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## Original Article

# The Japanese pensions scandals

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**ABSTRACT** Japan has for a very long time been fretting over the serious implications of the rapid ageing of its population on the future viability of its pension provisions. It is therefore not surprising to learn that the worry has been compounded by the revelation of very serious scandals relating to both the pension system itself and to how it is operated. One of these scandals was the discovery during the early part of 2004 of the non-payment of mandatory pension premiums by those in the limelight, especially by politicians, some of whom were at the very helm. The second, gripping and leaving the entire nation aghast, was the mishandling by the Social Insurance Agency (SIA) of the documentation on the payment of national pension premiums, an act that in many cases rendered it impossible to trace the identities of those entitled to pension benefits. Indeed, the elections on 29 July 2007, for the Diet (parliament) Upper House and some vacant seats in the Lower House (the more powerful of the two chambers), were fought on precisely that very issue, and the outcome favoured the opposition parties, giving them control of the Upper House for the first time ever. The third concerns the discovery in 2008 of the falsification of pension records by SIA staff, the very people entrusted with the running of the system. As these scandals continue to reverberate, the purpose of this paper is to throw some light on them by revealing their very nature and implications. Before doing so, however, it may prove helpful to provide brief background information on the underlying problems with the Japanese pension system.

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## VITAL BACKGROUND

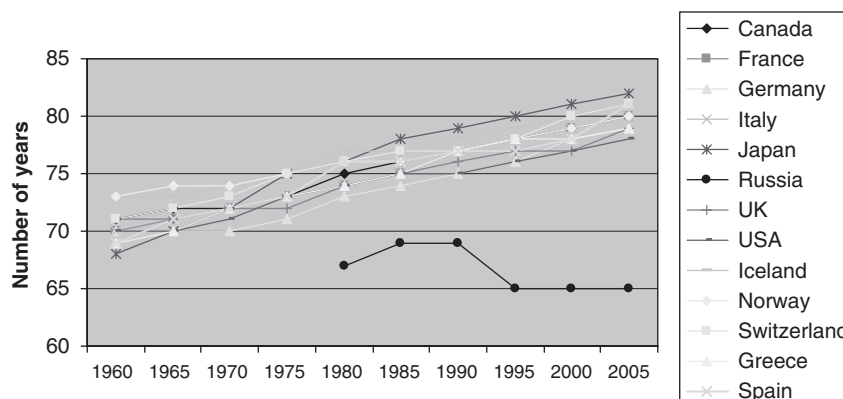
Despite being a well-trodden area, a few words may be in order regarding the threats to the viability of the Japanese pension system. This is because without a proper understanding of the foundations on which the system is built, it

would be difficult to fully appreciate the extent of the scandals. It could of course be claimed that the system has been widely advertised all over the globe, and to such an extent that it is now almost common household knowledge that the concern with the viability of the pension schemes in the advanced world originated in Japan. However, a vast literature suggests that there is still no full grasp of the situation; hence this section.

Japan sets the pensions crises scene because its case is almost unique. This is due to the

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**Figure 1:** Average life expectancy at birth, 1960–2005.

combination of three demographic trends in a country that is averse to foreign workers: (a) a sharp decline in the birth rate; (b) a baby-boom generation rapidly approaching retirement; and (c) a steady increase in longevity. Regarding the first trend, Japan's birth rate (or fertility rate or birth per woman) is 1.27 (in 2007; no comparable data are available for 2008) whereas the global average population replacement rate is about 2.1: two children are needed to replace two parents and the extra tenth of a child is to cater for the unequal sex ratio. Japan ranks third in overall life expectancy at 82.07 years (after Macau and Andorra at 84.33 and 82.67, respectively).<sup>1</sup> Note, however, that there is nothing particularly special about Japan in this respect, as the differences among the advanced nations and even some of the poorer countries are not that great (see Figure 1 for a selection of nations; consistent data for the poorer nations are not available for this purpose): 30 countries have overall life expectancy rates of 78 years and over, and another 15 entities (for example Macau, Hong Kong, Gibraltar and the like) fare likewise.<sup>2</sup> What is special about Japan is that despite the increase in longevity, Japan's population has begun to decline in absolute terms (in 2008, deaths in Japan exceeded births by 51000<sup>3</sup>), which means that the decrease in the birth rate has overshadowed the extra longevity.

The implications of the second trend are too obvious to warrant elaboration and the third trend is self-explanatory, but what it implies for the system is of paramount importance. The combination of the decline in birth rates and

higher longevity has led to a vast decline in the revenues generated from pension premium contributions (the number of the working young has been declining over the years) at a time when the expenditures on the benefits to retirees have been increasing (the increase in the benefit payments to the expanding number of retirees exceeding the reduction in benefit rates), leading to larger deficits in the financing of the system. Without enticing and galvanising the Japanese into having more offspring<sup>4</sup> and/or bringing in foreign workers to raise the revenues from premium contributions, the only ways to maintain the system are through increased taxation, further reductions in future benefits and/or a combination of the two. There is no need to add that for countries that welcome immigrant workers, such as the United States (until recently with open arms), the crisis is not as severe.

Given these considerations, it is of utmost importance not only to ensure that the financing of the system is in order on both the revenues (premium contributions) and expenditures (benefit payments) sides, but also that the costs of running the system itself are kept to the lowest minimum possible. At the same time, given the inadequate pension amount (below), it is vital that the benefit payments to the retirees should be fully ensured; the temptation to do otherwise in order to save on expenditures is morally abhorrent to almost all Japanese, given their low level. Yet, we have scandals in all of these areas, so let us turn to a brief consideration of all of them.

## NON-PAYMENT OF MANDATORY NATIONAL PENSION CONTRIBUTIONS

Let us begin with the non-payment of mandatory national (state) pension premiums<sup>5</sup> by certain individuals and corporations. With regard to individuals, this became a hot issue in early 2004. Before the baring all of the scandal, it may be in order to offer two clarifications. The first relates to the incentive for non-payment. The second concerns the ability to evade payment when the system is compulsory.

With regard to the first, pension premiums are calculated as a given percentage of income (presently, 13.58 per cent covering both the national and employer provided pensions, and thus it is not possible to assign how much is on each; see Table 3 in El-Agraa 2008 for details),<sup>6</sup> while the national pension has a maximum limit, requiring 40 years of contributions to secure the full amount,<sup>7</sup> but *only 10 years for politicians*. The national pension presently amounts to ¥792 000 (¥5280 at an exchange rate of £1=¥150), corresponding to 16 per cent of average earnings; ¥4 120 000 (¥27 467) *for politicians*, which is generous, especially when most of them are very rich people. Hence, those earning a 'reasonable' income would be better off investing their contributions in private pension arrangements. Therefore, moral/social commitment is required on the part of those not so worse off and capable of bypassing the system if they are to abide by the rules.

This leads to the second clarification. Those whose salaries are not paid directly by their employers, such as the self-employed and *most of those in politics*, that is, those left to their own devices, can evade payment. 'Normal' employees cannot do so, as their employers deduct premiums at source, and thus there is no escaping the system. To provide a sense of general perspective, the Social Insurance Agency (SIA) claimed in 2007 to have mailed collection letters to 310 000 non-payers and seized assets from 12 000 of them. Hence, one can appreciate the strong resentment by the average Japanese person towards the evaders, especially those who enact the very system itself and introduce changes therein.

The scandal came to the fore because of the discovery of senior government and political figures playing the non-payment of premiums game, forcing their resignations; it has, however, been known for a long time that about a third of the total enrolment in the system has been failing to pay their contributions.<sup>8</sup> The media was up in arms, declaring that the speed and scope of the crisis revealed once again a deep divide between the country's political establishment and the majority of the population, particularly the younger generation. The first major figure to go was Chief Cabinet Secretary Yasuo Fukuda, then a key political strongman in the Liberal Democratic Party (LDP) government of Prime Minister Junichiro Koizumi; the LDP has been running Japan almost single-handed ever since the end of World War II. Fukuda quit on 7 May 2004 to head off demands for the resignation of six other government ministers who had also been exposed for their non-payment into the pension scheme.

When the scandal first erupted in April 2004, Fukuda dodged questions about his own non-payments by insisting that it was a personal matter. He later acknowledged that he had failed to make payments over a 3-year period. According to several political commentators, Fukuda resigned to take the heat off the government, but had been privately guaranteed a top ministry following Upper House elections, then due in July. Indeed, Fukuda went on to become prime minister, although reluctantly (he wished for a younger person), from 26 September 2007 to 24 September 2008; hence the significance of his non-payment. Therefore, a few words on him are warranted.

Fukuda is the son of a former prime minister, and was one of the main right-wing ideologues behind Koizumi. He is also credited with being the longest-serving Chief Cabinet Secretary in Japanese history.<sup>9</sup> He is widely regarded as the architect of the Koizumi government's close relations with the Bush administration, the highly unpopular dispatch of Japanese troops to Iraq and its drive to amend the country's constitution and re-militarise Japan. His rise to fame after his demise makes one wonder what is in a scandal in

Japanese politics in particular, and society in general (below).

The opposition seized on the scandal, attempting to exploit it to gain political mileage before the elections. In a speech on 24 April, Naoto Kan, the leader of the Democratic Party of Japan (DPJ), emphatically declared that the three cabinet ministers initially implicated were 'a joke' because by not having paid into the system, they were asking all other Japanese to pay higher premiums into the national plan. He called them 'three non-payment brothers', adding that 'there might be a fourth or fifth non-payment brother'. Ironically, it then turned out that Kan himself had failed to pay into the scheme for 10 months in 1996, while he was in charge of the health and welfare ministry that oversees the pension programme. For several days after Fukuda's resignation, Kan insisted that he would not follow suit, even as newspaper headlines were declaring that he would, but on 10 May he succumbed and stepped aside leaving the DPJ in disarray.

The top-level resignations were an indication of the depth of public hostility over the issue. In the midst of the scandal, the Koizumi government was attempting to push through new legislation to finance the seriously under-funded scheme. It had argued that because of the country's aging population and shrinking workforce (above), pension premiums had to be raised and benefits reduced if the scheme were to survive. At the time, but even today (above), 13.58 per cent of a person's income is paid into the scheme, yet, under the legislation, the proportion would rise in steps to 18.3 per cent by 2017. Moreover, *total* benefits (national plus employer-provided) to a *married couple* would be cut over the same period from 59.3 per cent of average annual earnings to 50.2 per cent. The proposed changes proved highly unpopular, particularly among the youth who doubted that they would receive proper benefits when they reached retirement age.<sup>10</sup> The sentiment was compounded by a climate of fear and uncertainty over the economy and continuing high levels of unemployment.<sup>11</sup>

To sell the legislation and encourage payment into the pension scheme, the Koizumi government organised a national television and

poster advertising campaign costing US\$6.5 million (about £3.5 million at the then exchange rate). It employed a popular Japanese actress, Makika Esumi, who appeared on screen saying, 'If you pay now you will be paid later. Do you want to end up crying in the future?'. The campaign collapsed when it was revealed that Esumi had herself failed to pay pension contributions. Public anger escalated as it became more apparent that many more politicians were non-payers. The disparity between the pensions paid to ordinary workers and those to politicians (above) only added to the bitterness.

To capitalise on the hostility, the DPJ proposed its own alternative to pension reform. Rather than raising the pension premiums and cutting the benefit payments, it called for a raise in the consumption tax (first introduced in 1989) from 3 to 5 per cent, to cater for the shortage in pension revenues; the consumption tax is now 5 per cent and proposals are set to be 15 per cent in the not-so-distant future. The consumption tax, however, remains just as hated as the pension premium payments. This is because raising the consumption tax would heavily impact on those who spend most of their income on consumption, thus intensifying their hardship: working class families, the unemployed, the retired and students, in a nutshell, the poor. These are the people whose living standards have been decimated after a decade of economic decline (the so-called lost decade), corporate restructuring and job destruction.

A poll by *Kyodo News* showed that 67.7 per cent of people were opposed to the pension reform bills following the revelations of non-payment by many politicians. Some 78.9 per cent of respondents said that they wanted all parliamentarians to disclose details of their payment of mandatory pension dues. The amendments were finally passed in the Lower House in May and were expected to be presented to the Upper House in early June. But the scandal was expected to claim further political scalps the *Yomiuri Shimbun* (a leading newspaper) alleged that as many as 118 lawmakers had failed to make their pension contributions. Indeed, Prime Minister Koizumi then revealed that he had not paid into the pension scheme for a total of 6 years and

11 months, stressing that that was prior to the pension scheme being made mandatory in 1986, as if that were a consolation: leaders are supposed to set an example, *a la* the mentioned moral/social obligation, so his revelation only added insult to injury. Then, on 12 May 2004, the New Komeito party, a junior coalition partner of the ruling LDP, announced that 13 of its lawmakers, including the party leader Takenori Kanzaki, had failed to pay their contributions. This was truly ironic because Kanzaki was very critical of Kan for his non-payment and the New Komeito party had proposed the basic draft of the aforementioned government-sponsored pension reform bills. According to a nationwide survey conducted by the *Asahi Shimbun* (another influential newspaper) in mid-May, the support for the government slipped by 5 per cent over the previous month to 45 per cent.

The opposition was also under pressure. Ichirō (read, Ichiroo) Ozawa,<sup>12</sup> who initially agreed to take over the DPJ leadership, was compelled to decline the offer after it was discovered that he was also a non-payer. The top DPJ job was eventually taken over by Katsuya Okada, the party's general secretary. His main qualification appeared to be that he had religiously made all of his payments into the pension scheme. And, yes, indeed, Ozawa has been leader of the DPJ since 7 April 2006, so, yet again, what is in a scandal?

## THE MISSING PENSION RECORDS

After reading a book in 2007 on the shortcomings of the Japanese pension system, retired Tokyo suburb resident 74-year-old Yoshikazu Hirano thought it wise to check on his own records just in case. Having done so, he was elated because he found out that SIA had short-changed him by ¥460 000 (about £3067) in pension benefits he had accrued while driving a truck as a deliveryman for 3 years in the 1950s and 1960s. It then transpired that Hirano was not alone because soon afterwards the government admitted to having lost track of pension records linked to an astounding 64 million claims (Japan's population has been about 127 million for a long time), igniting a scandal that later punished the ruling party (LDP) at the polls, and eroded

confidence in the ability of Japan (the second-largest economy in the world) to support its growing legions of the elderly.

The missing pension records mess was fully disclosed in May of that year. It impacted one of the world's fastest-aging societies: 21 per cent of Japan's inhabitants are 65 years or older (those who are 75-year-old or over make 10 per cent) and about 25 million retirees are collecting pensions, with the number expected to rise to 35 million by 2040. Consequently, people started to flood SIA offices and 24-hour specially established call centres (referred to as 'Recover your pension' bookstores and newsstands) seeking to check their records and titles. The confusion then landed on the shoulders of then Prime Minister Shinzo Abe; Koizumi's successor and Fukuda's predecessor. The outrage contributed to a plunge in his popularity and forced him to delay an Upper House election for a week, but to no avail, as the LDP was trounced at the polls, handing the Upper House majority to the opposition, though he remained in office for a short while afterwards.

Following investigations by an official panel, the government released an interim report in July that claimed that there was widespread incompetence at SIA. It found that (a) records were kept in 'yellowing files' instead of on computers; (b) there was evidence of possible embezzlement of funds; and (c) clerical mistakes were rampant. The report categorically stated that SIA was an organisation that 'had little sense of compliance', and blamed the mess on (a) faulty governance; (b) low morale; (c) lack of professionalism; and (d) ignorance of 'the duty to protect the people's rights'. SIA was established about a decade ago to unify three separate pension organisations: one for the self-employed or non-workers; another for company employees; and the third for civil servants. With 70 million members and about £1 trillion in reserves, the agency is one of the largest in the world.

Although the panel found internal SIA documents indicating embezzlement of pension money by employees, the flaws were largely clerical. SIA failed to properly match about 51 million national pension accounts with the correct individuals, and more than 14 million



records were not computerised, meaning that they cannot be readily retrieved when claims are submitted. The government is still to release definitive data on the number of people affected and the amount of money involved, but with regard to the former, SIA has admitted that it cannot link 18.44 million (about 36 per cent of the original) individuals with their pension records, and as to the latter, the estimates range between £14 billion and £97 billion. Hirano has been fortunate enough to recover his missing money in a one-off payment, but his case proved to be quite rare then; SIA was adamant that it had cleared up about 40 cases by the end of 2007. This would be consistent with a claim about a year later by Tomoichi Shibata, a social insurance consultant who calls himself a 'pension detective' and who helped Hirano, to have assisted 2000 pensioners win redress.

One may wonder how this mess came about in a country as advanced and highly literate as Japan. There are several reasons for this, not least of which is the sheer incompetence in handling pension matters (above). To give a personal example, I had to pay several visits to SIA while in the process of settling some issues concerning my wife's premium contributions, and each time I was given a different answer for a couple of particular problems. The explanation offered for this was that due to the pressure under which SIA staff were operating to clear the crisis of the messed up records, a number of part-time and *not highly qualified people* had to be employed as assistants. This lack of qualification was quite apparent from the number of times the assistant had to disappear to consult a member, or sometimes three members, of the permanent staff; indeed, sometimes the qualified staff were simply hanging about in the back listening to what their part-time colleague was telling me. I noticed this was happening with other people too, so it was not just my case that was involving so many people.

Given space limitations, I shall not dwell on this matter, but one other factor is vital: the Japanese language. Japanese uses Chinese characters, referred to as *kanji*, as well as two sets of syllables (mainly combinations of letters and vowels, for example, ka, ki, ku, ke, ko), one

called *hiragana*, the other *katakana*. There is no other language that I know of which has three sets of characters for its writing system. The reason for the multiplicity (some would add complexity) is that when the Japanese decided they needed a writing system for their language, they decided to borrow from China,<sup>13</sup> but because the structures of the two languages are very different (Chinese is said to be closer to the Romance languages structure-wise) they had to adapt the Chinese characters to suit the structure of their own language. This involved using *kanji* in combinations, whereas in Chinese each character stands for itself and has mainly one meaning and spelling. The syllables are simplified characters, with the *hiragana* used for Japanese words and the *katakana* for borrowed foreign words (*nyūsu* for news), of which the Japanese have a lot, foreign names (*eruagurā* for El-Agraa; some names cannot be recognised by their owners!) and technical words (jargon, Latin plant names and the like). The upshot of this is that there is no single pronunciation for the *kanji*, especially so in the case of names, so when SIA began to computerise its system some names were entered using the wrong reading. And this is not just a technicality. For example, one section of my city is called Maibaru, but the standard reading of its two *kanjis* is Maihara and this causes inconvenience to many visitors from outside Fukuoka, let alone to the rest of the country. Yet, it is not just the visitors who get confused: the ward next to mine is called Shigedome, but those unaware in other parts of the city will call it Shigetome, the standard reading of the two *kanjis*. One may wonder why this is a problem, and the answer is that one cannot type *kanji*. This is because about 1500 *kanji* are needed for reading a modern newspaper and more than 5000 for professional purposes; obviously, they cannot be fitted onto a typing board. So one enters the *hiragana* reading for a word and the system offers possible *kanji* to choose from; the Chinese, who need at least 30000 characters, use *pinyin*, which is similar to English. However, this problem has recently been taken care of by asking people to enter their names in both *kanji* and *hiragana* in all official

documents and application forms, but the mentioned 'yellowing files' would not have used this dual system; hence the computerisation mishap.

The problem with names also arises in the case of foreigners, but not in the same guise as just mentioned. Again, let me illustrate by providing two personal examples. The first happened upon my return to Japan in 1998, after having spent my sabbatical year with Vanderbilt University in Nashville, Tennessee. I was surprised when I noticed that the university was continuing to pay my residential tax for fiscal year 1998–1999; the tax is always paid the following year and naturally one is exempt from the tax when absent from the country, but provided the absence is for a full calendar year plus 1 day. Before I got round to going to the tax authorities to find out what was happening, three gentlemen came to my office, bowing deeply and apologising profusely (no interest is paid on such withholdings) for the mistake. It turned out that the tax office had my first name swapped for my family name, so I was two different taxpayers as far as they were concerned. The swapping error is understandable in the case of foreigners because the Japanese state the family name first and have no middle names, and thus foreign names create havoc for them, as most foreigners are not aware of the need to write their names according to the Japanese custom, or Harvard academic style. However, there was no excuse for my university not having provided the residential tax authorities with my proper naming sequence. The middle name creates problems when it is given as an abbreviation, as it would not match the full name in one's passport, resulting in two different identities. Indeed, when I recently visited my bank to get an official statement stating that I have an account with them, a requirement of SIA for my pension purposes, the bank staff thought I was about to commit fraud, as my name with them was Ali M. El-Agraa (my name itself is of course a source of 'fear', but my account has been there since 1988); I had to provide evidence to prove my identity, but even then they would not have complied had I not had my official seal/stamp (*hanko*) with me.

The second example relates to my wife. When finalising my pensions this year, I discovered that she had two separate accounts with SIA, and hence two social security numbers. In case one wonders why I needed information on my wife for my pension, the reason is that, apart from establishing her credentials just in case I die and she inherits half my (miserable) pension, she worked in Japan before leaving for the United Kingdom for our children's education. When she was not working, she was my 'dependent' so her national pension premiums were paid from my salary, but once she got her own job and had a salary in excess of (the miserable) ¥200 000 per annum, she had to pay for herself. Again, to cut a long story short, I did not understand why there was a discrepancy between my premium payments records for my wife and a SIA statement recently received through the post (because of the missing records problem, SIA decided to send statements to everyone for checking). It turned out that when my wife started her job, SIA issued her employer with a new social security number even though her employer provided the correct name as per her passport; SIA had presumed that she entered Japan for the first time when she got the job. The problem may be understandable given the lack of a fully computerised SIA system, but the normal practice is for an employed person to go to their nearest ward office to register on arrival in the country, hence obtaining a social security number; as my wife did not do so for her job, one would have thought that they would have asked.

Returning to the scandal, although it shocked the nation, it was not the first time that SIA had been in trouble. In 2004, a series of scandals led to the arrest of a senior SIA official on bribery charges. It was also discovered that a number of SIA-run resorts had been incurring massive losses when they were supposed to generate revenues. And in 2005, SIA disciplined nearly 3300 staff for various types of misconduct, including the acceptance of 'questionable' gifts and money from office suppliers, revealed by an agency's own report.

With increasing unpopularity and his job on the line, then Prime Minister Abe promised to

rectify the situation within a year and completely rid SIA of its ills ahead of its partial privatisation by 2010. Following this, the SIA's chief was given the sack. However, many Japanese remained leery of SIA because this scandal came on top of that of the non-payment of pension premiums by top politicians (above). The combination of the two led to concerns over the solvency of the system, prompting a growing number of the self-employed, students and unemployed to stay out of the arrangement altogether.

### **FALSIFICATION OF PENSION RECORDS AND CORPORATE RESPONSIBILITY**

Another scandal involving SIA concerns its falsification of pension records. In October 2008, it was revealed that SIA had tampered with more than 1.44 million pension accounts, and after further revelations the media and several political figures now believe that the discovered cases are without doubt only the tip of the iceberg. So what is the nature of the falsification?

As mentioned elsewhere (El-Agraa<sup>6</sup>), the costs of an employee's pension premiums is shared equally by the employee and employer, with the premium amounts (13.58 per cent in 2008) being determined on the basis of the employee's monthly salary. But in some of the falsified cases, it was discovered that the employees' monthly incomes recorded with SIA fell short of the actual amounts paid by the employers (that is, the amounts actually deducted by the employers from their monthly salaries). As pensions are determined based on the monthly incomes and premium contributions, this means that current pension payments are lower than they should be, and so too will future pension benefit payments. In other words, the falsification is meant to lower the payments by the corporations to SIA as well as deprive pensioners of some of their pension benefits, presently for some, in the future for others.

After carrying out some investigations, Yoichi Masuzoe, the minister in charge of the Health, Labour and Welfare Ministry, acknowledged that some SIA staff members had been involved in the

falsification of the pension records. He told a news conference in early October 2008 that three types of falsified records have been discovered among the 150 million computerised entries in the pensions system for corporate employees (*kosei nenkin*). The first relates to 750 000 records showing a sharp drop in monthly incomes. The second concerns 156 000 cases involving plan holders giving up their pension membership on the same day or the next after income figures were lowered. The third, involving 533 000 records, has dates retroactively changed by more than 6 months. Also, consequent to exposure by whistleblowers of some SIA employees in managerial positions knowing about the falsification, he added that it is likely that the SIA itself has been involved in the falsification. No wonder then that the media insists that the fraud has been committed by the government itself, not just by the bureaucrats.

But what is the incentive for the falsification when the culprit companies can be taken to court for their misdeeds, be ordered to reimburse the missing payments and in the process send a clear message warning against fraudulent behaviour? To answer the question one has to understand that successive governments have been concerned with the raising of the collection rate for pension premiums, especially given the financial problems facing the pension system hence the mentioned non-payment of pension premiums by leading politicians being a major scandal (above). What happened was that some companies had been falling short on their premium payments and some SIA staff, in an effort to immediately increase premiums collection to enhance their position (get better bonuses), had compromised by letting the companies report the mentioned lower monthly salaries for their employees. In short, the hope was that by lowering the companies' contributions, SIA would entice them into making payments, although not the full amounts due. What was left out of this convenient arrangement were the poor employees who were not only cheated out of part of their hard-won future pension benefits, but were also left unaware of what was being inflicted on them by



this conspiracy, that is, they were deprived of the opportunity to make private pension arrangements to compensate for the shortfall in expectations.

Although many in various quarters were beginning to think that the falsification was a figment of the media's imagination and a flippant remark on the part of Yoichi Masuzoe (many ministers, including the prime minister, have been doing so), SIA did own up to the falsification. In a meeting of a cabinet of ministers in September 2008, SIA admitted for the first time the involvement of an SIA staff member in the illicit conduct. It stated that in 1995, the SIA official instructed a Tokyo-based company to lower its reporting of its employees' monthly incomes and offered documents written by the official confirming this. Moreover, the president of the company involved revealed to an Internal Affairs and Communications Ministry panel investigating pension problems that the official had instructed his company to lower its employees' stated monthly income levels. SIA also agreed to notify those employees 'whose entries are found to have undergone suspicious changes in income levels'. But, given all these scandals, many wonder whether SIA would be able to locate the necessary records needed for the purpose. Indeed, no other case except for that of 1995 has been confirmed to be a falsification. Moreover, SIA staff have denied any wrongdoing, and the aforementioned official himself denied that the falsification was systemic, insisting that 'the instruction to the companies was aimed at raising rates of premium payments at his office'. In other words, he is still to get the message that his action lets corporations get away with murder (the courts will order them to pay their pension contributions) as well as deprives future pensioners of some of the rightful benefits. Furthermore, a former SIA official has stated that 'instructing employers to falsify income levels was widespread'.<sup>14</sup>

## CONCLUSIONS

It is beyond belief that when the Japanese pensions system is under so much strain regarding its financial survival, due to the combination of a

sharp decline in the birth rate, a baby-boom generation rapidly approaching retirement and a steady increase in longevity, the country is plagued by scandals that undermine the very system itself. When a certain category of society comprising mainly the very rich escapes the payment of their mandatory pension premium contributions, it erodes the revenues needed to maintain the system. When leading politicians, most of whom are also very rich, do likewise, the society loses faith in those entrusted with the much-needed changes in legislation aimed at ensuring the future viability of the system. When the bureaucrats whose job is to ensure maximum revenue collections carry out acts that deprive the system of some of its much needed resources, not only the retired but also the young suffer, as both present and future benefits are undermined. When corporations connive with officials to reduce their mandatory pension contributions for their employees, they not only erode the much-needed resources, subjecting the system to greater risk, but also deprive pensioners of part of their benefit entitlements. When corporations are not taken to court for committing pension contribution crimes on the premise of soliciting otherwise unforthcoming resources, the public has every right to question the very concept of mandatory contributions, demanding the elimination of any loopholes. When the agency in charge of pensions hires unqualified staff, it not only increases the cost of running the system, but also deprives pensioners of much-needed solid advice, as well as wastes their time making unnecessarily frequent visits. When the agency's staff pocket pension resources for their personal gratification, not only do they harm the system, but also strain much-needed public confidence in it. When on top of all these the nation continues to be averse to foreign workers, depriving itself of a much-needed labour force within the aforementioned context, only xenophobia rules.

It is therefore not only the pension scandals that Japan should be worried about. It should also seriously reflect on its position in a world increasingly internationalising and globalising. This is especially pertinent, as Japan is the second-largest economy in the world and is

adopted by many countries in Asia, and elsewhere, as a role model for success.

Also, these scandals gloss over the truly tragic situation of the average retiree pensioner. As mentioned in the main text, the pension benefits are not only very small relative to per capita income, but are also miniscule relative to basic needs. Thus, when retirees over the age of 75 are asked not only to meet a larger part of their healthcare bills (they were partly exempt before), but also to pay health premiums (they were considered 'dependents' of their elder sons before), life is rendered even more miserable for them. When all of these factors are compounded by sharp increases in food and energy prices, their lives are reduced to living close to the poverty line, more likely below it. It is no wonder that many in this age group have recently started to go public, declaring that the government only wishes their immediate passing away. Japan should therefore deal seriously with the aforementioned scandals, accepting no apologies whatsoever in redress, and should concentrate on the real issues facing the future viability of its pension provisions for both the young and old, as well as the true welfare of its retirees. In other words, it is high time for the Japanese to take scandals seriously. As mentioned in this paper, several leading politicians have been elevated to higher positions after confessing to wrongdoing. Hence, the repeated exclamation, what is in a scandal? Japanese custom dictates acceptance of apologies; saying *sumimasen* gets one to wonderland. But when the wrongdoing is so serious, and goes beyond the pension scandals (food sold after use deadline, products attributed to wrong country source, buildings not designed with specified earthquake resistance provision and so on), it is time to think twice.

## REFERENCES AND NOTES

- 1 In terms of the sexes, Japanese females rank fourth at 85.59 years (after Macau, Hong Kong and San Marino at 87.45, 84.69 and 85.64, respectively), whereas Japanese men rank fifth at 78.73 years (after Macau, Andorra, Singapore and Hong Kong at 81.36, 80.35, 79.29 and 79.07, respectively). Note that there have been constant changes in these ranking over the years, with Iceland for a very long time consistently at the top. See Figures A1 and A2 in the Appendix, The World Bank. (2008) *World Development Indicators 08*. Washington DC: World Bank, and [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_life\\_expectancy](http://en.wikipedia.org/wiki/List_of_countries_by_life_expectancy).
- 2 See El-Agraa, A.M. (ed.) (2007) *The European Union: Economics and Policies*. Cambridge, New York and other places: Cambridge University Press, The eighth edition of *The Economics of the European Community*, which was published in 1980 by Philip Allan of Oxford and translated into Chinese (in November 1985) by Professor Dai Bing Ran, and several others, of Fudan University, Shanghai, P. R. of China. There, you will find an elaboration on this point and the fallacies regarding Japan being considered special in this context, including the claims about Japanese food being accredited for the country's longevity. For example, Japanese life expectancy is highest in Okinawa where the main diet is pork and the gap between Japanese female and male life expectancies is the widest in the world.
- 3 As reported in all the media. See, for example, the *Mainichi Daily News*, 31 December 2008.
- 4 Japan offers an extra tax reduction for having more than one child, but the amount is miniscule when the costs of raising a child continue to skyrocket in Japan. A full discussion of the reasons for these high costs for the period up to 1987 is available in El-Agraa, A.M. (1988) *Japan's Trade Frictions: Realities or Misconceptions?* Basingstoke and New York: Macmillan; St. Martins Press, However, the basic elements given there remain fully valid today.
- 5 The payment of pension contributions is mandatory for all Japanese from age 20 to 60.
- 6 El-Agraa, A.M. (2008) Public pension provision: A comparison of the British and Japanese systems, based on their university arrangements. *Pensions: An International Journal* 13(1/2 double issue), May: pp. 25–48.
- 7 This is the case in all but a few countries. For example, New Zealand offers the full national pension after meeting the residential requirement of only 10 years, 5 of which must be after age 50.
- 8 See, *inter alia*, Shinkawa, T. (2003) The politics of pension retrenchment in Japan. *The Japanese Journal of Social Security Policy* 2(2), December: pp. 25–33.
- 9 He served for 3.5 years (October 2000 to 7 May 2004) under both prime ministers Yoshiro Mori and Junichiro Koizumi.
- 10 Commenting on the system with particular reference to the concerns of the young, Naohiro Yashiro, president of the Japan Centre for Economic Research, told the *Guardian* that the scheme was a dinosaur. '[W]e can't afford it now; we can't feed the dinosaur any more. Younger generations will sooner or later launch a coup d'état because they cannot bear the increasing burden. We don't know when that will happen, but this is a time-bomb that is sure to explode'.
- 11 The scandal was a symptom of broader dissatisfaction being fuelled not only by economic uncertainty, but also by hostility to re-emerging Japanese militarism (above). A series of polls have registered the opposition of a majority of Japanese to the dispatch of Japanese troops to Iraq. This hostility to the government, however, has not translated into full support for opposition parties and politicians, whose policies are not fundamentally different.
- 12 Ichirō Ozawa, formerly a chief secretary of the LDP, defected from the LDP, and he has been the president of Japan's main

opposition party, the DPJ, since 2006. He is considered to be one of the most important figures in Japanese politics and has been involved in many of the key events of the past decade.

- 13 My city, Fukuoka, brides itself for being Japan's gate to Asia because the scholars dispatched for the learning and borrowing

exercise left from here. Note that the 'gate to Asia' is very much akin to the British 'us and the Continent!'.  
 14 There are many newspaper reports on this issue. They can be found in English in the *Asahi*, *Japan Times*, *Yomiuri* and the weekly *Japanese Economy* during the second week of September 2008.

## APPENDIX: MALE AND FEMALE LIFE EXPECTANCY

See Figures A1 and A2.

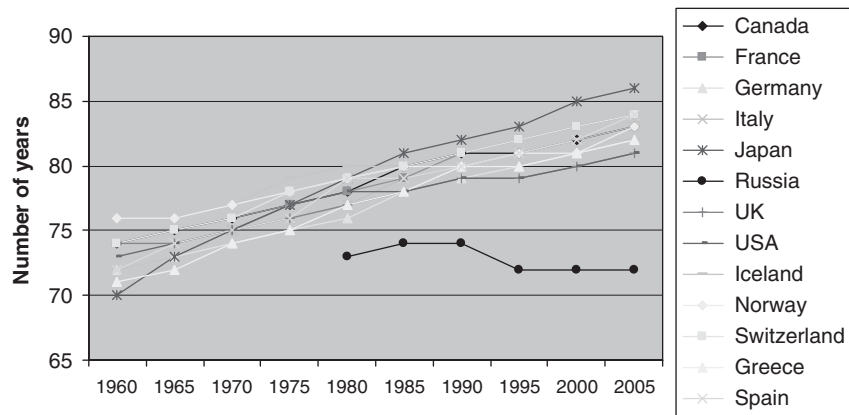


Figure A1: Female life expectancy at birth, 1960–2005.

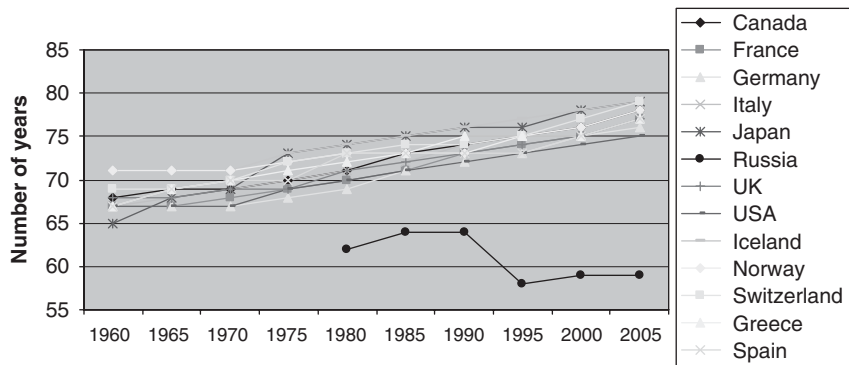


Figure A2: Male life expectancy at birth, 1960–2005.