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BOOK REVIEW


In October, 1994, Diet panel passed pension bill on the reform of employee pension (Kousei nenkin) which has several features to cope with ageing population in Japan. Most of papers dealt with three features of this reform: First, this bill delays the starting age for retired company workers to receive employee pension in full from 60 to 65 years old. Second, the contribution rate is increased from 14.5% to 16.5% under the long-run schedule of the rate which would be raised to 29.6% in the mid 21st century. Third, this bill do not include a proposed increase in the government's basic pension spending rate, the major point over which the ruling and opposition parties remained divided.

Most of people are concerned about delaying the age at which they are eligible to draw the annuity. For they think that this bill might fail to ensure job opportunities for old people with no coordination between employment policy and social security programs in Japan. In order to understand the effectiveness of these policies, it is desirable to investigate the economic conditions of the elder people as well as their labor force participation. Furthermore, it is helpful to make comparisons with the experience of foreign countries faced with aging population in order to consider the destination of the future reform of pension plans in Japan.

Aging in the United States and Japan: Economic Trends, edited by Yukio Noguchi and David A. Wise (The University of Chicago Press, Chicago and London) tries to tackle these two aspects of economic studies on ageing population and the aged people. This book is one of the series of 'National Bureau of Economic Research Conferences Report.' It consists of papers presented at a joint conference by Japan Center for Economic Research-National Bureau of Economic Research held in Tokyo in 1993. The main characteristics of this book is that it chooses several topics comparable between the U.S. and Japan. They are valuable in order to 'assess the present economic status of the elderly and consider the impact of an aging population on the economies' in the two countries.

Following the introduction by Y. Noguchi and D. A. Wise, the first and second chapters discuss the labor force participation of the elderly in the U.S. and Japan respectively. In chapter 1, Lumsdaine and Wise attribute the decrease in labor force participation rate of the elder people in the U.S. to the social security and private pension plans, confirming the declining trends in this rate after the introduction of these two programs. They put a stress on the fact that private pension plans exhibit two peaks in the ratio of pension accrual to wage earnings at the age of 50 and 60 years old. The early retirement has been encouraged by private pension plans in addition to social security program in the U.S. In chapter 2, Higuchi
and Seike estimated the effect of the eligibility of public pension benefits on labor force participation of the elderly in Japan. The estimation results shows that the social security eligibility has negative effects on their participation decision and their working hours.

The third and fourth chapters examine the economic status of the elderly in the U.S. and Japan respectively. M. D. Hurd (chapter 3) surveyed demographic change and the change in income distribution in the U.S. Making income comparisons over periods and over cohorts with reference to social security benefits, he pointed out that the elderly in the U.S. are at least as well off as the nonelderly and possibly substantially better off. As for Japanese older people, Takayama reached the similar conclusion in chapter 4. He estimated the change in distribution of income and net worth over age classes in several periods by using the National Survey of Family Income and Expenditure data. This empirical study elucidates more affluent conditions of the elderly than the young or the middle aged in terms of asset holdings, especially home equity. Then in the fifth chapter, D. L. McFadden investigates the role of home equity as the means for maintaining income of the elderly in the two countries.

The chapter 6 and 7 deal with the costs of financing public pension programs and health care in Japan and the U.S. Ogura estimated the Japanese government’s future expenditure on health insurance and public pension plans by using Japan Center for Economic Reserch estimation of future population in Japan. His major findings in chapter 6 is that, due to the reform of public pension plans adopted in 1973 to increase benefits substantially, the cost of pension plans will continue to increase sharply in the next several decades. These findings are supported by several other future estimations on the financial status of public pension plans in Japan (For instance, Kaneko and Tajika (1992) ‘The Financial Status and Reform of Japanese Public Pension Plans: The Case of the Employes’ Pension Insurance’, the paper presented for the 48th Congress of International Institute of Public Finance in 1992). Hence, as we mentioned above, the reform of pension plans are conducted in the diet in 1994 so as to reduce the government’s expenditure on pension benefits.

On the other hand, chapter 7 concentrates on financial issues concerning hospital and physicians’ services and long-term care for the elderly in U.S. His point of view is that adverse selection and moral hazard should be taken into account in order to utilize the long-term care insurance market for the reduction of future expenditure on older peoples’ health care.

From these comparative studies of the impacts of social security on the economic status and economic behavior between the U.S. and Japan, we understand the elderly are founds to be relatively affluent with their asset holdings over the nonelder people. However, taking into account alleviation of uncertainty of asset prices which determine the liquidated value of home equity and the necessity for reducing future public pension benefits, expanding job opportunities for the aged people seems to be necessary. For this employment policy guarantees older peoples’ income independent of asset price fluctuations, which enables the government to reduce public pension benefits. In this sense, this book is highly suggestive to economists, policy makers, and students who are interested in connection between social securities and employment policies in the two countries.

However, according to the OECD Jobs Study: Facts, Analysis, Strategies (Paris: OECD, 1994, Japanese language edition, the Japan Institute of Labour), the government should coordinate job opportunities between younger and older people by harmonizing the difference between respective unemployment rates. In this regard, the study of economic status
and behavior of the aged people in aging society should be conducted by utilizing the
over-lapping generation models and endogenous growth models. They might include some
aspects of human capital formation through trainings and retirement process over the life-
cycle. The reason why this kind of research should be necessary is that, in aging society,
economic growth is still desirable because it brings about increase in real wage on every
generation which lighten the sharing costs of social security in the future. This is a hint
of further investigations which I can suggest, so that a variety of expansion of the studies
would be possible by reading this significant work.

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