintain the employment of existing employees. As a result, the rate of unemployment of young people largely exceeded the average rate of unemployment. This situation still remains.

In the 1990s, the domestic market was penetrated by inexpensive products made in Southeast Asia (most recently in China) due to an increase in direct investment in Asia by Japanese companies. This led to the restructuring of domestic business departments of the manufacturing industry. At the same time, an increase in direct overseas investment by multinational companies targeting a global market in their efforts to look for optimal production sites also brought about reduced employment in the manufacturing industry in Japan.

Consequently, the distribution and service industries have come to assume the principal role of absorbing new recruits. Under the deflationary economy, however, these industries have also been driven by price competition, and have endeavored to acquire only the number of workers required as needed so as to cut personnel costs. In the food service industry, 3.84 million out of 4.30 million employees are part-timers. The total number of young part-timers continues to increase, and the number now probably exceeds 4 million. The current labor market of the younger generation that shows a high rate

Figure 6. Current Status of Interdependence between Generations



Note: The inheritance/gift tax integration system is applied to assets; the preferential treatment for gift tax is applied up to ¥15 million for the purchase of a house by children.

of unemployment and a high ratio of non-regular workers can in no way be described as having a sound status.

It has become clear that a major cause for fewer children is attributable to late marriages, and the parasite single hypothesis was contrived to explain late marriages. The term parasite singles connotes an ethical criticism of young people who do not support themselves. However, in view of this increasing number of low-wage workers with an unstable standing among young workers, some sort of governmental policies are required that assume them as socially weak people who are unable to support themselves from the outset.

Companies substantially reduced the number of new recruits in order to protect the employment of existing workers in the 1990s. As a result, the parent generation was able to enjoy relatively higher wages while the employment environment of their children worsened. Under this concept, it appears that it is only natural for young part-timers to depend upon wealthy parents for support. The economic policy of the 1990s that protected existing employment by expanding total demand based on a budget deficit and the policy adopted by companies to lower wages to maintain employment did protect the employment of existing workers. Unfortunately, it did not protect the younger generation that is now presented with the challenge of ensuring the future success of Japanese society.

In contrast, the rapid progress of countries in Southeast Asia is remarkable. Since it is no longer possible to manufacture low-value products in Japan, domestic production must focus on high-value-added products. The only way of maintaining higher wages as compared to those in other Asian countries is to increase productivity by skilled employees and an advanced social infrastructure. Therefore, it is imperative that we

strengthen the system of occupational training for young people in order to increase the levels of knowledge and expertise. Moreover, it is also necessary that we increase the level of higher education. Japan's failure to continue as the center of research and development among multinational companies and as the manufacturing center of high-technology products will lead to further acceleration of the hollowing-out phenomenon.

While increases in social insurance contributions may be unavoidable with the aging population and fewer children, the vitality of the working generation would be lost if an excessive burden were imposed on persons of working age. Moreover, because most social insurance contributions are split fifty-fifty between labor and management, the increases in the burdens of companies will have a negative impact on their investment and employment. Any increase in social insurance contributions for companies should be limited to a minimum.

Because the system is based on the principle of inter-generational support, the social security system can be sustained with the income increases of the working generation and a stable birth rate. A socio-economic environment that encourages working people to have two or more children is necessary in order to protect the quality of the lives of seniors. To some extent, a degree of sacrifice is required of seniors.

Today, with the retirement of the baby boomers close at hand, the payment of pension benefits begins at age 65 even though the retirement age is usually 60, creating an empty period of five years. Accordingly, there are many opinions that endorse the promotion of employing seniors by extending the retirement age to 65. However, it is more important to society (including seniors) that we give more priority to the employment of young people. If many of the more than 10 million

baby boomers were reemployed for four years, young people would be deprived of employment opportunities.

At the same time, readjustment of the industrial structure in the domestic market will also proceed as China's economy continues to blossom. There is little likelihood that the supply and demand relationship in the domestic labor market will be amply improved by an acceleration of the growth rate. As noted previously, the future of Japan has no option other than to depend on improvements in the personal ability of young workers, and seniors should withdraw from the existing labor market. Instead, seniors need to find new purposes in their lives that make their lives more meaningful.

Helping seniors live their lives while making the best use of their remaining capabilities will increase the importance of NPO volunteers who conduct activities firmly rooted in local communities. Support by volunteers is required not only by seniors but also by people who have concerns such as how best to raise their children.

Since the 1990s, links among family members have grown weak. In addition to families, schools, counselors, police and municipalities must unite to eliminate crimes committed by children and, at the same time, protect children from crimes. Various types of NPO volunteers are needed in the local community to support childcare, such as foster parents, shelters to protect victims of domestic violence, and childcare support for working couples.

I look forward to the participation of baby boomers facing retirement in volunteer activities that are not yet fully developed in Japan. I hope they will provide sup-

port to both seniors and children, rather than competing with the younger generation in the labor pool.

Many baby boomers are still "company men." If they end up living their lives after retirement as only a couple without close relationships with their relatives, they will eventually face the need for support by volunteers. If volunteer activities in the local community have gotten under way and a plan to provide support not only for their old age but also for children is firmly developed, concerns over their own future will be alleviated. I wonder if it is about time for baby boomers to spend some quality time doing something other than that related to their companies. Isn't it about time to discover some other reasons to enjoy life?

References

1. *A Trend toward Fewer Children and Aging and Vitalization of the Working Generation: Japan's Priority Tasks 2001* (in Japanese), NRI, 2000.
2. *Prescription for Japan's Regeneration: End of Growth Myth and New Challenges* (in Japanese), NRI, 2003.
3. Masahide Maeda, *Nihon no chian wa saisei dekiru ka* (Can Japan's Public Order Be Recovered?), Chikuma Shobo Publishing Co., 2003.
4. Michiko Miyamoto, *Wakamono ga "shakaiteki jyakusha" ni tenraku suru* (Young People Degrade to Socially Weak People), Yosensha, 2002.

Minoru NAKAMURA is an executive fellow at NRI. His specialties include taxation and social security theories.

As a leading think tank and system integrator in Japan, Nomura Research Institute is opening new perspectives for the social paradigm by creating intellectual property for the benefit of all industries. NRI's services cover both public and private sectors around the world through knowledge creation and integration in the three creative spheres: "Research and Consulting," "Knowledge Solutions" and "Systems Solutions."

The world economy is facing thorough structural changes led by the dramatic growth of IT industries and the rapid expansion of worldwide Internet usage—the challenges of which require new concepts and improvement of current systems. NRI devotes all its efforts to equipping its clients with business strategies for success by providing the best in knowledge resources and solutions.

NRI Papers present selected works of NRI's 3,000 professionals through its worldwide research network. The mission of *NRI Papers* is to contribute new ideas and insights into business management and future policy planning, which are indispensable for overcoming obstacles to the structural changes in our society.

All copyrights to *NRI Papers* are reserved by NRI. No part of this publication may be reproduced in any form without the prior written consent of NRI.

Inquiries to: Corporate Communications Department
Nomura Research Institute, Ltd.
E-mail: nri-papers@nri.co.jp
FAX: +81-3-5255-9312