

Will Japan's elderly get burned by 'Abenomics'?

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Yoshikazu Tsuno | AFP | Getty Images

Elderly people stroll down a shopping precinct in Tokyo.

As Japan undergoes a seismic shift in economic policy that promises to end two decades of stagnation, one unsuspecting segment of society may be getting a raw deal: the elderly.

"For those older persons that are retired, inflation is a threat in light of the pension system's low generosity, as it erodes the real value of their savings," said Marcel Thieliant, economist at Capital Economics.

"Most pensioners' assets are deposits, which currently earn close to zero interest even for long-term time deposits. Even if inflation picks up further, the Bank of Japan is unlikely to raise interest rates for several years, so deposit rates are unlikely to rise either," he added.

Boosting inflation through aggressive monetary stimulus is a central facet of Prime Minister Shinzo Abe's growth strategy, dubbed "Abenomics", which aims to drive the country out of its multi-year deflationary slump.

Consumer price inflation is on the climb, recording its highest annual rate in five years in July at 0.7 percent. The government aims to boost inflation to 2 percent by 2015.

"Older people tend to spend proportionally more of their income on food and energy so a rise in inflation tends to affect this group more strongly," said Sarah Bounphrey, head of countries and consumers research at Euromonitor.

Japan, one of the world's fastest ageing nations, is home to a booming population of senior citizens. A staggering one in four – or 31.86 million people – are aged 65 or older – significantly higher than neighbors South Korea and China whose elderly populations currently stand at 12.2 and 11.1 percent of their overall populations.

On top of rising inflation, the looming consumption tax on goods and services – which is due to rise from 5 percent to 8 percent next April and to 10 percent in 2015 – could also prove burdensome for pensioners.

"That's going to be a negative for [the retired elderly]. If your income doesn't change, the sales tax will be burden," said Tomo Kinoshita, chief economist, Japan at Nomura. 61-year-old Noriko Ishihara, a retired nurse based in Tokyo, told CNBC she would need to cut back on spending if the tax is implemented.

"Expenses will increase if tax goes up. Since my income will not increase, I think I will hold off some buying. I need to think about how I should cut down my necessary expenses," said Ishihara.

"I thought Abenomics would be something that could bring benefits to the nation. I was expecting that, but cannot feel it," she added. One bright spot, however, is that of Japan's nearly 32 million senior citizens, 27.9 percent of the men and 13.2 percent of the women are still part of the labor force.

"In the longer run at least, wage growth should pick up in line with higher inflation, so this source of income should be reasonably well protected," said Thieliant of Capital Economics.

A reason for their high rate of participation in the workforce is because the country has the longest life expectancy globally – alongside Switzerland and San Marino – with men and women living to an average age of 83, according to the World Health Organization. In fact, women in the East Asian nation have the longest life expectancy worldwide at 86, compared with 79 for men.

But given that Japan remains a patriarchal society where men are the primary breadwinners – Japan ranked 97th out of 135 countries in terms of gender wage equality and 78th in terms of the male-to-female labor force participation rate in the World Economic Forum's 2012 Global Gender Gap – women that outlive their husbands could face more headwinds due to "Abenomics."

Sharing the burden Tomoki Fujii, associate professor of economics at Singapore Management University disagrees that Japan's aged population is getting the short end of the stick under "Abenomics".

The sales tax is vital to sustaining the country's social security system, and thus those benefiting from it should contribute too, Fujii argued. "The elderly benefit most from the social security system, including the healthcare and pension system. Therefore, it is only fair to ask the elderly to share the burden of supporting the social security system," he said.

"This argument is compelling particularly because sizable inequality exists between the current young and elderly generations in terms of the expected net benefits received from the government (pension, medical, and other benefits) minus the tax, social security, and other payments made to the government," he added.

Additionally, he pointed out that the older population will be primary beneficiaries of Abe's pledge to lead efforts towards carving out a "new horizon" for the latest medical technologies, including regenerative medicine and innovative drug development.

Generational benefits Tokyo-based Kinoshita of Nomura said while Abe's policies may hurt the older population initially, eventually the aged will benefit from the country's improving



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growth and sustainable fiscal position. "They [elderly] have substantial wealth anyways, so if it's going to be eroded a bit, many of them don't mind.

They aren't just thinking about themselves, they are also thinking about the future of their kids and grandchildren," he said. "The older generation is concerned about the long-term stagnation in growth. So generally speaking, they are very happy seeing this recovery process in Japan," he added.