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Review of Program on Intergenerational Equity (PIE) under the Direction of Professor and Director Noriyuki Takayama of the Institute of Economic Research, Hitotsubashi University

Overview

This project speaks to a high-visibility and top-priority topic for research in Japan, funded by the Japanese Ministry of Education, Culture, Sports, Science and Technology. Its primary theme or focus is on economic analysis of intergenerational issues of key interest to the nation. The project includes both theoretical and empirical research on labor and healthcare markets, and it also has served as the nexus for the new Japanese version of the Health and Retirement Study, known as the Japanese Study on Aging and Retirement (JSTAR). The PIE received funding from July 2006 to March 2011, and the leadership will soon be seeking a continuation of funding to extend its reach. Against the backdrop of population aging and decline, the work conducted to date has focused on developments in pension, healthcare, and employment markets. The work also explores intergenerational comparisons of economic well-being across generations, examines ways to reduce intergenerational conflicts, explores themes in intergenerational equity, and offers new approaches to overcome tensions between equity and efficiency across generations.

In my view of this material, I have reviewed the following material: the Progress Report, the General Report, the Part Two Interim Reports by each team, and several of the individual project reports. I comment in this note mainly on the papers regarding JSTAR and pensions, as these topics are those of most professional interest to me.

Indeed, many other developed nations are watching developments in Japan with great interest, insofar as Japan is aging more rapidly than most Western nations. For this reason it is quite impressive that members of the PIE have, in this second Stage of the funding,

organized 12 international meetings, made 116 presentations, written 146 discussion papers, and published 111 academic articles and 10 research monographs. Some of these are in Japanese only, but many papers have been uploaded to the internet in English, making them accessible not only to policymakers at home but around the world. Therefore the project is doing a great deal to inform and educate on the very important topic of intergenerational equity.

Special Projects: Progress Report

As noted above, the areas of special interest to me are the JSTAR project and the pensions work.

Turning first to the pension studies included in the review packet, I found most interesting the short paper on 50 million “floating” pensions resulting from a series of administrative and other complexities over time. Takayama argues that this is part of the reason that many people fail to contribute to the national Social Security system, and indeed it may be so. It does seem clear that in this electronic age, it would make sense to have a single tax collection authority which uses a national tax identification system that would double as the social security pension ID. Naturally a switch like this will be expensive and take time, but the alternative seems worse. It would be useful to delve into the practical issues of such a reform in more detail - how much would government, employers, and employees have to invest, and in what form, to move toward a more streamlined system? This would surely be a worthwhile exercise, to encourage a more informed debate.

But while such administrative reform is clearly essential for Japan’s old-age scheme, there is much more to be done. This is explained by Takayama in an interesting companion paper, who notes that population aging means that the national old-age program is underfunded to the tune of more than 100% of GDP. He suggests that a consumption tax could be used to finance the legacy costs, and proposes that a Notional Defined Contribution plan could be adopted for going-forward accruals. I hope that future work can offer a more lengthy discussion of and justification of the many

pros/cons of the consumption tax (versus, say a VAT) in the Japanese case, including ideally some comparative macro forecasts of alternative tax approaches and assuming different income reporting regimes.

Next I address the work of project leader Shimizutani, who with coauthors has been looking at some widely diverse topics ranging from elderly care to long-term employment practices. The JJIE paper with Noguchi does a great deal with aggregate prefectural level data; I would hope the authors can re-do their Oaxaca wage decomposition with micro-level data to control for differences in caregiver education and training, experience, etc. The paper with Yokoyama is a clever analysis of microdata on employment tenure gathered from a series of repeated cross-sections, to investigate the increase in tenure seen in larger firms. Clearly the authors are sensitive to and adept with the use of microdata techniques, and this is to the positive as relatively few Japanese economists adopt this approach. Better microdata may spur development of these approaches.

Turning last to the JSTAR, I have some familiarity with it as I am a Co-Principal Investigator on the US Health and Retirement Study, and I have frequently volunteered to advise on the JSTAR project to share international knowledge and move toward harmonization. I have particularly urged the value of linking administrative records, such as on lifetime pension contributions, and utilization of old-age benefits. In the US case this has been essential to examine a number of behavioral responses to policy changes, and I believe it essential in the Japanese case as well. In addition the enormous value of the US HRS flows in part from it being a very high response rate longitudinal panel, ensuring validity and consistency of the sample over time. I anticipate that the same will be true in the Japanese case, but I have not yet learned enough about sample attrition to know what the outcome has been. I have also urged the inclusion of financial literacy questions as we have devised and implemented them in the US case, as well as in numerous other countries (e.g. Mexico, Italy, Chile, The Netherlands, etc). Policymakers would greatly benefit from having access to what people know about their pension and

healthcare systems, in order to better model possible behavioral responses to given policy changes.

In this connection I would note that -- despite the fact that many reports are available on line -- none of these discusses this very important study in any detail. To move this ahead, perhaps two items listed but not posted could be added -- one is listed as a “presentation” and the other as a “forthcoming publication.” These include:

- Shimizutani, S., “Preview of First Results from the Japanese Study of Aging and Retirement (JSTAR),” SHARE Consortium Meeting, Edesheim, Germany, August 2008.

And

- Ichimura, H., Hashimoto, H. and Shimizutani, S., *First Results from the Japanese Study of Aging and Retirement (JSTAR)*, 2009, forthcoming.

More generally, it would be invaluable to put out a publicly downloadable Databook summarizing the study and offering initial findings, just as the HRS undertook (see <http://hrsonline.isr.umich.edu/index.php?p=dbook>). This would serve to inform the public and the policymakers on what can be learned from this important survey, as well as how to compare the Japanese results with other country findings.

In sum, my reading of the output from this second stage of the PIE research is quite positive -- the JSTAR offers some very new and exciting analytic and policy prospects, and the researchers assembled have high promise for the next five years. They have carried out an ambitious research, dissemination, and policy-relevant agenda on topics of enormous potential significance to policymakers and countrymen and women. I applaud their energy and enthusiasm.

Signed,



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