The Effects of the Low Birth Rate on the Japanese Social Security System

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Introduction

Industrialized countries share basic trends, including increasing female participation in the labor force, declining marriage and birth rates, and increasing numbers of smaller households. Birth rates have been declining for a long time, and in most industrialized countries have now fallen well below the replacement level. These declines in birth rate have led to smaller household and family sizes in these countries. Many factors contribute to these low birth rates: the economic cost of raising children; the opportunity cost, to women, of marriage and childbirth; and non-economic costs related to child rearing such as time consumed and having to give up career development. Accordingly, families and working parents are supported by a variety of policy instruments, including cash benefits, childcare services, entitlements to child-related leave, and flexible working time arrangements. These policy instruments have effects on birth rate levels in developed countries.

Economic growth and increasing globalization do not necessarily reduce poverty, nor do they necessarily reduce income disparities. Even in developed countries, large numbers of people fall into poverty. There is a growing recognition that social security systems need to take into account, in a more explicit manner, a life-cycle perspective to adjust to such changes as higher female participation in the labor force, smaller families, longer periods spent in education, the prevalence of non-traditional work patterns, increases in the health of elderly people in their later years, phased retirement, and so on. Therefore, discussions on reform should take into account such factors as a) intergenerational equity; b) equitable treatment of people with different occupations and marital status; and c) the consistency of the social security system with regard to work incentives, as well as the sustainability of the system.

The Japanese population is ageing rapidly, and the birth rate has been very low since the 1990s. This low birth rate, coupled with long life expectancy, profoundly influences society and makes reform of the social security system in Japan both more difficult and more pressing. This paper examines some aspects of the causes of the low birth rate and its consequences on the social security system in Japan. We argue in favor of several reform options in Japan and pay special attention to the French experience.

1. Demographic trends in Japan

In 1970, the proportion of those in the general population who were 65 years old or over (the aging rate) was 7 percent, the total fertility rate (TFR) was 2.13, and life expectancy at age 65 (the average of males and females) was 14 years. The number of births declined from 2 million in the early 1970s to 1.2 million in the 1990s, resulting in the decline of TFR from around 2.0 in 1975 to below 1.5 from 1995 onwards. With both the birth rate staying so low and life expectancy steadily increasing, the aging rate has continued to increase (Table 1). Total population peaked at 127.8 million around 2005, and has been decreasing since then. However, the aging process is set to continue in the future. Social expenditure as a percentage of GDP has increased in accordance with the aging of the population. Fig. 1 shows the past and future population and social expenditure relative to the 2005 level, and indicates that the question of how to keep social expenditure levels reasonable is a key one.

Table 2 shows the age-specific fertility rate in six countries. These six countries were selected because they have common socio-economic conditions and share with Japan the same challenges of social security reform. This table clearly shows that Japanese TFR is low because its fertility rates are low from the 20-24 year-olds age group through to the 30-34 age group. In comparison with France, where TFR increased above 2.0 recently, the Japanese fertility rate is half for the 20-24 age group and about 70 percent for the 25-34 age group. If we assume that the Japanese fertility rate for 25-29 year-olds in 2006 was equal to 1990 level for example, then Japanese TFR in 2006 would be the same level as in 1990. Therefore, if those factors which contribute to low fertility were eliminated, then it could be reasonably expected that Japanese TFR would increase. In the next section, we deal with some of those factors.

Table1. Trend of Population and Social expenditure in Japan

FY	GDP (trillion yen)	Population (million)			Life expectancy at 65 (years)	Social expenditure (% of GDP)			
		Total	65+	Aging rate (%)		Total	Pension	Health	Long-term Care
1970	75.3	103.7	7.3	7.1	13.9	4.7	1.1	2.8	…
1975	152.4	111.9	8.9	7.9	15.1	7.7	2.5	3.7	…
1980	246.3	117.1	10.7	9.1	16.1	10.1	4.2	4.4	…
1985	327.4	121.0	12.5	10.3	17.2	10.9	5.2	4.4	…
1990	450.0	123.6	15.2	12.0	18.1	10.5	5.3	4.1	…
1995	495.7	125.6	18.4	14.6	18.7	13.1	6.8	4.9	…
2000	502.8	126.9	22.0	17.3	20.0	15.5	8.2	5.2	0.9
2005	503.4	127.8	25.4	20.1	20.7	17.5	9.2	5.6	1.3
2010	569	127.5	28.7	23.1	21.4	18.5a	9.5a	5.6a	1.6a
2015	646	126.3	32.8	26.9	21.9	18.0a	9.1a	5.7a	1.5a
2020	717	124.1	34.6	29.2	22.4	…	…	…	…
2025	787	121.1	34.7	30.5	22.9	17.9a	8.3a	6.1a	2.2a
2025								8.6b	3.0b

Note: Aging rate is the proportion of those who are aged 65 or over to the total population.
Source: IPSS (2007) Population Projection for Japan: 2006-2055.
MHLW (2006) Projection of Social Security Benefit and Burden. (a)
NCSS (2008) Final Report of the National Commission on Social Security. (b)

Fig. 1 Past and future population and social expenditure relative to 2005 level (2005 = 1.0)

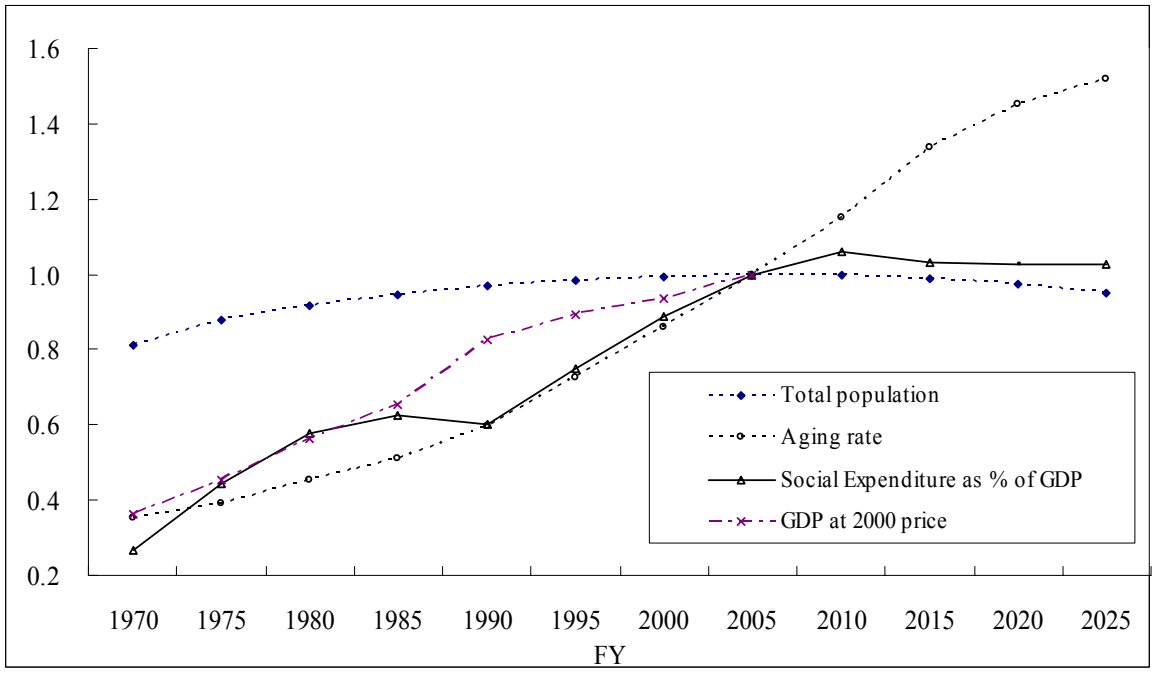


Table 2. Age specific fertility rate

	Year	TFR	15-19	20-24	25-29	30-34	35-39	40-49
France	1991	1.80	0.05	0.37	0.70	0.47	0.19	0.04
	1994	1.68	0.34		0.65	0.47	0.23	
	2000	1.89	0.33		0.67	0.58	0.31	
	2006	2.01	0.33		0.65	0.65	0.38	
Germany	1994	1.24	0.05	0.26	0.43	0.35	0.13	0.02
	2004	1.35	0.05	0.25	0.43	0.41	0.18	0.03
Japan	1970	2.13	0.02	0.52	1.05	0.43	0.10	0.01
	1975	1.91	0.02	0.51	0.93	0.36	0.08	0.01
	1980	1.75	0.02	0.39	0.91	0.35	0.07	0.01
	1985	1.76	0.02	0.32	0.89	0.44	0.08	0.01
	1990	1.54	0.02	0.24	0.70	0.47	0.11	0.01
	1995	1.42	0.02	0.20	0.59	0.47	0.13	0.02
	2000	1.36	0.03	0.20	0.50	0.46	0.16	0.02
	2005	1.26	0.03	0.18	0.42	0.43	0.18	0.02
	2006	1.32	0.02	0.19	0.44	0.45	0.19	0.03
Sweden	1994	1.88	0.05	0.37	0.70	0.52	0.22	0.04
	2004	1.76	0.04	0.23	0.56	0.61	0.26	0.06
UK	1994	1.75	0.14	0.39	0.56	0.44	0.18	0.03
	2004	1.76	0.13	0.36	0.49	0.49	0.24	0.05
USA	1980	1.83	0.27	0.58	0.56	0.31	0.10	0.02
	1985	1.84	0.26	0.54	0.56	0.35	0.12	0.02
	1990	2.07	0.30	0.58	0.60	0.40	0.16	0.03
	1995	1.97	0.28	0.54	0.54	0.41	0.17	0.03
	2000	2.05	0.24	0.55	0.57	0.46	0.20	0.04
	2005	2.05	0.20	0.51	0.58	0.48	0.23	0.05

2. Some causes of the low birth rate in Japan

Many factors contribute to the low birth rate in Japan. This section argues some of such factors making reference to other developed countries.

(1) Social expenditure

Among the six countries in Table 3, the Japanese aging rate is the highest, but the scale of the welfare state in general is relatively small in Japan measured by social expenditure (public programs). The costs of social expenditure account for a large part of GDP in many developed countries, but the degree of social expenditure varies widely from more than 30 percent in Sweden to 16 percent in the USA (2005 figures). Japanese social expenditure was 19 percent of GDP, which was the second lowest amongst the six countries. The discrepancies in the size of social expenditure must be interpreted with care, because not only the benefit level but also other factors such as the age structure of the population, the level of unemployment, and the size and composition of households influence social expenditure. It is also important to remember in this regard that US health expenditure is about 15 percent of GDP, less than half of which is included in the social expenditure. Moreover, only direct benefits are included and all types of tax relief are not counted as social expenditure.

Old age and survivor benefits were the largest items of social expenditure. Health was the second largest item, and interestingly enough the aging rate seems to have nothing to do with the health expenditure level. The funding of social expenditure comes mainly from social contributions and general government contributions. In terms of the structure of social expenditure financing, there are two major patterns. Social contributions accounted for around two-thirds of receipts in France and Germany. On the other hand, in Sweden and the UK about half of receipts were financed through taxes. Table 3 suggests that Japanese social expenditure is very much biased towards the elderly. However, as a matter of fact, social expenditure directed towards the elderly was not high in Japan compared with the other developed countries.

Table 3. Benefit and burden in 6 countries

		France	Germany	Japan	Sweden	UK	USA
Total population (million) a)	2006	61.4	82.4	127.8	9.1	60.6	299.4
65+ (%)		16.4	19.7	20.8	17.3	16.0	12.4
GDP (100 billion dollars a)	2006	22.4	29.0	43.8	3.9	24.1	131.3
OECD (2008) Employment Outlook	2007						
Unemployment rate (%)		8.3	8.4	3.9	6.1	5.3	4.6
Share of part-timers among employees (%)	M	5.0	7.9	9.2	9.5	9.9	7.6
	F	23.1	39.2	32.6	19.7	38.6	17.9
Employment/population ratio among 25-54 (%)	M	88.1	86.7	92.8	89.0	88.3	87.5
	F	76.4	73.6	67.4	83.0	74.7	72.5
OECD Tax Database 2008							
Corporate tax rate (%)	2008	34.43	30.18	39.54	28.00	28.00	39.25
VAT & Consumption tax rate (%)	2007	19.6	19.0	5.0	25.0	17.5	8.25
Tax and social security contribution/GDP (%) b)	2006	44.2	35.6	27.9	49.1	37.1	28.0
Personal income tax		7.7	8.7	5.1	15.7	10.8	10.2
Corporate income tax		3.0	2.1	4.7	3.7	4.0	3.3
Consumption tax		10.6	9.7	4.6	12.4	10.4	3.9
Property tax		3.5	0.9	2.5	1.4	4.6	3.1
Social security contribution		16.3	13.7	10.2	12.5	6.9	6.7
Employee		4.1	6.0	4.4	2.7	2.8	2.9
Employer		11.1	6.5	4.6	9.7	3.8	3.4
Social expenditure/GDP (Public) (%) c)	2005						
Total		29.4	27.1	19.1	30.1	22.0	16.3
Old age & Survivors		12.8	11.6	10.3	10.2	6.8	6.1
Family		3.1	2.1	0.8	3.5	3.1	0.6
General government expenditure/GDP (%) d)	2007	53.0	44.3	36.5	53.8	44.6	37.4

Note:

Source: a) OECD Health Data 2008
b) OECD Revenue Statistics 2007
c) OECD Social Expenditure database, 1980-2005.
d) OECD Ecomomic Outlook No.82 database (Dec. 2007)

Using tax and social security contribution as a percentage of GDP in Table 3, we define individual burden and corporate burden as follows:

- Individual burden: sum of personal income tax, consumption tax, property tax and employee's part of social security contribution;
- Corporate burden: sum of corporate income tax and employer's part of social security contribution.

Fig. 2 (a) shows the individual burden and corporate burden in the six countries. In Japan, the level of individual burden is clearly low. Taking account of the importance of corporate pensions in the UK and the prominent role of employer-sponsored health insurance in the US, the level of corporate burden is not high in Japan.

The size of general government as measured by current general government expenditure/GDP is also shown in Table 3. The size of government is smallest in Japan and largest in Sweden among the six countries. If we assumed the existence of public health insurance that covered the entire American population, the government size of the US would be above 40 percent of GDP, and Japan would be the only country below the 40 percent level. All these facts indicate that, compared with the other developed countries, the structure of social expenditure in Japan is not favorable for couples in the younger generations who wish to raise a family.

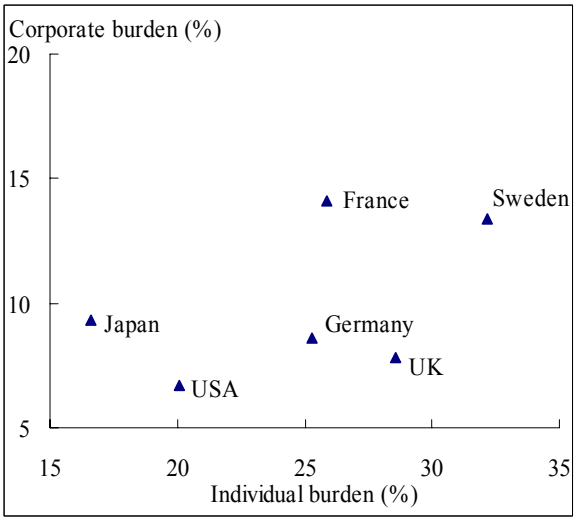
(2) Family policy

Countries have instituted child allowance programs in a variety of forms. Some countries, such as France, supplement a basic child

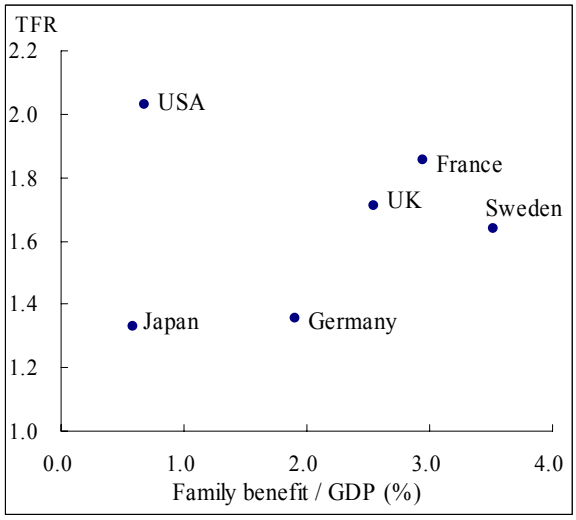
allowance with a means-tested benefit for certain low-income families. Allowances can vary with the age of the child as well, and may be decreased or increased for each additional child, or each child over a certain threshold. In 2003, the Japanese child allowance, which has an age limit as well as an income limit, was only 0.3 percent of GDP, a figure that is quite low in comparison to the international standard.[i] Fig. 2 (b) shows the relationship between 10-year average family benefit/GDP, which excludes tax expenditure by definition, and 10-year average TFR for six countries. Family benefit is one of many factors that influence birth rates. However, Fig. 2(b) clearly indicates that Japanese TFR is low due to its very low level of family benefit/GDP.

Fig. 2 Comparison of burden and family benefit in 6 countries

(a) Individual burden vs. corporate burden



(b) Relation between Family benefit/GDP and TFR: both average of past 10 years



(3) Reconciliation of childcare and work

Among the six countries in Table 3, the female employment/population ratio in Japan is the lowest and the share of part-timers among female employees is rather high in Japan. The female employment situation has changed considerably in Japan over the decades. Although women are no longer required to quit their jobs when they marry or bear children, many Japanese women stop working while raising children, and take part-time jobs when they re-enter the labor market. Japan is among the countries where the balance between work and family life is more often achieved through female part-time work. The internal job ladders and lifetime employment system found in large Japanese firms has changed rather drastically in recent years. However, it is still difficult for women to find relatively well-paying work when they re-enter the labor force after a childcare break. This is widely recognized as the main reason for the high opportunity cost experienced by Japanese women who have children, which of course contributes to low birth rates in Japan.

The share of non-regular workers increased from 23 percent in 1997 to 34 percent in 2007. There are many forms of non-regular workers, and they receive, in general, quite low pay with few fringe benefits. Unlike regular workers, they are usually not covered by social insurance, and they experience unstable economic situations. Therefore, the increase in the number of non-regular workers leads inevitably to postponement of marriage and postponement of child birth.

(4) Support for old parent(s)

The proportion of the population aged 65 or over is projected to increase from 21 percent in 2008 to 40 percent in 2050. The percentage of the elderly who live alone is over 30 percent in most developed countries, although Japan is an exception, with a lower, but rising, rate. About half of the elderly still live with their children, although the rate is gradually decreasing. Most of the elderly persons of advanced age will be female, and the provision of care for older people, and more especially for older women, presents an

intractable problem. If elderly people needing long-term care stay at home, then women are the most likely caregivers. The Long-term Care Insurance introduced in 2000 is expected to help those who support old parents at home. However, due to the shortage of care institutions and home care manpower, the situation is improving only gradually. Therefore, the duty to support old parents has interrupted female labor participation and has had negative effects on their economic stability, which has decreased fertility in Japan.

3. The effects of the declining birth rate on the Japanese social security system

Low fertility has a tremendous impact on the Japanese social security system. In this section, recent social security reforms are discussed. These reforms are necessary due to low fertility in Japan.

(1) Public pension reform

Table 4 shows the characteristics of public pension systems for private-sector employees in six countries. Japan has the longest life expectancy at age 65, but Japanese efforts to extend the pensionable age have lagged behind. The employment/population ratio for the 55-64 age group is especially high for Japanese males, which is an important consideration for Japanese policymakers as they make the pension system sustainable in the face of the aging population. Due to rather low levels of contributions, the replacement rate of the average pension is not high in Japan. This does not necessarily mean that the Japanese system is consistent or sustainable.

Table 4. Public pension system for private sector employees in 6 countries

			France	Germany	Japan	Sweden	UK	USA
Ageing rate (%)		2006	16.4	19.7	20.8	17.3	16.0	12.4
		2050	26.7	32～33	40	30.4	27.3	21.1
TFR		2006	2.00	1.32	1.32	1.85	1.84	2.10
Life expectancy at 65	M	2006	18.2	17.2	18.5	17.7	17.0 a	17.2 a
	F		22.6	20.5	23.4	20.9	19.5 a	20.0 a
Employment/population ratio for 55-64 (%)	M	2007	39.6	59.7	81.5	73.1	66.1	67.4
	F		35.7	44.6	51.2	67.2	49.0	56.6
Contribution rate (%)		2008	16.45	19.9	14.996	18.91	23.8	12.4
		Final		22.0	18.3			
National subsidy			18% of benefit exp. (1997)	25% of benefit exp. (2006)	one third of BP	Total of minimum guarantee	None	None
Gross replacement rate for average wage earner (%)			51.2	39.9	34.4	62.1	30.8	41.2
Pensionable age		2007	60 (41years contribution is required for full pension by 2012)	65 (67 by 2029)	BP: 65 EPI: 60 (65 by 2025)	61 or older (individual's choice)	male: 65 female: 60 (65 by 2020)	beyond 65 (67 by 2027)

a: 2005
Note 1: Employee's contribution rate is 6.65 % for France, 7 % for Sweden, and 11 % for the UK..
Note 2: Contribution rate for Sweden is the sum of old age and survivors'.
Source: OECD Pensions at a Glance 2007. OECD Employment Outlook

According to the Household Survey of the Ministry of Health, Labour and Welfare (MHLW), the share of public pension benefits in the total income of elderly households (elderly singles or couples aged 65 and over) was 68 percent in 2007, and about 60 percent of elderly households depended completely on public pensions. Earnings and public pension benefits are two dominant sources of income for the elderly in Japan, and the share of corporate pensions or income from assets has been relatively small to date. Therefore, public pensions have been the

norm for most employees in Japan. As single benefit accrual rate is used to calculate the earnings-related part of the benefit, there seems to be some room to reduce pension benefits for the high-income class.

From the point of view of redefining and reforming the public pension system in a way neutral to economic and demographic changes as much as possible, we can learn from experiences in other countries. Under the present institutional settings, there are economic as well as legal reasons for the German public pension system to respond to low fertility (Hohnerlein, 1999). The solution adopted, with a direct link to fertility, was the introduction of child-rearing credits in 1986. The three year child-rearing period has been recognized as a contribution to the public pension scheme, and from July 2000 the value attributed has been raised to 100 percent of average wages.[ii] The introduction of the Riester Pension in Germany is another mechanism to make public pensions more sustainable in light of the ageing of the population. In Sweden, the aging population and the low rate of return of the PAYG system were among the reasons to reform the public pension system. The new system, implemented in 2000, fixed the contribution rate at 17.21 percent of earnings and has the following features: a) a funded system for beneficiaries by using notional rate of return; and b) actuarial benefit rules also for the PAYG part, which allows for a flexible retirement age.

(2) Health care

Japan enjoys the lowest infant mortality rate and the longest life expectancy at birth, and Japanese healthcare expenditure as a percentage of GDP is low in comparison with the major developed countries. However, the financing of the healthcare system, especially for the elderly, remains a difficult issue and many problems have been revealed in healthcare delivery recently, such as malfunctions caused by the shortage of physicians and inefficiency in allocation. The availability of health insurance has contributed to maintain the quality of people's lives, as well as equity and stability in society, although public confidence in the system has wavered following recent healthcare reforms.

After the implementation of the long-term care insurance in April 2000, the number of so-called socially induced hospitalization cases, especially among elderly patients, has been reduced, although not totally eliminated. According to the MHLW, national health expenditure was 6.5 percent of GDP in 2006, and average per capita health expenditure for those who are 65 years old or over was 4.1 times than that for the 0-64 age group. As a result, 52 percent of national health expenditure was consumed by those who are aged 65 or over (21 percent of the population). The increase in the number of the elderly, who use a disproportionate share of healthcare services, taken with the decrease in the number of children and individuals of working age who contribute to health insurance, is also causing a formidable challenge in terms of public health insurance.

Healthcare reform in 2006, notably the introduction of the new insurance scheme for those over the age of 75 implemented from April 2008 onwards, is expected to help keep national health expenditure at around the present level through to 2010. Much of the expected spending restraint, however, depends on reducing the demand for healthcare by preventing lifestyle-related diseases (OECD, 2006). A very cautious approach has been taken in introducing a program for the elderly in the Japanese healthcare system (Fukawa, 2008). When the special program for the elderly was first introduced in 1983, the eligible age was set at 70 years old. It was increased gradually to 75 during the 2002-2007 period. Finally, new health insurance has been implemented for those over the age of 75 since April 2008.

(3) Long-term care

Unlike for childcare, Japanese society adopted an approach to support the elderly with long-term care needs through the social insurance system. The rapid aging of the population has been increasing the demand for long-term care services in Japan. In the mid-1990s, long-term care became one of the highest priority issues in Japan, and in November 1997 the Long-term Care Insurance Act was finally passed in the Diet, with full implementation from April 2000. The principles underlying this new program are: universality of coverage, financing through social insurance, freedom of choice by service users, reliance on a service market, and respect for the local dimension. The first reform of the system in 2005 added "prevention" to the principles. The main purpose of the introduction of the program was to share the burden of caring for the elderly among all members of society and to lessen the burden on the family.

Given the aging populations, how to provide long-term care for the frail elderly is a mounting concern in developed countries. The need for long-term care is quite common among the very

old. It is quite a remarkable event in Japan that the provision of long-term care has been changed from welfare and rationing services to needs-based insurance benefits. Long-term care for the elderly is related not only to the dignity of the elderly individual but also to the "shape" of a society. As long-term care costs are more closely related to the aging of the population than the healthcare costs of the elderly, preventing and reducing the incidence of long-term care need as much as possible will prove indispensable.

4. Discussion

With a low birth rate and rapid aging of the population, the financing of the welfare state is a serious issue in Japan. Given the circumstances of the trimming of public programs, the curtailment of fringe benefits by companies, and the enlargement of individual responsibility, a better interface between public systems and private arrangements is indispensable (Fukawa, 2005). Even if the burden on social security (tax, contribution, utility charge) is reduced, curtailed social protection should be complemented by individual efforts. There is growing tension in Japan between those interested in ensuring an appropriate degree of social solidarity (pro solidarity) and those interested in getting a "fair" return on their own social security contributions (against solidarity), and many are doubtful about the fairness and effectiveness of the system. Moreover, it is often said that Japanese social expenditure is overly biased towards the elderly. However, Japanese old age and survivors' benefits are not necessarily high compared to those benefits in the other developed countries. The focus on the issue of social solidarity vs. self-help has revealed a much larger public debate theme about the role and limitations of the social security system.

It is quite clear that there is no broad consensus in Japan on the role of the state in supporting families. Even with the below replacement birth rates for more than three decades, there is no policy emphasis on reducing the costs of childcare such as family/child allowances, family/infant care leave, and public provision of childcare, nor support for mothers as they try to reconcile employment and childcare. As a result, family benefit/GDP is very low in Japan compared to more than 3.6 percent of GDP in France[iii] for example, and the government cannot persuade corporations or the general public to pay more for family policies, although their burden level is rather low by international standards.

There are many reasons that may explain the birth rate decline, and the following are among them (Letablier, 2008):

- the economic context and employment insecurity may result in a reduction of family size if parents do not receive support to reduce the costs of raising children;
- changes in the norms concerning family life and family formation;
- changes in attitudes towards children and the value attributed to education and well-being;
- women's preferences for working to insure their economic security.

Policies to support families and working parents are implemented in various forms such as cash benefits, childcare services, entitlements to child-related leave and flexible working time arrangements. They do not necessarily result in higher fertility. In fact, how policies contribute to explain cross-country differences in fertility still remains an open question (Letablier, 2008).

Nevertheless, there is a broad consensus in France on the role of the state in supporting families (Letablier, 2008), and more than 3 percent of GDP is allocated to family support. It is possible and necessary in Japan to build a national consensus around supporting parents to reduce the costs of childcare and reconcile work and family life. In order to enhance family support policy including family allowances in Japan, French CSG (an earmarked tax levied on individual total income) introduced in 1991 should be taken as a good example.[iv] Flexible working time arrangements provided by employers are especially important to balance work and family life. Macro-level comparison shows that both higher fertility and female employment rates are simultaneously found in countries where the institutional support for working parents is comparatively extended (OECD, 2007). Flexible working time arrangements are also often provided by employers in these countries, contrasting with countries where the balance between work and family life is more often achieved through part-time work by women (Letablier, 2008).

Despite the necessity of finding innovative solutions to persistent social problems, the Japanese government seems to be unprepared to propose a sustainable social security reform plan. Areas where public opinion is more receptive to shifting the burden of social costs away from employers and employees onto general taxation are first-tier public pension (Basic Pension), healthcare for the elderly and long-term care. In a system where social protection is financed

through employment-related insurance, it is difficult to reconcile growth based on high labor productivity and the associated high wage costs because of the impact on international competitiveness. In general, social policy should be more oriented to helping families and supporting the balance between work and family life.

It is especially desirable for the Japanese public pension system to be as neutral as possible in light of the very rapid aging of the population. Clear options are to extend the eligibility age from 65, to change the post-retirement indexation of benefits, and to reduce the rate at which pension benefits accrue. As Japan has the longest life expectancy at age 65, it is quite natural to extend the eligibility age for old-age pension beyond 65, together with measures to ensure employment for those who wish to continue working in their 60s. Because of the difference in income transparency among different occupations and widespread arrears of contribution and so on, there is a strong argument to finance the Basic Pension with tax. Many are in favor of having a second-tier system based on actuarially-fair contributions that accumulates a full pension fund under private management. If we seek, within the public pension system, a balance between income redistribution based on lifetime earnings and income smoothing function to secure a lifetime standard of living, then public pension benefits needs to be more targeted but still income-related (an introduction of income-related accrual rate for earnings-related part of benefit, for example), instead of removing the earnings-related part totally from the public pension system.

The key to achieving higher quality and greater efficiency in healthcare, as well as in long-term nursing care, is to make greater use of the dynamism of the private sector, in part by allowing companies to manage hospitals and nursing homes (OECD, 2006). However, some important aspects such as quality assurance and fairness to all will not automatically follow the greater use of private sector (Fukawa, 2007). Too great an emphasis on the insurance principle, combined with the shift towards private arrangements, is likely to exacerbate inequalities leading to a division among different population groups.

A massive increase of non-regular workers, especially among younger generations (which is one of the underlining causes of low fertility), is a typical example of the dual labor market in Japan: employees in secure jobs are covered by comprehensive insurance schemes and are earning additional coverage; and employees in less secure jobs do not have additional schemes to top up basic state benefits. To equalize treatment between regular and non-regular workers, the suggestion is often made to make the labor market active through the leveling down of regular workers and the leveling up of non-regular workers, in terms of their treatment. In focusing on the working poor, without harming the incentive to work and not carrying a stigma, it would be worthwhile considering child allowances in the form of a refundable tax credit, which allows low-income persons to claim a refundable tax credit of up to a certain level of earnings.

Future reform of the Japanese tax and transfer system would have to pay more attention to a) deploying measures that enable younger parents to combine child raising and work; b) changing the structure of social spending inevitably biased towards the elderly and refocusing on younger generations; and c) making social systems neutral to the individual's life style. It is rather obvious that a new form of solidarity is needed in Japanese society, and each member should bear the proper burden. Real causes of the low birth rate should be faced in earnest by all parties concerned, resulting in evidence-based policymaking.

Notes

[i] There is no child allowance in the United States. Instead, there is a tax deduction for families with children.

[ii] Child-rearing credit is not designed to increase the birth rate, but to improve the legal position of mothers under the public pension system by recognizing the equal value of family work and paid work (Hohnerlein, 1999).

[iii] According to Eurostat data, French public expenditure on families was 2.8 percent of GDP in 2003. However, Eurostat data do not take into account all benefits for families (such as fiscal support or early schooling), and if we include fiscal support for families then the figure is estimated to be 3.6 percent of GDP (Meda and Pailhe, 2008).

[iv] CSG was first introduced in 1991 and used to contribute to the funding of family allowances. CSG is levied based on the total income. In 1997, the rate of employees' social contributions for health insurance was reduced by 1.3 points, while the CSG tax was raised by one point and had its base broadened. In 1998, 4.75 of the 5.5 points of the employee contribution for health insurance

were switched to the CSG. In this way, the burden of social costs is shifted from payroll to broader total income.

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