As Japan strains to care for elderly, sacrifices begin

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The ominous demographics of this aging nation have long been seen by Japanese as a distant concern, not a present-day one. But that mind-set is being called into question by a prime minister who says that a crisis requiring immediate sacrifices has already begun.

In recent months, Prime Minister Yoshihiko Noda has staked his job and bet his support on a tax increase designed to fund Japan's soaring social security costs.

And the potential tax hike is only a sneak preview of the burdens to come as Japan grows into the world's grayest society, a nation where two decades from now seniors will outnumber children 15 and younger by nearly 4 to 1.

Economists and government officials say that Japan, in the coming years, will probably raise the retirement age, again increase taxes and trim spending on everything from education to defense, all to care for its elderly.

Young Japanese — those entering the workforce amid two decades of stagnation — will face the greatest burden: They will earn less in real terms than their parents, pay higher pension premiums, receive fewer social services and, eventually, retire with a less-generous pension package.

And that's the best-case scenario, experts say, possible only if a notoriously fractious government succeeds in pushing through a series of unpopular measures.

Decades of good policy "can avoid a crisis," said Masatoshi Katagiri, an economist at Chuo University, but living standards will erode. "Either way," he said, "it will be gloomy."

As it rose into an economic power after World War II, Japan created a generous social security net, with a universal health-care system and a universal pension system in which people were covered as employees or via a basic national program. But since the collapse two decades ago of the real estate and stock market bubble, the foundation of that system has started to crack. Tax revenue has dropped amid deflation, forcing Japan, whose debt-to-GDP ratio is highest among developed countries, to fund its social programs with more and more borrowing.

Meanwhile, Japan must come up with more and more money. This year, Japan will devote about 29 percent of its 90 trillion yen ($1.12 trillion) budget toward social security, its greatest single expenditure. Every passing year, according to government projections, Japan will need to raise an additional 1 trillion yen as it becomes the world's most top-heavy society. All while the workforce shrinks in this country of 127 million.

“The ground on which social security stands is now shaking,” Noda said at a town meeting here this month.

Japanese government officials have held a series of such meetings across the country, but Noda delivered the pitch here in Nishinomiya, a town wedged between Osaka and Kobe in Japan’s industrial heart.

Speaking to an audience of 200, Noda said Japan needed to double its consumption tax rate by 2015, a move that critics say could stall a tenuous economic recovery.

Noda described Japan’s problem in visual terms. In 1965, Japan had 9.1 workers for every retiree, and the social security system, he said, operated like a “douage,” a sports celebration where a team tosses the coach into the air. By 2050, though, two in every five Japanese will be 65 or older. The country will have one worker for every retiree, meaning that those celebrations will look instead like “kataguruma,” or piggyback rides. “It becomes really tough for the person at the bottom,” Noda said.

‘No good answer’

Japanese have long avoided major social reforms, reluctant to mess with a system that they credit for their health. (Japanese life expectancy at birth is 83, the highest in the industrialized world, according to the Organization for Economic Cooperation and Development.)

Modest changes came in 2004, when the government nudged up premium rates for its employee and national pension programs. But experts say that more — much more — should have been done.

At that time, Japanese policymakers came up with an idea to keep pension benefits from getting out of hand. They drew up a formula that essentially connected workforce size with pension payments to retirees. As one shrank, so, too, would the other, keeping the system sustainable as the population aged.

But the formula had a catch. It would be triggered only by an economic benchmark that required inflation. Years of subsequent deflation have prevented Japan from meeting that benchmark.

As a result, the formula has never been activated.

“We should have already been seeing this downward adjustment” for years, said Noriyuki Takayama, an expert at the Tokyo-based Research Institute for Policies on Pension and Aging. “So we have this aging population, and we still have no good answer on how to deal with it.”

Passing on the burden

In Nishinomiya, Noda made his 20-minute case that a tax increase was the first step to confront the problem. He said the country is “at a crossroads.” And then he opened the floor for questions.

A few seconds passed.

Then a 20-year-old college student, Naoki Kakuta, raised his hand and asked whether there would be ways to reduce the burden on his generation.

Noda answered that it would be unfair to “forever” raise the pension premium, because the burden should be shared, not channeled toward those with jobs.

But the answer didn’t quell Kakuta’s concerns.

Kakuta knew firsthand about generous benefits of Japan’s social security system, because three of his grandparents were still enjoying them. His surviving grandfather, Sueo Uemura, had retired 20 years ago from the regional electricity company, living with his wife on pension and savings ever since.

Kakuta said he didn’t think the cutbacks to the current system were coming fast enough. And he doubted the ability of Japanese politicians to draft the right policies.

“To me,” he said, “it sounds more and more like we’re passing this on to the younger people. . . . I feel especially bad for the generation after mine. And that certainly doesn’t motivate me to have more children.”

Special correspondent Yuki Oda contributed to this report.