

Mid-Term Review of the Project on Intergenerational Equity (PIE) – Stage 2

by

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PIE – Stage 2 began in operation in July, 2006 and it is expected to continue until March, 2011. So currently, we are a bit more than half way through Stage 2 and it is a good time to evaluate how well the project has done thus far. My summary evaluation is that PIE – Stage 2 has been excellent so far and that I expect its admirable rate of production of high quality research published in peer reviewed journals to continue.

In the Preface to the Stage 2 Progress Report, Professor Takayama reports that:

“the PIE at Stage 2 has organized 12 international meetings, has written 146 discussion papers ... , has made 116 presentations and has published 111 academic articles and 10 research monographs including ones that are forthcoming.”

This is quite an impressive accomplishment for the seven research members and their co-authors.

It is clear that the PIE – Stage 2 researchers have been very active both in Japan and internationally. This is one reason that I rate PIE – Stage 2 so highly. But it is not the most important reason. For me, the most important reason is that the research is both very relevant and very good.

I believe that tensions between generations will be the most important social tension experienced by developed countries in the coming decades. This concern is felt especially strongly in Japan with its low fertility and high life expectancy and Japan will have to be one of the first countries to have to deal with those tensions. Other countries will learn a great deal from Japan's successes or failures. Nevertheless, I find the topic of intergenerational equity to be very understudied even in Japan. This is a reason why PIE is so important and why it is important the studies be done well. If PIE – Stage 2 did not exist, I would be wholeheartedly advocating for creating such a project.

The research so far has been carried out by five groups: (1) the Takayama-Aoki team, (2) the Genda team, (3) the Shimizutani team, (4) the Ogura team, and (5) Suzumura-Hara team. I am certainly not an expert in all the fields of research represented, but I will do the best I can to provide you with my evaluations and impressions of it. I will do this by very briefly discussing a few pieces of research where I think I have something to say.

The Takayama-Aoki team

“On Fifty Million Floating Pension Records in Japan” by Noriyuki Takayama

Of course, 50 million unintegrated pension records is a very big problem. The strength of this paper is in its policy recommendations. These include spending more money on error correction, moving toward e-government, integrated collection of taxes and pension contributions, and taking care that the government employees dealing with pensions have enough support so that they can maintain pride in their work. I believe that discussions like these are very important. The Japanese government already faces a big problem in keeping people from dropping out of the pension system. If people lose faith in the

government's ability to handle pension records, the dropout problem could get worse.

“Pension Issues in Japan: How Can We Cope with the Declining Population” in The Demographic Transition in the Pacific Rim, NBER-EASE, vol. 19, forthcoming by Noriyuki Takayama

This paper was not included in Progress Report, but since I read it previously and it was a revision and expansion of a paper that was included, I thought I would comment on it.

I liked this paper upon first reading it and still like it upon rereading. It is the best statement of the nature of the Japanese pension system, its problems, and suggestions for solutions to those problems that I have read. There is a great deal to discuss here and I cannot really do justice to this paper in just a few sentences. Let me just add a few thoughts. The paper refers to a wonderful graph in Takayama 1998 that shows that after transfers Japanese elderly are better off than those who are 30 to 44 after taxes and transfers. This is an extremely powerful graph. I was shocked when I saw it for the first time. The data underlying that graph are now more than a decade old. It would be a good idea if someone could reproduce the graph with more recent data or, if that is impossible, if government statistical agencies can be asked to provide updated data. I like the discussion of the increasing dropout rate. Takayama points to a really important problem here. Finally, I like the discussion of possible reforms, particularly the introduction of a notional defined contribution plan (NDC). I personally would like to see a paper in the future with more details on a possible NDC implementation for Japan.

“On the Persistence of Low Birthrate in Japan” by Reiko Aoki and Yoko Konishi

There are three things that I like about this paper. I like the empirical analysis of the relationship between female labor force participation and the total fertility rate. I think that an expansion of this part of the paper, which puts Japan in the context of other OECD countries could easily be published in a first-rate demographic journal. I like the new wrinkle in fertility analysis that is introduced by adding the quality of consumption to the more standard model. I have never seen this done before and it suggests a new way of thinking about an old problem. Third, I like the general equilibrium approach in Section 3 of the paper. I am thinking about using it in a graduate level course in economic demography that I teach at Stony Brook University.

The Genda team

“Jobless Youths and the NEET problem in Japan by Yuji Genda

I have read Genda's book, “A Nagging Sense of Job Insecurity” and liked it very much. This is a nice follow-up article. I think Genda's work is very important in the context of thinking about intergenerational issues. What is happening to the economic conditions of young people tends to be given too little attention as researchers focus on the conditions of the older generation. The fact that Genda finds that the NEET phenomenon is consistent with standard economic theory is very useful. I have found that the NEET phenomenon is not limited to Japan. I think further work on NEETs, putting Japan in an international context would be useful. There is a clear connection of Genda's work and the paper of Ogura and Kadoda, as I will discuss below.

The Shimizutani team

“Has Japan’s Long-Term Employment Practice Survived? Developments Since the 1990s” by Satoshi Shimizutani and Izumi Yokoyama

I had originally thought that I would skip this paper, but, in the end, it was so interesting and had such a compelling conclusion that I would like to say a few words about it. The authors use a micro data set to provide new insights into the evolution of long-term employment practices in Japan. They do two interesting decomposition analyses. I was most struck, however, by their conclusion:

“When considered in conjunction with the rise in the share of part-time workers in recent years, our new findings hold an important implication for income inequality Our evidence warns that lifetime earnings inequality could be even larger than the cross-section inequality that we usually measure.”

Is the Japanese labor market evolving into a two-tiered structure of haves and have-nots? It is clearly important to follow up this work, with a more longitudinal dataset, if that is possible. This research along with Genda’s has intriguing implications for Japan’s low fertility. Again, there is a connection with the work of Ogura and Kadoda that can be exploited in the future.

“Nonprofit/for profit status and earning differentials in the Japanese at-home elderly care industry: Evidence from micro-level data on home helpers and staff nurses” by Haruko Noguchi and Satoshi Shimizutani

The paper looks at for-profit and not-for-profit providers of at-home care for the elderly. The paper finds that employees at non-profits earn more, but that this extra pay does not produce extra quality. This is an interesting and potentially useful result, because it could help reduce the cost of at-home care. It would be helpful to find out whether this kind of wage differential also exists in other sectors where for-profits and not-for-profits compete. If so, then policy-makers could possibly think about a more general reform.

The Ogura team

“Effect of Public Policies and Labor Market on the Fertility of Japanese Women: Analysis of Municipal Data” by Seiritsu Ogura and Tamotsu Kadoda

Since I am very concerned about the issue of low fertility in Japan, I naturally like this paper. One of the conclusions is that in the last period that the authors analyze (2000-2004), “the most important factor in the decline [in fertility] was the labor market uncertainty of young men.” This is clearly related to and consistent with the work of the Genda team. I have been trying to argue that there is a connection between the increasing labor market uncertainty of young men and decreasing fertility for a while now. This paper is one of the neatest pieces of empirical work that I have seen confirming this. I would recommend that if possible the PIE should build on the consistency of these results with those of the Genda team in its future research planning.

The Suzumura-Hara team

I cannot say anything about the work of this team, because I do not understand it. Nevertheless, I would like to support the inclusion of this kind of purely theoretical work in the PIE research agenda. Intergenerational equity is a complex issue and it deserves to be treated from many perspectives.

My overall impression of the research in PIE – Stage 2 is that it is excellent. There are a number of clear synergies that appear when reading the papers. I think that the researchers in PIE – Stage 2 should take this opportunity to find those synergies and utilize them in the second half of the research project. For example, Seiritsu Ogura and Tamotsu Kadoda argue in favor of using municipal level data. Perhaps Reiko Aoki and Yoko Konishi should consider using municipal level data in extending their research. There are clear connections between the work of Yuji Genda, Shimizutani and Izumi Yokoyama, and Seiritsu Ogura and Tamotsu Kadoda. Further collaboration between those authors in the future could be quite productive. The connection between NEETs, a bifurcated labor market and low fertility needs to be investigated more thoroughly both from an empirical and a theoretical perspective.

PIE – Stage 2 has been a productive and innovative project. It is going well. I can only recommend that it continue with its proven formula. If I can be of any further help please do not hesitate to contact me.

Wamen Dandeng