

# The Japanese Elderly as a Social Safety Net

*Despite the fact that multigenerational co-residence has been deteriorating over the past few decades, the Japanese elderly are still playing a vital role in providing financial support for their offspring when the latter encounter economic difficulties.*

By Naohiro Ogawa\*

## **Unprecedented demographic transition and changing economic growth performance**

In the post-Second World War period, Japan's fertility decline was not only the earliest to occur but also the greatest in magnitude among all industrialized nations. From 1947 to 1957, the total fertility rate (TFR) declined by more than 50 per cent from 4.54 to 2.04 children per woman. This 50 per cent reduction of fertility over a 10-year period is a first in human history. In the 1960s, there were

---

\* Director, Nihon University Population Research Institute, Tokyo, e-mail: ogawa@eco.nihon-u.ac.jp.

only minor fluctuations around the replacement level of fertility (2.1), but subsequent to the oil crisis of 1973, the TFR started to fall again, reaching 1.32 in 2006. These demographic developments have been causing a great amount of concern in various spheres of contemporary Japanese society. For example, rapid population ageing has already imposed serious financial pressures on the social security system, and these pressures are expected to increase further in the coming years. The Government of Japan has been increasingly concerned about this problem in recent years and has tried to shift some of the costs of the social security system back onto families.

As a consequence of these demographic transformations, the age structure of the Japanese population has been shifting to a pronounced degree. The proportion of those aged 65 and over increased from 5 per cent in 1950 to 20 per cent in 2005, making Japan's population the oldest national population in the world. In addition, the size of Japan's population began declining from the end of 2005.

What is the outlook of Japan's population for the next few decades? A projection based on the population-economic-social security model constructed by the Nihon University Population Research Institute (NUPRI) shows that the proportion of those aged 65 and over is expected to increase from 20 per cent in 2005 to 31 per cent in 2025, which suggests that Japan's population is likely to continue to be the world's oldest national population for the next 20 years.

Japan's postwar demographic transformations have been phenomenal, but its economic growth has been equally spectacular. At the end of the Second World War, the Japanese economy was severely damaged, but its productive capacity had recovered to the pre-war level by the end of the 1950s. During the 1960s, Japan's real gross domestic product (GDP) grew at a phenomenal rate of about 11 per cent per annum. Along with such rapid economic growth, the social security system was established and expanded remarkably in the early 1960s. In 1961, universal pension and medical care schemes were instituted.

Subsequent to the oil crisis of 1973, Japanese economic growth performance lost the impressive momentum of the 1960s. In the mid-1980s, however, the Japanese economy entered a bubble phase. The investment boom abruptly ended in the second half of 1990, and a number of leading banks and other financial institutions went into bankruptcy. Government tax revenues dropped dramatically and government debts accumulated at an alarming rate. Some economists call the 1990s "Japan's lost decade". Only after early 2002 did the economy finally enter a period of slow but steady growth that has persisted until the present time.

In the face of those economic ups and downs, the amount of social security benefits paid out increased continuously from 5 to 24 per cent between 1961 and 2005, owing mainly to population ageing and the maturity of old-age pension schemes.

### **Declining co-residence and abrupt normative shifts**

Although Japan's current demographic and economic situations are similar in many ways to those of other industrialized countries, family organization is a vital factor that sets Japan apart from the rest of the developed countries. Unlike in Western European countries, multigenerational households are still fairly common in Japan. The Government of Japan views the persistence of co-resident households as a latent asset that can be tapped to offset the adverse effects of population ageing. However, the proportion of the elderly aged 65 and over living with their married children declined from 87 per cent in 1960 to 47 per cent in 2005. Another piece of evidence demonstrating the downward trend of multigenerational households is the decline in the proportion of newly married couples who co-reside with parents. Between 1955 and 2002, the proportion of newly married couples with such living arrangements fell from 64 to 29 per cent. If these trends in co-residence persist in the years to come, the Government's view of the co-resident household as a latent asset will prove to be illusory.

In addition to these household structural changes, the norms of intergenerational family support have been shifting to a considerable extent, as documented by time-series data, gathered in a series of nationwide surveys concerning fertility and family planning, which have been carried out every other year since 1950 by the *Mainichi Shimbun* newspaper. Since the first round of the survey, with the exception of a few rounds, a question regarding the dependence on children for old-age security has been asked to married women of reproductive age who had at least one child. The precoded responses are as follows: (a) "expect to depend", (b) "do not expect" and (c) "never thought about it". Almost two thirds of Japanese married women in 1950 expressed an expectation to depend on their own children for old-age security, while in 2004 only 11 per cent intended to do so. Furthermore, since 1963, a question about the attitude of wives towards taking care of their aged parents has been asked in the successive rounds of the *Mainichi Shimbun* surveys. The precoded response categories are as follows: (a) "good custom", (b) "natural duty as children", (c) "unavoidable due to inadequacy of public support resources" and (d) "not a good custom". The proportion of respondents who felt that providing care for elderly parents was either a good custom or a natural duty had been, by and large, stable over the period 1963-1986. From 1986 to 1988, however, the percentage distribution changed dramatically,

and the declining trend is still under way. The timing of this abrupt change in married women's attitudes towards their elderly parents coincided with a host of changes in public policies with regard to the provision of long-term care for frail elderly persons, namely transferring responsibilities from government to families.

### **A new analytical approach to population ageing: national transfer accounts**

Those demographic and socio-economic transformations in postwar Japan have been affecting the pattern and mode of intergenerational transfers over time. To analyse these changes, an international collaborative research project headed by Andrew Mason and Ronald Lee has been conducted, with a major goal of developing the National Transfer Accounts (NTAs), which is a system for measuring economic flows across age groups. The NTA system provides a comprehensive framework for estimating consumption, production and resource reallocations by age. The accounts are constructed so as to be consistent with and complementary to the National Income and Product Accounts system.

NTA, which measures intergenerational flows for a certain period of time (usually a calendar or fiscal year), is governed by the following relationship:

$$y^l - r(K + M) - g_g - f_f - C = I_K + I_M - g_g - f_f \quad (1)$$

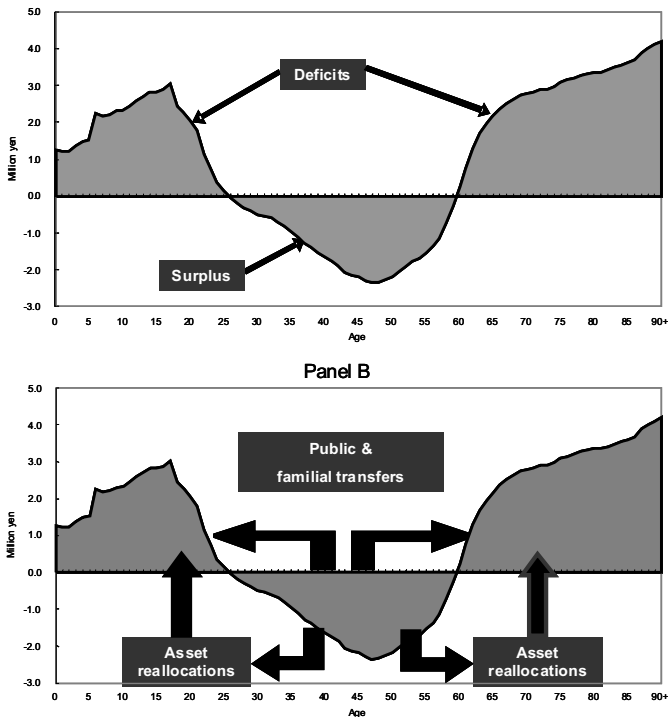
where  $y^l$  = labour income;  $rK$  = returns to capital;  $rM$  = returns to land and credit;  $g_g$  = transfer inflows from the public sector;  $f_f$  = transfer inflows from the private sector;  $C$  = consumption;  $I_K$  = investment in capital;  $I_M$  = investment in credit and land;  $g_g$  = transfer outflows to the Government;  $f_f$  = transfer outflows to the private sector.

Furthermore, the lifecycle deficit, which is the difference between consumption and production, is matched by age reallocations consisting of reallocations through assets and net transfers as expressed below:

$$\underbrace{\underbrace{C - y^l}_{\text{Lifecycle deficit}} + \underbrace{y^A - S}_{\text{Asset reallocations}} + \underbrace{g_g}_{\text{Net public transfers}} + \underbrace{f_f}_{\text{Net private transfers}}}_{\text{Age reallocations}} = 0 \quad (2)$$

For illustrative purposes, these mathematical relationships are depicted in figure 1.<sup>1</sup>

**Figure 1. Per capita total reallocations in Japan, 2004: lifecycle deficits**



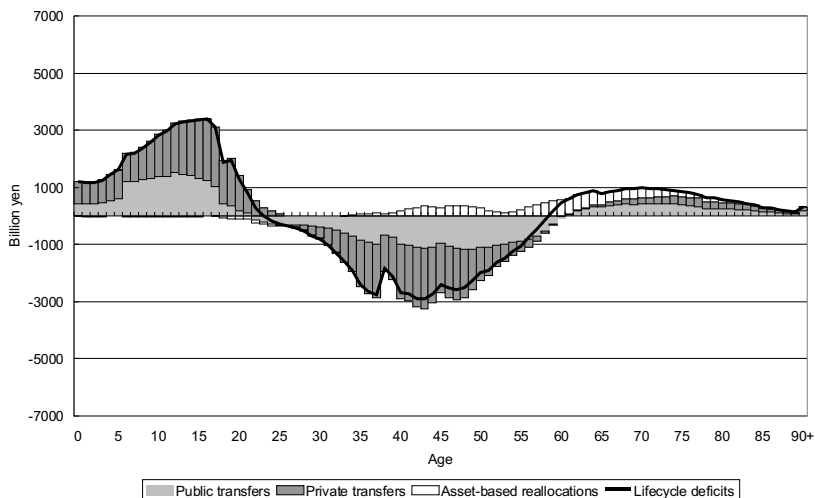
**The impact of population ageing upon public and familial transfers in Japan, 1984-2004**

Figure 2 compares the changing pattern of three reallocation components of the lifecycle deficits in Japan from 1984 to 2004. The components include reallocations through assets, public transfers and private transfers, measured on an annual basis. Panel A illustrates the annual reallocation of the lifecycle deficits observed in 1984, Panel B in 1994 and Panel C in 2004.

A brief glance at these panels reveals the following points of interest. First, the nominal values of these three components increased substantially over the period 1984-1994 as a consequence of the bubble economy (1986-1990). By contrast, the corresponding values for the subsequent 10-year period (1994-2004) changed to a less pronounced degree owing to the influence of “Japan’s lost decade”.

**Figure 2. Changing pattern of three components of reallocation of lifecycle deficits, adjusted to the total population**

**Panel A: 1984**



**Panel B: 1994**

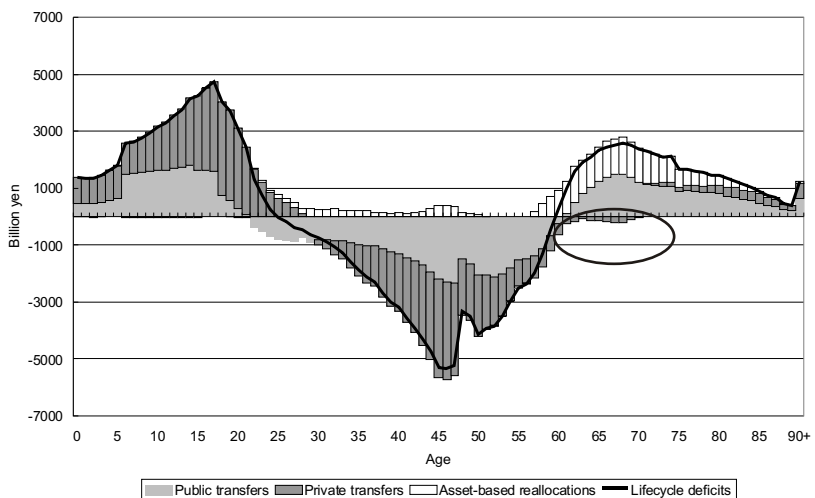
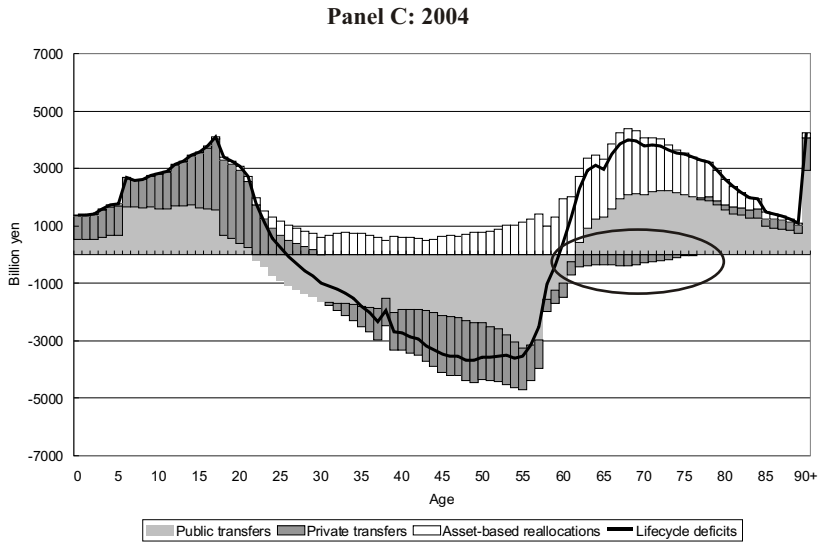


Figure 2. (Continued)

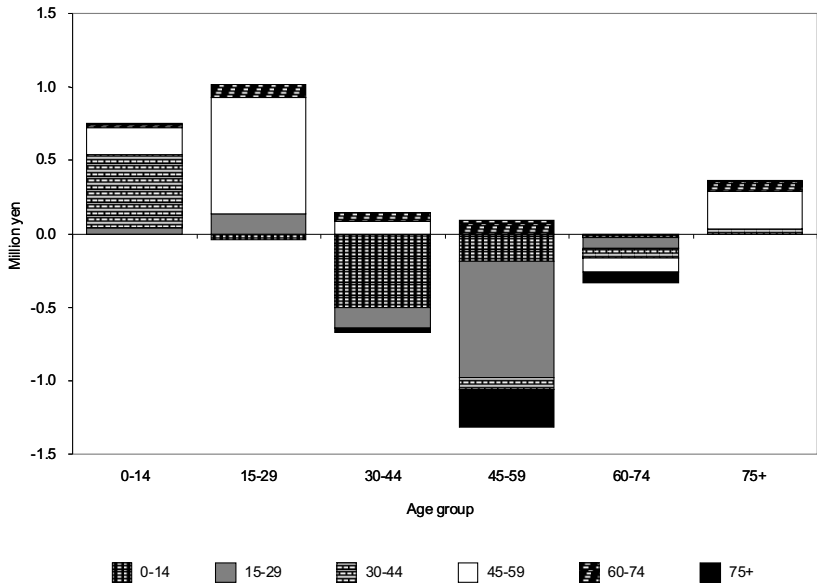


Second, the composition of transfers to the elderly population changed dramatically over the 20-year period. As can be easily seen by comparing the three panels of figure 2, the amount of net public transfers to the elderly population increased significantly. Similarly, the amount of asset-based reallocations grew considerably over time. By contrast, the relative importance of familial transfers from the young to the elderly declined to an appreciable extent. These results seem to indicate that the Japanese elderly have been increasingly dependent upon public transfers (predominantly old-age pensions and medical care services) and asset-based reallocations in supporting their retirement life.

Third, and more importantly, as marked by two circles in figure 2 (one in Panel B and the other in Panel C), the amount of net familial transfers to the relatively young elderly persons (roughly in their 60s and early 70s) was negative in both 1994 and 2004, implying that the amount of financial assistance the relatively young elderly persons provided to their adult children and/or grandchildren exceeded monetary assistance from the latter to the former. It is also worth noting that the amount of such negative net familial transfers from the relatively young elderly to other age groups rose during the period of Japan's lost decade, in which the unemployment rate remained at a very high level by Japanese

standards (ranging from 4 to 5 per cent) whereas labour income hardly grew in both nominal and real terms. The data displayed in figure 3 further substantiates the validity of this interpretation: all age groups received positive net intra-household transfers from the age group 60-74.

**Figure 3. Net per capita intra-household net transfers by age group, 2004**



Moreover, according to a nation-wide survey undertaken by the Nihon University Population Research Institute in April 2007, the proportion of the survey respondents in their 40s who had received financial assistance from their parents over the previous 12 months was approximately 50 per cent higher than that of those who had provided their parents with financial assistance. These results suggest that, despite the fact that multigenerational co-residence has been deteriorating over the past few decades, the Japanese elderly are still playing a vital role in providing financial support for their offspring when the latter encounter economic difficulties. Although older persons in Japan are often considered liabilities for the country, they are actually playing a key role as a safety net. For this reason, they should be considered latent assets in contemporary Japanese society.



## **Acknowledgements**

Research for this article was funded by two grants from the National Institute of Health, NIA R01-AG025488 and AG025247. This work was also supported by a grant obtained by the Nihon University Population Research Institute from the Academic Frontier Project for Private Universities, a matching fund subsidy from MEXT (Ministry of Education, Culture, Sports, Science and Technology of Japan) for the period of 2006-2010. Furthermore, the author is grateful to the United Nations Population Fund (RAS5P203) and the Japan Medical Association for their financial assistance.

## **Endnote**

1. A fuller explanation of the basic NTA concept, the crucial computational assumptions utilized and the definitions of other key variables are available on the NTA home page <http://www.ntaaccounts.org>.