

Comments

by

the Pension Team Leader

Noriyuki Takayama

Professor of Economics, Hitotsubashi University

takayama@ier.hit-u.ac.jp

<http://www.ier.hit-u.ac.jp/~takayama/>

Kumru-Piggott Contributions (1)

The paper by Mr. Cagri Kumru and Professor John Piggott from University of New South Wales, Australia, points out that throughout the developed world, pay-as-you-go (PAYG) social security has been the backbone of retirement income support for most of the 20th century. Over the last two decades or more, however, governments everywhere have retreated from their unsustainable promises, as they try to balance adequate retirement benefits against manageable tax burdens and fiscal stress. The trigger for this tension has been demographic shift. Pay-as-you-go plans worked well when labour forces were always growing relative to retired populations.

Kumru-Piggott Contributions (2)

Retirement financing has become the battleground for social resilience. It is imperative that at least the less well-off elderly receive government assistance, since they have few resources, neither human capital nor financial or real assets. But funding all the retired adequately requires tax rates on the working population that will test social cohesion. Most governments have coped with this by reducing benefits surreptitiously – reducing survivor benefits, for example, or altering indexation arrangements. Such changes provide short-term political relief, but do little in the long term to buttress social resilience.

Kumru-Piggott Contributions (3)

With this scene setting in mind, the Australian paper re-visits means-testing as a policy option. The case for means-testing has been strengthened in recent years not only by the imperatives of demographic transition, but also by new analytic insights that indicate that a means tested program may in fact be second-best optimal.

Moon Contributions (1)

The paper by Dr. Hyung-Pyo Moon from Korea Development Institute briefly examines the current social issues in Korea and discusses agendas and suggestions on the new social policy. The Korean society is currently faced with new challenges such as rising income inequality, declining social mobility as well as rapid population ageing. Furthermore, increasing social instability calls for the government to intervene in more active and preemptive manner in its social policy stance. In particular, a policy priority should be placed on the reinforcement of a basic social safety net to restore the eroding middle-income class.

Moon Contributions (2)

The Korean paper emphasized that the new social policy should be geared toward preemptive social investment and system improvement to counter potential risks and enhance individual progress. In order to accomplish these policy goals the government should pursue three driving strategies: preventative and investable approach, user-oriented integrated approach, and life-cycle approach.

Moon Contributions (3)

Major policies can be summarized as follows: First, it is crucial to reinforce the basic social safety net and expand the coverage of social insurance and public assistance programs. Second, it is important to guarantee equal education opportunity through the quality improvement of public education and reduction in the cost of private education. Third, it is necessary to allow for equal opportunity at the starting line through aggressive early investment policies. Fourth, policies that promote quality and creation of jobs should be pursued as well as sustained. Lastly, to counter increasing longevity risk, it is urgent to expand the pension coverage and compliance of the challenging groups including atypical workers and the self-employed.

Takayama Contributions (1)

My paper explains how the social security pension system has developed in Japan, where its current coverage is nearly 100 percent, including the self-employed and full-time housewives. Its development of the Japanese system looks like a dividend from economic growth. Both demographic and economic factors in future Japan will probably impose greater stresses on social security pension programs which are based on pay-as-you-go defined-benefit financing. Japan virtually has made big pension reforms every ten years to contain the increasing cost, while assuring adequate income after retirement. The future picture is yet uncertain.

Takayama Contributions (2)

In Japan, we currently have a “Bad Start, Bad Finish” problem. Many younger people are “atypical” workers and their working status is quite unstable. They are not likely to step up to “typical” ones. They are not assured to enjoy adequate and stable income during their working age, and consequently their pension benefits will be less than the adequate level. Higher employability with stable income is badly missing for them.

There is a “political risk”, as well. Some automatic balance mechanisms are required, and reforming the voting system has to be intensively studied.

An evidence-based policy is quite promising, although it has been hardly implemented in Asian countries, so far.