The Journal of Socio-Economics 39 (2010) 72–80

Contents lists available at ScienceDirect

The Journal of Socio-Economics

journal homepage: www.elsevier.com/locate/soceco

Comparing public attitudes toward providing for the livelihood of the elderly in two aging societies: Germany and Japan

Bernd Hayo[a,*], Hiroyuki Ono[b,1]

[a] Faculty of Business Administration and Economics, Philipps-University Marburg, Universitaetsstr. 24, D-35037 Marburg, Germany
[b] Faculty of Economics, Toyo University, 5-28-20 Hakusan Bunkyo-ku, 112-8606 Tokyo, Japan

ARTICLE INFO

Article history:
Received 22 June 2009
Accepted 12 August 2009

JEL classification:
H55
Z10

Keywords:
Livelihood of elderly
Pension reform
Public attitudes
Germany
Japan

ABSTRACT

Using an ordered logit model on representative survey data, we study attitudes about who should provide for the livelihood of the elderly in two aging societies—Germany and Japan. We find that in both countries, those with higher income are more inclined toward the private option, whereas age has the opposite effect. Part-time work status negatively (positively) affects the inclination toward a government-based pension system in Japan (Germany). Other significant influences are the pensioner status of the respondents in Japan and specific left-wing party support in the case of Germans.

1. Introduction

Reforming their social security systems is one of the most important structural problems facing both Germany and Japan, which are the second and third largest economies in the world. Both countries are experiencing a rapid aging of society, endangering the sustainability of their social insurance systems. However, structural reforms are politically sensitive and politicians appear reluctant to thoroughly address this type of problem, possibly because those who will be adversely affected by the reforms are perceived to have more political clout than those who are not. Since politicians in democracies tend to be short-term oriented and pension reform is a long-term issue, necessary adjustments are postponed and any reform measures undertaken usually only alleviate short-term financial pressures.

To analyze this situation from a political economy perspective, it would be useful to identify those most likely to be for or against such policies. If politicians can be more certain that they will not be punished in the next election for having introduced changes in the social security system, they are more likely to behave in a socially optimal way. The aim of this paper is to compare the subjective attitudes toward the livelihood of the elderly in Germany and Japan. We investigate which individual characteristics explain these attitudes, using representative public opinion data that have not been previously explored for this purpose. Although the livelihood of the elderly involves various institutions of social security, we think that the pension system is the most relevant and it thus forms the basis of our discussion. We develop *a priori* hypotheses regarding preferences toward publicly or privately organized pension systems based on a general notion of individual intertemporal utility maximization and test whether these are in-line with the actual perceptions of respondents.

Many issues relevant to the topic of pension reform, particularly those related to the welfare state, are discussed in the literature; for example, political economy studies are surveyed by Breyer (1994) and Galasso and Profeta (2002), redistributional aspects are studied by Corneo and Grüner (2002), intergenerational conflicts by Hamil-Luker (2001), and differing preferences of populations in Europe and the United States by Alesina et al. (2004). However, there are relatively few studies on the specific question of public attitudes toward organizing the pension system. Boeri et al. (2001, 2002) look at attitudes toward pension reform in France, Germany, Italy, and Spain. Evans and Kelly (2004) investigate public opinion on this issue in Australia and compare results with samples from Finland and Poland. Van Els et al. (2003) provide empirical evidence for the Netherlands. Using data from the International Social Survey Programme (ISSP), Kikuzawa (2005) describes attitudes in various countries (including Germany and

* Corresponding author. Tel.: +49 (0)6421 28 23091; fax: +49 (0)6421 28 23088.
E-mail addresses: hayo@wiwi.uni-marburg.de (B. Hayo), hiroono@toyonet.toyo.ac.jp (H. Ono).
[1] Tel.: +81 (0)3 3945 7411; fax: +81 (3)3945 7667.

1053-5357/$ – see front matter
doi:10.1016/j.socec.2009.08.005

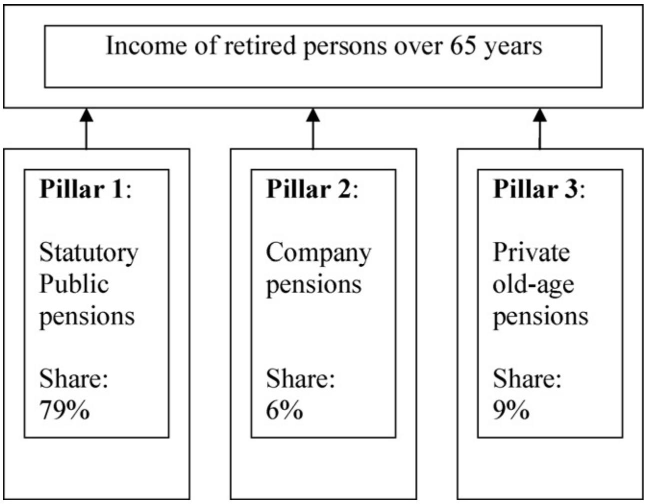

Fig. 1. Overview of the German pension system. *Source*: German Federal Ministry of Labor and Social Affairs. Six percent of incomes come from sources other than the three pillars.

Japan) on government responsibility for providing for the livelihood of the elderly.

In the next section, we provide a brief overview of the pension systems in the two countries. The third section discusses the database and some methodological issues. Various hypotheses to be tested are presented in the fourth section. Sections 5 and 6 report the estimation results and their interpretation, respectively. The final section summarizes and concludes the paper.

2. Institutional overview

In this section, we briefly summarize important features of the pension systems in Germany and Japan. The *German pension system* rests on three pillars. It is a primarily contribution-based insurance system with few redistributive elements within a generation. The statutory public pension system is by far the most important pillar and provides on average more than three-quarters of old age incomes (see Fig. 1). The other two pillars of the German system are company-based pensions and individual pension plans. Most employees are required to pay a certain percentage of their wage into the public pension system, while most professionals, independent businesspeople, and firm owners can opt out of doing so. Civil servants receive their pensions out of the general budget. The public pension pillar is primarily a pay-as-you-go system, i.e., the current working population pays for the current generation of retirees, which can lead to severe redistribution across generations due to demographic change. The amount of the individual pension is computed using a relatively complicated formula based, among other things, on the number of years a person worked and his or her average (labor) income. In general, pensions increase in tandem with average wages in the economy. Any shortfall in pension contributions and obligations is covered by the general federal budget.

Reform measures introduced in 1992 anchor benefits to net wages after subtracting social security contributions (Börsch-Supan et al., 2007). The same set of reforms also reduced incentives to retire early by linking "actuarial" benefits adjustments to the actual retirement age. In 2001, the Riester reform reduced the general pension level. To strengthen the funded part of the German pension system, the government has subsidized certain company-based and private-based pension plans. Moreover, the pensionable age of the public system will be raised from 65 to 67 over the period 2013–2029.

The *Japanese public pension system* is characterized by a greater extent of redistribution within one generation than is the German system (Chia et al. (2008) and Takayama, forthcoming). Its most salient feature is its so-called two-storied system (see Fig. 2).

Under the Japanese system, everyone is entitled to the "first floor" or the *Basic Pension*, which provides a minimum level of benefits, regardless of the premium paid. The "second-floor" pension depends on job categories. For instance, salaried workers in the private sector and government employees (collectively, *category-II insured*) belong to, respectively, their employers' pension insurance and mutual aid associations, which entitle them to benefits based on the income they earned before retirement. These two "floors" are compulsory. However, the self-employed and nonworking spouses of *category-II* insureds (*category-I insured* and *category-III insured*, respectively) do not have mandatory "second-floor" coverage, and *can choose* to join the National Pension Fund. To ensure the viability of the system, a number of adjustments have been implemented. For instance, in 1994, the starting age to receive a non-earnings-related pension entitlement was gradually raised from 60 to 65. In 1999, for those older than 65, the system of calculating pension entitlements following average wage growth was changed to a system based on the inflation rate. Further, the so-called macroeconomic slide-system introduced in 2004 adjusts the benefits by other factors, such as changes in average life expectancy and number of people insured in the system. In the same year, it was also determined that one-half the Basic Pension expenditure (previously one-third) is covered by general taxes.

The German public pension system was created as a defined *benefit* system. This "Bismarckian" system is, at least in principle, characterized by very little redistribution across citizens within one generation. However, due to a number of pension reforms starting in 1992, it has been transformed into a defined *contribution* system (Börsch-Supan, 2005; Börsch-Supan et al., 2007). Japan's public pension system was originally a mix between a "Bismarckian"

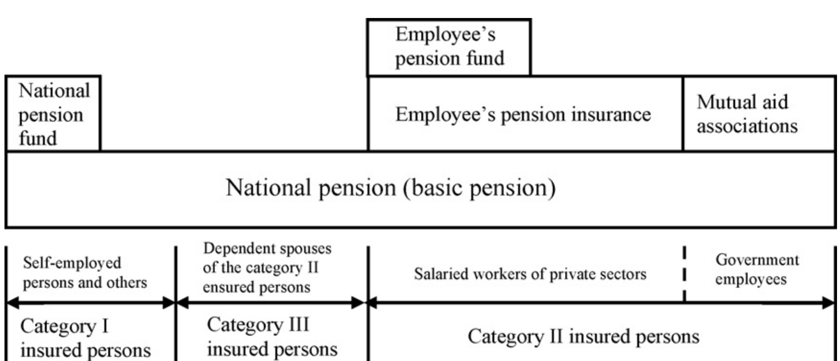

Fig. 2. Overview of the Japanese Pension System. *Source*: Social Insurance Agency Homepage.