

The Politics of Pension Retrenchment in Japan

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Introduction

Pension reform is brought on the political agenda in Japan almost every five years in mandatory actuarial re-valuation. Before 1985, pension reform meant the expansion of pension, or raising levels of benefits with minimum increases in contributions. In the 1985 reform, however, the government reversed the trend by tightening the relationship between benefit and contribution. Most noteworthy is cost-containment by reducing the level of benefits, which was authorized for the first time in the Japanese pension history. Benefit-cuts and contribution raises were repeated in the subsequent reforms of 1989, 94, and 1999¹. Pensionable ages in employees' pension schemes were raised in the 1994 and 1999 rounds. Thus, the keynote of pension reform in Japan has turned to retrenchment since the 1985 reform.

This paper aims to delineate the retrenchment process in Japan and analyze its major constraints and determinants. I argue that institution matters in the process of retrenchment in Japan as elsewhere, but not in a conventional way. Institutional settings promote, rather than prevent, a change in Japan. Institutional fragmentation embedded in the Japanese pension system had caused financial tightness in specific pension schemes in the early 1980s before serious population aging took place, which compelled the government to embark on the overhaul of the pension system. I also argue that the retrenchment process in Japan can be traced considerably well with the idea of "blame avoidance²." Masterful skills of blame avoidance unfolded by policy makers successfully brought about the gradual and steady extension of retrenchment, but the politics of blame avoidance reached its limits in the face of accelerated population aging.

I first outline major features of the pension system in postwar Japan and clarify the influence of historical contingency and path dependency on its basic structure. Secondly, however, I argue that historically created, specific institutional settings brought about a crisis of the pension system, which in turn promoted its rearrangement.

Thirdly, I introduced the idea of blame avoidance and show how nicely it can explain pension retrenchment in Japan. Finally, I address problems left unresolved, or exacerbated by the blame-avoidance politics.

1. Pension Development in Postwar Japan

Japan's pension system is based on the Bismarckian model. It is composed of occupationally fragmented social insurance schemes: the Employees' Pension Insurance (EPI) for private sector employees, various mutual-aid pension plans for governmental and para-governmental employees, and the National Pension Insurance (NPI) for those uncovered by the above two types, including the self-employed and farmers. The NPI provides flat-rate benefits, while employees' pension benefits are earnings-related. Employees' pension schemes used to have both flat-rate and earnings-related tiers, but the flat-rate tier was integrated with the NPI into the Basic Pension (BP) in 1986.

All schemes are basically financed on a pay-as-you-go (PAYG) basis, but a clear difference is witnessed between the NPI and others. The NPI is heavily subsidized by general revenue. A third of its expenditure is currently paid out of tax and the ratio of subsidization is scheduled to go up to a half of it in the near future. The increase in arrears, combined with the shrinking workforce in agriculture and small independent businesses, exacerbated fiscal tightness in the NPI. It is roughly estimated that a third of NPI members (those obliged to join the program) fail to pay their contributions. Since employees' schemes, on the other hand, have huge fund reserves for a PAYG scheme (e.g., the EPI keeps a reserve tantamount to its six-year expenditures), it is often referred to as partially funded schemes.

Occupational fragmentation, however, was not intentionally created. It was a by-product of another feature of Japan's pension system; that is, a mixture of private and public pension. During the turmoil following the end

of WW II, the concern of public welfare was limited to the protection of the war victimized and hard-core poor. Given the fact that public welfare could provide little for workers and their families, employers took the lead in responding to employees' demands. Together with company housing, lump-sum retirement payments came to be provided in major firms by the early 1950s and spread among smaller firms afterwards thanks to preferential tax treatment. The 1952 revision of the tax code made retirement payments non-taxable business expenses.

In the mid-1950s, the government embarked on the overhaul of public pension schemes as the economy got on the right track. Welfare bureaucrats hoped to reactivate the EPI as an umbrella scheme covering all private-sector employees and providing major financial bases for their retirement life. Employers, however, were negative on the idea of expanding public pension on the grounds that improved public pension in addition to corporate retirement payments would cost too much. Employers' resistance successfully kept the level of EPI benefits low in the 1950s, reaching barely a third of its counterparts of mutual-aid schemes in 1960 (Tada 1991: 145). Such a low level of EPI benefits facilitated the proliferation of mutual-aid schemes. Employees in para-governmental associations, such as teachers and clerks in private schools and employees in cooperatives of agriculture, forestry, and fishery, left the EPI to form their own mutual aid plans (Tada 1991: 147-153).

The level of EPI benefits was improved at last in the 1960s as a result of a compromise hammered out between welfare bureaucrats and employers. In the late 1950s, the Japan Employers' Association (JEA) demanded a change in the tax code to introduce the tax-qualified pension with the hope of leveling off annual expenses by shifting from lump-sum payment to pension. The Ministry of Health and Welfare (MHW) opposed the idea by arguing that the new corporate pension scheme would make the improvement of EPI more difficult than ever. A stalemate was broken by the JEA's proposal of EPFs, which was publicized in November 1961 as a necessary condition for the improvement of employees' pension. Accepting the proposal of the JEA, the MHW withdrew its opposition to the introduction of a new corporate pension scheme. Consequently, the tax code was revised in 1962 in such a way as to introduce the tax-qualified pension. The establishment of EPFs was allowed in 1966 in spite of labor's fierce resistance³.

To sum up, the historical contingency that corpo-

rate welfare provisions were developed first in postwar Japan defined the subsequent development of public pension. Widespread retirement allowances made employers negative on the expansion of EPI. The resultant low level of EPI benefits in the 1950s in turn led to the proliferation of mutual-aid plans. Finally, the linkage between the introduction of the tax-qualified pension and the improvement of EPI further complicated Japan's pension system.

2. Pension Retrenchment

(a) Retrenchment in the 1980s

Population aging provides a quite powerful facilitator of pension retrenchment. Unless pension is completely funded, or as long as pension is financed by the pay-as-you-go (PAYG) approach, population aging inevitably causes financial tightness, which in turn urges reform for cost containment. In this vein, Japan's retrenchment merits discussion. When Japan steered its pension policy toward retrenchment in the early 1980s, its population aging was not so serious to cause a financial problem. Granted that the aged population in Japan gradually increased in the 1970s, Japan's aging ratio (the ratio of those aged over 65 to the whole population) was only 9.6 percent in 1982, which was much lower than its counterparts in West European countries⁴. Social spending as percentage of the National Income remained the smallest among major OECD member countries. Japan spent 10.1 percent of the National Income for social security in 1981, whereas France spent 26.6 percent, West Germany 22.5 percent, Sweden 20.7 percent, the U. K. 10.7 percent, and the U. S. 10.2 percent (MHW 1984).

Nevertheless, "reconsideration of welfare" was a central theme of political agenda in early the 1980s. That happened with specific grounds. A major reason was accumulated fiscal deficits in the 1970s, which was caused, first of all, by reduced tax revenues following the 1973 oil crisis, and, second, by expansionary fiscal policy to stimulate the domestic demand (public work expenditures increased by an average of over 22 percent between 1976 and 1979). Social security expenditures also experienced a surge due to generous reforms in the early 1970s, though their ratio to national income was still low by comparison, as aforementioned. Consequently, public bond dependency reached 40 percent in the 1979 budget plan. Against this backdrop, the government started cutbacks particularly in social security to restore fiscal balance.

Social security systems had their own problems. Specific schemes suffered fiscal deficits in spite of relatively low spending for social security, due to institutional fragmentation. For example, the NPI turned into the red in the early 1980s, in spite of generous subsidies covering all administrative costs and a third of benefit payments. In addition to difficulties in collecting NPI contributions, a decrease in the number of farmers originally expected to be the core members of the NPI exacerbated its fiscal tightness. The agricultural employment reduced in number from 8.42 million in 1970 to 5.02 million in 1982. Its percentage of the total workforce shrank from 16 percent to 9 percent.

To alleviate its fiscal tightness, the NPI was integrated with flat-rate tiers of employees' pension schemes into the basic pension scheme in 1985. The new framework enabled NPI to receive financial support from other pension funds. Along with such "fiscal adjustment" across different schemes, generosity in benefits and entitlements were curtailed, not to mention increases in contribution. Consequently, the replacement rate of the EPI was to be restrained below 70 percent. The minimum contribution period to obtain entitlements would be extended also gradually from 20 years to 25 years⁵.

To sum up, the pension reform of the 1980s was precipitated by deficits in overall public finance as well as fiscal tightness in specific schemes due to institutional fragmentation.

(b) Retrenchment in the 1990s

After introducing fiscal adjustment by the 1985 reform, raising pensionable ages became a major issue in subsequent reform rounds. It was considered necessary not only for cost containment but also for resolving a difference in the entitlement age between different type insureds in the BP scheme. EPI members would obtain their entitlements at the age of 60, while NPI members had to wait until 65. A change in the pensionable age, however, was one of the most difficult items of reform because of its direct and clearly tangible loss imposed upon specific groups. Back in 1979, the MHW was forced to withdraw its proposal of raising the EPI entitlement age in the face of fierce resistance from various camps, including organized labor and pro-welfare groups. The MHW had to undergo the second setback in the 1989 reform.

A gap between the retirement age and the pensionable age was a major cause of robust reactions. When Japanese major firms established the practice of lifelong

employment, the ordinary retirement age of a male worker was 55. Since the 1970s, the Ministry of Labor encouraged firms through various measures, including recommendations and subsidies, to extend employment up to the age of 60, and retirement at the age of 60 finally prevailed by the end of the 1980s. A raise in the pensionable age would worsen the gap between the retirement age and pensionable age, which was disappearing at least among major firms. As the socialists and unions convincingly asserted, therefore, the extension of employment of those aged over 60 would be a precondition for the change.

Since the problem would not be solved in the short run, a raise in the pensionable age was unlikely to be realized in the near future. Unexpectedly, however, the idea of raising the pensionable age was accepted with no serious challenge in the 1994 reform. The age of male employees' basic pension entitlement would be raised gradually up to the age of 65 during the transitional period between 2001 and 2013, and the same procedure would be applied to the female employees between 2006 and 2018. A delay in the female case was due to the fact that the female pensionable age was in the process of rising from 55 to 60 by 1999.

To extend employment of the aged 60 and over and make a smooth connection between the retirement age and the pensionable age, various measures were introduced in the 1994 reform. First, actuarial deduction applied to working pensioners was modified lest it deprive them of work incentives. Under the former system, working pensioners were unable to increase their incomes much due to steeply progressive deduction from their pension benefits. Those who earned over 250,000 yen could receive no pension benefits. The revision allowed working pensioners aged between 60 and 64 to increase their total incomes in proportion to their earnings by modifying progressiveness in deduction. Those aged 65 and over were free from actuarial penalty.

Second, labor legislations including the Labor Dispatching Law and the Stabilization-of-Elderly-Employment Law, were revised to expand the range of flexibility in the elderly employment and thereby to encourage the employer to hire more elderly workers. At the same time, the extension-of-employment allowance for those aged between 60 and 64 was introduced to compensate for wage cuts. When they continue to work and suffer substantial losses in their incomes (more than fifteen percent of their previous salaries), the Employment Insurance Plan (EIP) provides them allowances up to 25 percent of the salary

(the total amounts cannot be over 361,680 yen). On the other hand, EIP was revised too prohibit receiving both unemployment and pension benefits, on the ground that too much generosity would deprive the elderly of the work incentive.

Following the raise of basic pension entitlement ages among employees in 1994, the 1999 reform conducted a raise of pensionable ages in earnings-related pensions. In addition, the indexation of benefits with wage raises was suspended, actuarial deduction in benefits was applied to those aged between 65 and 69, and earnings-related benefit standards of new beneficiaries were reduced by 5 percent.

Most noteworthy in the pension retrenchment of the 1990s was the raise of pensionable ages. What brought the 1994 breakthrough? What had changed between 1989 and 1994? Or what made a sharp contrast between the 1989 setback and the 1994 easy win. The measures that the 1994 reform introduced to create and extend employment for the elderly certainly distinguished it from the previous attempts, but their immediate effects were negligible in the economic downtrend. The newly introduced measures were unable to effectively encourage the elderly employment, at least in the short run.

Population aging certainly provided a condition in favor of further retrenchment, but it was not such a drastic change to explain the sharp contrast between 1989 and 1994. Population aging is, after all, a continuous trend, not an all-sudden phenomenon, which is not appropriate to explain the specific timing of a new policy. Besides, the aging ratio of Japan was still the lowest among major advanced countries, except for that of the United States in 1993 (see table 1). Table 1 also shows that Japan was

quite successful in cost containment. According to table 2, Japan spent only 7.8 percent of National Income for pension, while the figures of France and Sweden more than doubled Japan's figure.

A critical difference between 1989 and 1994 is found in political partisanship in government. Following the step-down of the LDP from power for the first time since 1955, all opposition parties except for the Japan Communist Party formed a coalition government in 1993. The Japan Socialist Party (JSP), which had played a central role in opposition, accepted a bill for a raise in the pensionable age in 1994. The JSP in the coalition government conceded in the reform to coalition partners for the maintenance of the non-LDP government. Its concession formed a watershed by bringing about an all-party consensus except for the communist party. The LDP in opposition had no reason to stand up against its originally formulated bill. Organized labor, which had opposed the idea most vehemently in the past, kept "silence and compliance" this time, showing its support of the new government (Shinkawa 1999).

Compliance of organized labor is comprehensible with the logic of "Nixon goes to China" (Ross 2000). Nixon's decision to go to China was accepted among the conservatives in the U. S. because they knew Nixon was anti-communist and had no intention of selling the country. It can be said by applying the same logic that the raise of the pensionable age was successfully conducted since the most vehement opponent, the JSP, in the past went for it. Organized labor yielded because of its affiliation with the JSP. The argument of "Nixon goes to China" can be placed in a broader context of "blame avoidance."

Table 1 Social Security Expenditure as percentage of National Income and international comparison of elderly population

Country	Social Security Expenditure as % of National Income Fiscal year 1993	The aged as % of the total population 1993	Social Security Expenditure as % of National Income Fiscal year 1997	The aged as % of the total population 1997
Japan	15.2	13.6	17.8	15.7
U.S.A.	18.7*	12.7		12.7
U.K.	27.2	15.8		15.8
Germany	33.3	15.1		15.4
France	37.7	14.5		15.7
Sweden	53.4	17.6		17.0

Note: There was no data available for social security expenditure for the U.S.A.

The figure for FY1992 was used as reference (*).

Table 2 International Comparison of Social Security Expenditure by category as a percentage of National Income

Country	Total Comparison with National Income	Unit:%			Total benefits Currency unit by country: Million	Benefits per head Currency unit by country
		<i>Medical care</i>	<i>Pensions</i>	<i>Welfare & Others</i>		
Japan FY1997	17.8	6.5	9.3	2.0	69,418,725	550,217 yen
FY1998						
Japan	15.2	5.9	7.8	1.6	56,797,461	455,239 yen
U.S.A.(FY1992)	18.7	6.8	8.4	3.5	906,195	3,494 dollars
U.K.	27.2	7.3	10.8	9.1	132,646	2,279 pounds
Germany	33.3	8.7	14.3	10.3	799,688	9,901 marks
France	37.7	9.2	18.4	10.2	1,973,922	34,313 francs
Sweden	53.4	10.0	20.1	23.3	557,135	63,708 krone

Reference: Calculations for each fiscal year for each country are based on the average of each country's yearly exchange market, such that the U.S.A. figure is 442,461 yen, the U.K. figure is 378,326 yen, the German figure is 667,246 yen, the French figure is 674,140 yen and the Swedish figure is 910,585 yen.

Note: The above figures for each country are based on the ILO's Social Security Survey, and the National Institute of Population and Social Security Research has taken the estimates made by each country; therefore there may be discrepancies with the figures published by the ILO.

* Table 1 and 2 are transcribed from www.ipss.go.jp.

3. Politics of Blame Avoidance

R. Kent Weaver argues that “politicians are motivated primarily by the desire to avoid blame for unpopular actions rather than by seeking to claim credit for popular ones” (Weaver 1986: 371). Voters are more likely to notice relatively concentrated costs or benefits than those widely diffused. Besides, they tend to be more sensitive to real or potential costs than to gains (Weaver 1986: 373). Welfare retrenchment is an ideal case in which to examine how best the politics of blame avoidance works in reality, because it forces its tangible costs upon a limited number of people, while its benefits, such as financial balance and fairness, are not tangible rewards one can easily and immediately appreciate.

Taking into account arguments developed by Weaver and P. Pierson (1996), this paper classifies five different strategies of blame avoidance. First, policy makers try not to be involved in retrenchment by limiting the agenda or keeping a blame-generating issue off the agenda (Strategy One). When they have to make a decision, they will redefine the issue, or prevent blame-generating by developing new policy options which diffuse or obfuscate loses (Strategy Two). Strategy Three is lowering visibility. Decision makers can lower their visibility by passing the buck, or delaying the effect of a policy upon specific groups until some point in the future. By so doing, it would be more difficult for affected groups and individuals to realize the impact of a decision as well as to trace responsibility for its effect back to particular decision makers. Strategy Four is deflecting blame by finding

scapegoats, or by playing off one group against the other. Strategy Five is forming a consensus. A consensus formed across political partisanship on a blame-generating decision prevents political opponents from taking advantage of the issue, thus minimizing the risk of making a blame-generating decision (Weaver 1986: 384-390; Pierson 1996: 147)• D

Tracing the retrenchment back in the 1970s, we can detect the predominance of Strategy One. The LDP leadership kept a retrenchment issue off the government agenda in the late 1970s, in spite of reinforced calls for “reconsideration of welfare” within the government, especially among financial bureaucrats. The LDP, which barely maintained a majority in the Upper House of the Diet at that time, cautiously avoided making a blame-generating decision. Gaining a stable majority in the 1980 election, the Liberal Democratic government decided to embark on welfare retrenchment, but redefined the issue. Administrative reform, or fiscal reconstruction without tax increase, was the officially set goal. By mobilizing popular support with that slogan, the government legitimized welfare retrenchment as necessary for fiscal reconstruction. Welfare retrenchment was redefined as an attempt to avoid a trap of the stagnant welfare state and build a welfare society with (economic) viability

Strategy Three was coupled with Strategy Two. To make a plan of administrative reform, the government established the Second Ad Hoc Research Committee on Administrative Reform (Daini Rincho) and delegated decisions to it. Daini Rincho not only lowered the visibility

of politicians but also unexpectedly obtained zealous support among broad classes of people thanks to the charismatic chair, Toshio Doko. Bureaucratic initiatives witnessed in the 1985 pension retrenchment are also understood in terms of Strategy Three. In contrast with political credit-claiming in pension reforms of the 1950s and 60s, which ignored policy rationality and fiscal balance in administration, welfare bureaucrats took an initiative in retrenchment (cf. Nakano 1992; Shinkawa 1993). In short, Daini Rincho set the course of pension reform and welfare bureaucrats took the lead in actual policy-making. The visibility of politicians, thus, was kept quite low in the 1985 reform. Deferred effects of cost containment also make a sense in the context of Strategy Three.

A good example of Strategy Four, or finding a scapegoat, is witnessed in the idea of “Japanese-style welfare society” (JSWS), or welfare society with economic viability, which is a Japanese version of the neo-conservative attack on the welfare state. Based on the perception that the welfare state caused the English/European disease featured with obese public finance, economic stagnancy, and work disincentive, the argument of JSWS stressed the necessity of welfare cutbacks in Japan to avoid the European disease and build a viable society with small government (Shinkawa 1993). Considering the fact that Japan’s social security expenditures in the early 1980s occupied only a small portion of the National Income, Japan was free from the supposed European disease. Nevertheless, advocates of JSWS blamed social security provisions as a major cause of fiscal tightness and moral deterioration in Japan.

Strategy Five explains strong political leadership exerted in the 1994 reform. The coalition government formed a special taskforce on pension reform in October 1993 to make a plan for pension reform to come in the following year. The final report of the taskforce was made in two months without delay. Such swift proceeding was possible due to the turnabout of the socialists, which contributed to consensus-forming within as well as without the government. The logic of Nixon-goes-to-China is a key to the success of consensus-forming in this case, by which to diffuse blame, or circling the wagons. “No one has to stick their neck out: everyone provides political cover for everyone else, making it difficult for a future political opponent to raise the issue” (Weaver 1986: 389).

4. Concluding Remarks: Major Issues in the 2004 Reform

(a) Playing-off Strategy

Pension retrenchment conducted for the last two decades in Japan can be assessed as fairly successful in terms of blame avoidance. Masterfully combined various strategies of blame avoidance gradually but steadily transformed the pension system in Japan. A series of pension reform, however, turn out to be short of realizing financial sustainability. Piecemeal or decremental changes through strategies of blame avoidance lack a grand design, which provides a vision and direction of reform necessary to integrate occupationally fragmented schemes and absorb the impact of accelerated population aging.

Based on the population projection released in 1992 that Japan would enter the stage of “super-aged society,” or that a quarter of the Japanese population would be those aged 65 and over in 2025, the 1994 reform set a schedule to raise the EPI contribution rate up to the upper limit of 29.8 percent in 2025 (that of the NPI contribution was set at 21,700 yen in 2015). That scenario was blown away by the 1997 population projection, according to which Japan would become a “super-aged society” in 2015. Accelerated population aging would push the EPI contribution rate up to 34.3 percent in 2025 and the NPI contribution to 24,300 yen in 2015 without further measures taken for cost containment.

The 1999 reform based on the 1997 population projection needs to be renewed now, according to the 2002 population projection. The latest projection is more pessimistic about the recovery of the fertility rate. The 1997 projection assumed that the fertility rate would recover to the level of 1.61 in 2025, but the unexpectedly robust downward tendency in the fertility rate impelled the 2002 projection to assume that the fertility rate in 2025 would remain at the level of 1.38⁶. Consequently, the latest medium-variant projection expects the peak of population aging to come with the figure of 35.7 percent in 2050, while the last one expected the figure of 32.3 percent in 2050.

As a result of continual reforms for cost containment with no grand design provided, intergenerational equity is severely damaged. A widely circulated discourse since the late 1990s is that future generations can receive less than the total amounts of their payments whereas the balance is quite favorable to current beneficiaries. According to an intergenerational calculation, a model couple

of 1940 (a couple composed of a male breadwinner, who was born in 1940, working between the ages of 20 and 60, and living the average span of life, and a two-year younger spouse) gain 2.68 times the amount of payments, while a couple of 1960 gain 1.05 times, and a couple of 1980, 0.73 (Nishizawa 2003:33-34).

The argument of intensified intergenerational unfairness confronts retired generations with working generations, or older generations with younger generations. So far, the playing-off strategy has worked well to canalize discussions for the 2004 reform into a specific course of retrenchment. The government recently made a small, yet noteworthy step towards intergenerational equity. It decided to cut 0.9 percent of current benefit levels in FY 2003 by indexing them with a fall in prices, which had never been conducted before.

Another playing-off case is witnessed in the attempt to abolish the privilege of third-type insurants in the basic pension. Employees' spouses with the income of no more than 1,300,000 yen) are categorized as third-type insurants and required no contributions. "Free-riding" of third-type insurants is criticized as unfair to workingwomen who also take care of their families. Workingwomen are, thus, played off against housewives. The cancellation of the third type is asserted as necessary not only in terms of equity between workingwomen and housewives but also for the encouragement of female labor force participation.

The playing-off strategy is effective but accompanies a serious side effect. It surely provides a strong motivation toward reform on one hand, but damages solidarity and unity in society on the other hand. The successful playing-off strategy created distrust for the pension system and consequently increased the number of NPI insurants in arrears, particularly among younger generations, as seen in Table 3.

Increased distrust for the pension system may discourage people to pay contributions. A research conducted by the Social Insurance Office in 1999 shows that the number of NPI insurants in arrears increased by 920,000 for the previous three years, from 11 percent to 16 percent of insurants except for non-contributory third insurants. If we add the number of those who are legally required but fail to join the NPI to that of first-type insurants and take the combined figure as the denominator, the percentage of those in arrears goes up to 36 percent. Although those explicitly showing distrust for the NPI reaches only 12.2 percent among those in arrears, the percentage goes up to over 17 percent among those aged between 20 and 35.

62.4 percent of those in arrears answered that insurance fees were too high for them, but their words cannot be taken literally, taking it into account that more than half of those in arrears join private life insurance plans and 12.7 percent even hold individual annuities (SIA 1999)⁷.

As for the status of third type insurants, its simple cancellation would cause a serious problem; a considerable number of housewives would fail to pay their contributions and lose their own pension entitlements. It should be kept in mind that the third type was created in the 1985 reform to secure pension entitlements for housewives. Moreover, given the fact that workingwomen's fertility rate is much lower than that of housewives, the government need expand public support for childcare, lest increased female labor force participation lead to a further decline of the fertility rate.

(b) Overhaul of the System

It is widely perceived that Japan can no longer afford to have the fragmented pension system. Together with the establishment of the basic pension, the government had an intention of rearranging earnings-related pension schemes. The cabinet acknowledged in 1984 a time schedule indicating the integration of earnings-related pension schemes by 1994, which was never implemented. Certainly, mutual-aid pension schemes in public corporations were absorbed into the EPI after they were privatized in 1987, and those in the cooperatives of agriculture and fishery dissolved and integrated into the EPI in 2002. Their absorption, however, increased, rather than alleviate, burdens on the EPI, because those schemes decided to join the EPI due to fiscal deterioration. Financially sound mutual-aid schemes for public employees are robustly opposed to the integration of their own programs with the EPI.

To avoid an intergenerational war over pension and regain credibility of public pension, alternatives to the current PAYG approach are presented by welfare economists. Considering difficulties in collecting contributions from first-type insurants in the NPI, a number of experts insist on tax-financing of the basic pension. Tax-financing the basic pension resolves not only a difficulty in collecting insurance fees but also ends a controversy over the free riding status of third-type insurants. As for earnings-related schemes, some argue for a shift to an integrated funded system, while others propose a PAYG system with no subsidies (current schemes receive subsidies covering administrative costs from general revenue).

Welfare bureaucrats are, however, negative on any

Table 3: Trust in Public Welfare

	Trust	Not Trust(%)
20+	32	67
30+	27	72
40+	46	54
50+	58	41
60+	68	30
70+	71	22
average	51	47

source: Asahi Newspaper, 21 June 2003.

major changes in the PAYG approach on the grounds that it blurs the relationship between benefit and payment, or entitlement and obligation. Besides, they insist, considering the fact that the government subsidies currently cover a third of basic pension payments in addition to entire administrative costs and are scheduled to grow to a half of it by 2004, further increases in subsidies from tax revenues are infeasible, implying that tax increases necessary to cover the entire expenditure of the basic pension are politically impossible under the current stagnant economy (an interview with the chief of the Pension Bureau of the Ministry of Health, Labor, and Welfare, Nippon Keizai Shinbun, 28 February 2001). Another important reason for their opposition to tax-financing is that welfare bureaucrats are determined to keep pension fund reserves under their control.

The MHLW publicized in December, 2002, a discussion paper for the 2004 reform. Noteworthy in the paper is the proposal of a shift from defined- benefit to defined- contribution in the future. The current contribution rate of the EPI set at 13.58 percent of total annual wages is to be raised gradually up to the level of 20 percent by 2025 and be kept at that level ever afterwards. The benefit level from that year onward will vary not politically but according to changes in demographic and economic factors, including life expectancy, the fertility rate, interest rates, the price, and so on. With this scheme, the MHLW insists that widespread anxiety about financial sustainability of public pension in the future be cleared away.

The MHLW projects that the replacement rate in the early 2030s would go down to 52 percent. The figure is 7 percent lower than the current replacement rate, but still considered by critics to be difficult to attain. The MHLW's calculation is based on optimistic assumptions (the medium-variant projection of population, 2 percent annual wage raises, one percent annual price increase, and

the 3.25 percent nominal interest rate). A change in a single variable brings an enormous impact on the future replacement rate. If we use the low-variant, instead of medium-variant, projection of population, the replacement rate is calculated to be 45 percent. No one knows if other conditions would be provided. It is impossible to predict precisely future replacement rates in a defined-contribution scheme, but widely believed is that they are likely to be lower than the MHLW expects. Uncertainty as regards levels of benefits would reinforce anxiety over the post-retirement life and in turn erode credibility of public pension and social solidarity.

Notes

- ¹ The 1999 round ended with the reform bill passed in the Diet in the spring of 2000.
- ² The idea is originally created and developed by Kent Weaver (1986). Though the idea is extensively employed by P. Pierson (1996) in the context of the "new politics of the welfare state," the politics of blame avoidance is witnessed also in old partisan politics. By employing the concept of blame avoidance, therefore, I have no intention of standing for the perspective of new politics against that of old politics, though class politics insights are missing in this article. I have discussed the role of class politics in the welfare state development of Japan in previous works (Shinkawa 1993; 1999; 2000).
- ³ Labor's opposition was based on the argument that an adjustment between public and private pensions was not legitimate, suggesting labor's loss.
- ⁴ The aging ratios in selected countries are as follows: 16.6 percent in Sweden, 15.3 percent in the U. K. and West Germany (1981), 13.5 percent in France, and 11.6 percent in the U. S (MHW 1984).
- ⁵ Those born between April 2nd, 1952 and April 1st, 1953,

are required 21-year contribution to obtain their pension entitlements. Every one born after April 2nd, 1956 is required 25-year contribution.

⁶ When the fertility rate fell down to 1.57 in 1989, it was called the “1.57 shock.” Retrospectively, the figure of 1.57 was only a mid-point of the fall. The fertility rate reached only 1.33 in 2001. Compare fertility rates as of 2000, Japan’s figure of 1.36 is the same as that of Germany, but much lower than its counterparts in Sweden (1.55), France (1.89), and the United States (2.13) (Asahi Newspaper 10 and 11 September 2002)

⁷ The EPI has no difficulty in collecting contributions since they are automatically deducted from paychecks. Its finance, however, cannot be sound and stable. The coverage of the EPI is shrinking. 20 percent of employees are not covered with the EPI as of 2000. More employers in small businesses fail to pay to the public pension due to deficits in business. Another reason for the decreased number of EPI participants is a change in employment or the increased number of non-regular type employees, who are excluded from the EPI. The EPI requires working more than 30 hours per week for its membership. To prevent a further decrease in the EPI membership, the Ministry of Health, Labor, and Welfare (instituted in January 2001 by merging the Ministry of Labor with the Ministry of Health and Welfare) recently proposed to allow the temporarily unemployed to stay in the EPI and encourage part-time workers to join the plan by reducing their required working hours from 30 hours to 20 hours per week.

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