POLICY DISCOURSE, FRAMING, AND THE 2004 PENSION REFORM IN JAPAN: RETHINKING VICE INTO VIRTUE THEORY

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The 2004 pension reform in Japan had replaced the defined benefits structure with defined contribution structure. The pension benefits would be reduced by 15% for not only future pensioner but also current pensioner. In the retrenchment, policymaker made voter's eye turn to burden phase rather than benefit phase by insisting policy discourse, such as intergenerational equity. Furthermore, a new policy choice, which imposes fewer burden than the worst scenario, was presented. As a result, they were able to avoid the blames from the voters even if the voters will endure more burdens and receive fewer benefits after the reform.

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INTRODUCTION

The Japanese pension reform in 2004 leads to huge retrenchment. It replaced a defined benefits system—in which benefits were expressed as a proportion of earnings over a given number of years—with a defined contribution structure according to which benefits would depend on the total

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contributions paid by both employer and employee. As a result of the 2004 reform, future benefits would be reduced by 15% and the contribution rate might be increased from 13.58% to 18.30%.

In order to reveal this radical change, we tackle this riddle with the aid of prospect theory¹ and discourse analysis². These analytical tools are beneficial to clarify the recent retrenchment policy³. The prospect theory explains when the retrenchment is feasible⁴ and the discourse analysis clarifies why these unpopular policies are implemented.⁵ Moreover, the combination of these theories may contribute to recognizing how the disfavored policy, which aims at both pulling up the burden and lowering the benefit, is possible because the unattractive policy has to appeal to both the emotion of loss-averse which is illustrated in prospective theory and the positive belief which is described in discourse analysis. Undesirable policy for voters takes account of these points.

The article is structured as follows. We start out with discussing the application of prospect theory to the institutional change. This theory is applied to the both insurance burden and pension benefit, we reveal loss-averse policy based on new ideas which play an important role in unpopular reform. Particularly, making the point of reference for voters shift to the worst scenario is crucial to understand why they accept the reform. Secondly, we use prospect theory and discourse analysis to explain how the drastic reduction of pension benefits under the 2004 reform was feasible. In this section, the new policy ideas in this reform are clarified and a reform strategy based on them is made clear. We also discuss how these ideas and the discourse were framed in governmental committee through corresponding analysis on the minutes. Finally, it is explained that how the policy ideas and the discourse were shared by policymakers, and then conveyed to the voter via media. In addition to it, the reaction of stakeholder would be showed.

¹ Kahneman, D., and Tversky, A., *Prospect Theory: An Analysis of Decisions under Risk*, 47 *ECONOMETRICA* 262-91 (1979).

² SCHMIDT, VIVIEN A., *THE FUTURES OF EUROPEAN CAPITALISM* (Oxford, Oxford University Press 2002).

³ VIS, BARBARA, *POLITICS OF RISK-TAKING: WELFARE STATE REFORM IN ADVANCED DEMOCRACIES* (Amsterdam, Amsterdam University Press 2010); Vis, Barbara and Van Kersbergen, Kees, *Why and How Do Political Actors Pursue Risky Reforms?*, 19(2) *JOURNAL OF THEORETICAL POLITICS* 153-72 (2007); Schmidt, Vivien A, *Taking Ideas and Discourse Seriously: Explaining Change Thorough Discursive Institutionalism as the Fourth New Institutionalism*, 2 *EUROPEAN POLITICAL SCIENCE REVIEW* 1-25 (2008a); Schmidt, Vivien A, *Discursive Institutionalism: The Explanatory Power of Ideas and Discourse*, 11 *ANNUAL REVIEW OF POLITICAL SCIENCE* 303-26 (2008b).

⁴ Van Kersbergen, Kees and Vis, Barbara, *Comparative Welfare State Politics: Development, Opportunities, and Reform* 184 (Cambridge and New York, Cambridge University Press 2014).

⁵ SCHMIDT, *THE FUTURES OF EUROPEAN CAPITALISM*.

I. PROSPECT THEORY, FRAMING, AND POLITICAL DECISION-MAKING IN UNPOPULAR REFORM

Prospect theory is a theory of decision-making under conditions of risk.⁶ Value is treated as function in two arguments: the asset position that serves as reference point and the magnitude of the change from the reference point. The value function is concave in the domain of gains, and convex in the domain of losses. The S-shaped curve means that individuals tend to be risk-averse in the domain of gains and relatively risk-seeking in the domain of losses. In addition, the slope of the value function is asymmetric: steeper for losses than gains, which effectively means that a loss hurts more than an equivalent gain in pleasure.⁷ This implies that people tend to be loss-averse.

Another important tenet of prospect theory is the framing effect on decision-making.

Contrary to normative claims that assume dominance, invariance, and transitivity in choice, which are common to rational choice theory, decisions can be deeply affected by how choices are presented. In other words, the sequencing of the framing process can affect final options by altering the initial context in which the choice is presented.⁸

The framing of outcomes involves a preference reversal induced by a shift of reference point. A famous example by Tversky and Kahneman,⁹ namely the Asian disease problem, demonstrates a preference reversal due to a shift of reference that transformed gains into losses.

To sum up, prospect theory predicts that individuals are apt to choose conservative policies in the domain of gains due to the primacy of risk aversion and comparatively radical policies in the domain of losses due to risk-seeking tendencies. In addition to this propensity, policy choices can be affected by the order or manner in which they are presented to the decision maker.

Prospect theory has been more applied to understand the political decision-making process. Studies have demonstrated that risk-seeking political choices, such as voting behavior, foreign affairs, and fiscal policy,

⁶ Kahneman and Tversky, *Prospect Theory*.

⁷ MCDERMOTT, *POLITICAL PSYCHOLOGY IN INTERNATIONAL RELATIONS* 72 (Ann Arbor, University of Michigan Press 2004).

⁸ MCDERMOTT, *RISK-TAKING IN INTERNATIONAL POLITICS: PROSPECT THEORY IN AMERICAN FOREIGN POLICY* 24 (Ann Arbor, The University of Michigan Press 1998).

⁹ Tversky, A. and Kahneman, D., *The Framing of Decisions and the Psychology of Choice*, 211 *SCIENCE* 453-8 (1981).

were chosen frequently in the domain of losses.¹⁰ In social policy retrenchment research, Vis analyzes the conditions under which unpopular unemployment insurance reforms were enacted in Denmark, Germany, the Netherlands, and the UK from 1980 to 2000.¹¹ On the basis of prospect theory, Vis hypothesizes that either a deteriorating socio-economic situation (i.e., higher unemployment and lower economic growth rate) or the worsening political position of the cabinet (i.e., fewer votes for the government party and many votes for opposition party) is a necessary condition for the passage of an unpopular reform.

This analysis reveals that a weak socio-economic situation makes governments to take an unpopular reform.¹² Furthermore, if veto players in the domain of gains resist welfare reform, the government (policymakers) would pursue the politics of blame avoidance to carry out the risky reform.¹³ In addition to Weaver's identification of blame avoidance strategies, Vis and Van Kersbergen point to the existence of two strategies based on prospect theory that political actors can use—not so much to avoid blame, but rather to change the domain of voters from gains to losses.¹⁴

First, the damned if you do, damned if you don't strategy: Political actors manipulate the domain of voters so that the gains domain is reframed into one of losses. For instance, the government could launch a campaign that the status quo is no longer tenable and that no other options exist but the reform available.

¹⁰ Quattrone, George A., and Tversky, A., *Contrasting Rational and Psychological Analyses of Political Choice*, 82(3), AMERICAN POLITICAL SCIENCE REVIEW 719-36 (1988); McDERMOTT, RISK-TAKING IN INTERNATIONAL POLITICS; WEYLAND, KURT, *THE POLITICS OF MARKET REFORM IN FRAGILE DEMOCRACIES: ARGENTINA, BRAZIL, PERU, AND VENEZUELA* (Princeton, NJ and New York, Princeton University Press 2002).

¹¹ Vis, Barbara, *Governments and Unpopular Social Policy Reform: Biting the Bullet or Steering Clear?*, 48 EUROPEAN JOURNAL OF POLITICAL RESEARCH 31-57 (2009); VIS, POLITICS OF RISK-TAKING.

¹² Vis discuss a weak political position, characterized by a lower percentage of votes for a government party vis-à-vis the relevant opposition party, can implement unpopular reform. See, VIS, POLITICS OF RISK-TAKING. However, when lock-in effects by veto are taken into consideration, it is not so much the weak governments as the strong ones without veto that are able to carry out unpopular reforms in some cases. Some scholars also point out that the fewer the vetoes, the more easily governments can implement reform. See, IMMERGUT, E. M., *HEALTH POLITICS, INTERESTS AND INSTITUTIONS IN WESTERN EUROPE* (Cambridge and New York, Cambridge University Press 1992); Huber, Evelyn, Ragin, Charles, and Stephens, John D., *Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State*, 99(3) AMERICAN JOURNAL OF SOCIOLOGY 711-49 (1993); Hacker, Jacob S., *Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States*, 98 AMERICAN POLITICAL SCIENCE REVIEW 243-60 (2004).

¹³ Weaver, R. K., *The Politics of Blame Avoidance*, 6(4) JOURNAL OF PUBLIC POLICY 371-98 (1986); Vis and Van Kersbergen, *Why and How Do Political Actors Pursue Risky Reforms?*

¹⁴ Vis and Van Kersbergen, *ibid.*

Second, the creative accounting and lies, damn lies and statistics strategies: Political actors redefine the terms according to which the outcomes are measured for those outcomes that are feared to have negative consequences; the end goal, once more, is to change the domain of voters from gains to losses.

Paraphrasing Weyland,¹⁵ these strategies concern the demand side of change and they alone do not necessarily spell the success of unpopular welfare state reform. The supply side of change is also necessary to persuade voters to accept a disadvantageous reform. In this case, the politics concerning governments' ability to gain agreement for unpopular reform through discourse which is refereed in the context of new policy option might play an important role.¹⁶ The discourse is understood as both a set of ideas and an interactive process. The discursive institutionalist insists policy ideas present cognitive frames for stakeholders and give them normative appropriateness to legitimate the policy. Kato proposes that a policy idea has two functions in the reform process: Firstly, a constructional function that constructs the preference and goal sets of actors involved in the reform, secondly, a causal function that leads actor to agree with the reform.¹⁷ A policy idea should be framed as a flesh language to shape a new path. Danish and Dutch labor market policy had been greatly reformed under a new banner, namely, "flexicurity", whereas a similar labor policy in Germany failed without the use of such a description.¹⁸ All in all, policy programs can be framed by political discourse so that the stakeholders accept the unpopular reforms willingly.

In short, a government will take two strategies to attain unpopular reforms. Firstly, a government is able to change the domain of voters from gains to losses.¹⁹ Secondly, as a way to blame avoidance, the government can present a new policy choice which is decorated with the discourse, which preaches to voters about fewer loss. The effect of blame avoidance will be enhanced if the discourse is framed in positive idea, such as intergenerational equity. These strategies are understood as the shift of reference point of the voters: the shift to the worst scenario. By doing so, a government can implement an unpopular reform without the blame from voters even if they will endure more burdens and fewer benefits after the

¹⁵ Weyland, Kurt, *Toward a New Theory of Institutional Change*, 60 *WORLD POLITICS* 281-314 (2008).

¹⁶ SCHMIDT, *THE FUTURES OF EUROPEAN CAPITALISM* 209-256.

¹⁷ KATO, MASATOSHI, *POLITICAL ANALYSIS ON THE REALIGNMENT OF WELFARE STATES: THE CASE OF AUSTRALIA* 167-189 (Tokyo, Ochanomizu Shobo, in Japanese 2012).

¹⁸ Cox, Robert H., *The Social Construction of an Imperative: Why Welfare Reform Happened in Denmark and the Netherlands but Not in Germany*, 53 *WORLD POLITICS* 463-98(2001).

¹⁹ VIS, *POLITICS OF RISK-TAKING*.

reform. Although Van Kersbergen and Vis point out “Prospect theory offers insight into when political actors respond to the ‘objective’ functional pressures.”²⁰ This blame avoidance strategy—paraphrasing Levy,²¹ *pseudo-vice into virtue*—is based on prospect theory together with discourse analysis and also explains how they can tackle this.

When the insured has to pay more the premium in accordance with aging society and a government will want to retrench public pension, this strategy will be employed in order to contain the burden. On that occasion, a government is able to make the voter’s eye turn to the burden rather than the benefit because most of voters who have not yet receive pension will prefer a fall of the burden to a rise of the provision.

As Figure 1 shows, when people put high value upon the burden rather than the provision, it is possible that a government manipulates the domain of the insured so as to move from gain domain to loss domain and offers a new policy choice which imposes fewer burden than projected one under the current system. If the generation of insured is different from pensioner generation, their reference point may possibly be shifted by the strategy from a present point of reference, such as Point A, to a future point of reference, such as Point B. This means the value of the insured is transferred from the value on convex area in value function to the value on concave area. As a result, the insured value point on the provision-burden value plane can be moved from A to B. If the improvement of satisfaction for them is accomplished, they support the reform even though it leads to future benefit cuts and rise of burden. Although the status quo is a plausible reference point in the case of the welfare state,²² the reference point will be fixed in not only the status quo but also the other point, such as time to come, in the case of welfare reform. In this way, the shift of reference point makes the avoidance of blame more easily. In the next section, we testify how this strategy was developed in Japan’s 2004 Pension Reform.

²⁰ VAN KERSBERGEN AND VIS, COMPARATIVE WELFARE STATE POLITICS 184.

²¹ Levy, Jonah D., *Vice into Virtue?: Progressive Politics and Welfare Reform in Continental Europe*, 27 POLITICS & SOCIETY 279-273 (1999).

²² VAN KERSBERGEN AND VIS, COMPARATIVE WELFARE STATE POLITICS 167.

Fig 1. Pseudo-Vice into Virtue Strategy.

II. THE IDEAS AND FRAMING IN JAPAN'S 2004 PENSION REFORM

A. *The New Policy Idea and the Shift of Reference Point*

The 2004 Japanese pension reform introduced a new concept: the “insurance premium level fixation method (IPLFM)” or “Swedish method”, which describes a defined contribution pension plan. This reform caps the premium rates for FY2017 onwards in the Employees’ Pension Scheme (EPS), which covers both the employees of private businesses and public service employees, and the National Pension Scheme (NPS), which covers the self-employed, farmers, and so on, aged 20 to 59. In the 2004 reform, the ceiling for the EPS premium was set at 18.30% of remuneration, shared equally by the employee and the employer; as of 2004, this rate was set at 13.58% and without the reform, it was projected to rise by 23.1% in 2025. The NPS premium ceiling was set at a fixed value of 16,900 yen after the reform, whereas it was 13,300 yen as of 2004 and it also was estimated to be 21,600 yen.

An automatic adjustment indexation, called a “micro-economic slide formula” (MESF), was adopted to contain the premium level within the ceiling. Under the MESF, the revision of pension benefits will

accommodate the small proportion of the labor force under the pension system and the increase in average life expectancy such that the increase pension expenditures shall be lower than the increase in wages and prices. Although the replacement rate of EPS for a single earner household was 59% in 2004, the rate of the model pension in the EPS will be automatically adjusted downward by the indexation. Applying the demographic and economic assumptions used for the benchmark scenario, the adjustment will be terminated when the replacement rate reaches 50.2% in FY2023.²³ Thereafter, a replacement rate exceeding 50% will be maintained, and the financial balance of the pension system will be ensured for about 100 years (up to FY2100).

In the process of the 2004 pension reform, Ministry of Health, Labour, and Welfare (MHLW) had estimated that 23.1% of the premium would be required in the future to maintain the replacement rate of 59% dating from 2004. So, the government emphasized the worst scenario of future burden and made voter's eyes turn to the burden rather than the benefit. To implement the unpopular reform, the government presented the new policy choice which imposes a fewer premium 18.30% than the projected 23.1%. The reform was also framed positively with new ideas such as the IPLFM which is also called as "Swedish method". The voters would be put into the domain of losses and they would be more willing to accept idea of reform because, although benefits would drop from 59% to 50.2%, the premium would meaningfully fall from 23.1% to 18.30% as a result of the reform. For most of them, the reference point seemed to move into the future premium rate because it took a long time until the reform will be completed, the target of the reform was toward younger generations. From early reform stage, MHLW expressed that this pension reform was exclusively focused on not the pensioner but the younger generation so as to lessen their burden.²⁴ It means that their reference point is shifted from Point A to Point B (see Figure 1) and their value point is changed from A to B on the provision-burden value plane.

In a nutshell, these reform strategies were appealing both the current crisis and future gains and gave the voters incentive for the reform. The following section will explore how the new policy ideas were framed in order to garner political support and, consequently, how the new ideas were turned into reality as the reform plan.

²³ Kosei, tokei kyokai, 51, 14, TRENDS OF INSURANCE AND PENSIONS 48 (in Japanese 2004)

²⁴ New Pension Reform by MHLW, Dec. 6, 2002, THE MAINICHI SHIMBUN 2; Social Security Committee says Scale down of Old Age Benefit and Support for Younger Generation, Jun 17, 2003, THE ASAHI SHIMBUN 1.

B. Pension Committee in Social Security Council: The Member and Discussion

MHLW and the Pension Committee of the Social Security Council (PCSSC), which has been an advisory body to the MHLW since 2001, gave a huge impact on the reform because the new policy ideas were worked out in it. Furthermore, the committee members had attended pension dialogue meetings with citizens in main cities of Japan.

The reform plan was discussed in the committee from the first meeting on January 16, 2002 to the 28th meeting on December 9, 2004. In the process, a provisional reform report, entitled “The course and issue in the reform outline” was presented on December 5, 2002, and MHLW Minister Sakaguchi’s personal proposal, “On the revision of benefits and burdens in the 2004 pension reform” was likewise discussed. In the Sakaguchi’s proposal, the final premium rate for EPS was estimated below 20% and the premium rate for NPS was projected below 18,000 yen, while the final benefits level (i.e., replacement rate) for the EPS was supposed to be from 50% to 55%. Then, the PCSSC finally published a report, “Opinion on the pension reform” on September 12, 2003. After the final report, a great deal of political horse-trading concerning the levels of the premium rate and replacement rate went on among government parties; eventually, the final reform bill was drawn up.

The 18 members of the PCSSC were appointed by MHLW minister and hailed from academia, corporate managerial representative, labor unions, actuarial science, and journalism (see Table 2). Miyajima chaired the PCSSC along with his co-chair Koshiro.

Although at the third meeting, on April 19, 2002, Koshiro briefly floated the idea of IPLFM (with reference to the Swedish 1998 pension reform) in order to contain future premium, the new policy idea was not really discussed intensively until Eihata, a chief officer of the MHLW pension bureau, explained the Swedish reform for the members at the sixth meeting on July 2, 2002. At this time, he questioned whether it was possible that both the benefits and contributions could be revised in the future and asked to what degree the real pension benefits could be reduced in the case that the social and economic climate will not go far enough in the future. These remarks were made on the perspective of the domain of losses since they highlighted the worse estimations of social and economic conditions than current assumptions. At the following seventh meeting on July 19, 2002, the pros and cons on the IPLFM were discussed among members.

Table 2 Member of PCSSC

	Status(as of 2004)
IDEAkiko	Manager of Marunouchi branch, NTT DOCOMO Corporation
IMAI, Nobuko	Vice president, Women Farmers Association
OSAWA, Mari	Professor, Institute of Social Science, University of Tokyo.
OHYAMA, Katuya	Chief secretary, Japanese Association of Metal, Machinery, and Manufacturing workers
OKAMOTO, Yasuo	Executive director, Sumitomo Chemical Corporation
OKINA, Yuri	Chief senior economist, Research Department, Japan Research Institute
OJIMA, Shigeru (He had taken over Mukouyama's duties after 9th meeting)	Director of Living and Welfare, General Policy Department, Japanese Trade Union Confederation (Rengo)
KOSHIRO, Kazutoshi, The co-chair	Professor, Open University of Japan
KONDO, Noriaki	President, Japanese Society of Certified Pension Actuaries
SUGIYAMA, Chika	President, Sereno Limited Company
HORI, Katuhiro	Professor, Faculty of Law, Sophia University
MIYAJIMA, Hiroshi , The chair	Professor and Vice President, Graduate School of Economics, University of Tokyo
MUKOUYAMA, Koushi	Director of Living and Welfare, General Policy Department, Japanese Trade Union Confederation
YANO, hironori	Managing Director, Japan Federation of Employers' Association (Nikeiren)
YAMAGUCHI, Yoko	Member of the central executive committee, Japan federation of Service And Distributive workers unions
YAMASAKI, Yasuhiko	Professor, Department of Social Services, Faculty of Humanities, Sophia University
WAKASUGI, Takaaki	Professor, Graduate School of Economics, University of Tokyo
WATANABE, Shunsuke	Editorial writer, The Nihon Keizai Shimbun (NIKKEI)

In the middle phase of the meeting, the members attempted to draw up a provisional reform report. The merits and demerits of the IPLFM were presented, but the reform report did not actually complete until the tenth meeting on October 11, 2002. After that, the MHLW released the reform report on December 5, 2002, which included the IPLFM as one of the reform options. At the 12th meeting of December 13, 2002, the future projection of the level of benefits and premiums was presented, in which a final premium of 23.1% would be required to keep the replacement rate of 59% in EPS under the present defined benefits system while the replacement rate would finally decline to 52% if the premium would be fixed at 20%. Following the projections, the committee members exchanged views several times about the levels of the benefits and burdens denoted in the provisional report. The group members argued the advantages and disadvantages of the IPLFM in the 12th meeting of December 13, 2002, the 13th meeting of January 22, 2003, and the 14th meeting of February 19, 2003. At the 19th meeting of the Committee, on May 30, 2003, Kikura, an officer of the pension bureau, explained the MESF for the members. Also in this meeting, Takahasi, an officer of the general affairs division in MHLW, made a summary report of the “Expert Survey of Pension Reform”, which had been conducted among 2,000 pension experts from March to April in 2003 (recovery rate; 51.5%), and the “Public Opinion Survey of Public Pension”, which had been conducted among 5,000 respondents above the age of 20 from February 13 to 23, 2003 (recovery rate: 71.6%). Per the expert survey, most experts (48.5%) agreed to the IPLFM; on the public opinion survey, most people (45%) consented to the automatic benefits adjustment such as the IPLFM system. As Campbell notes, the Japanese MHLW bureaucrat had made use of this sort of survey for the 1985 large scale pension reform to persuade the public.²⁵ The surveys themselves could have successfully contributed to the adoption of the IPLFM.

In the last stage of the meetings, from the 23rd meeting of August 20, 2003 to the 26th meeting of September 12, 2003, the members endeavored to create a final report. All but the labor union representatives finally agreed to endorse the IPLFM and MESF methods. At the 26th meeting, MHLW minister Sakaguchi’s personal proposal was also presented and included in the final report because it did not receive strong opposition among the members. In the end, at the 27th meeting of March 4, 2004, Yoshitake, a chief of the pension bureau, gave an account of the proposed 2004 pension reform bill to the members, in which the IPLFM and the MESF were both

²⁵ CAMPBELL, JOHN CREIGHTON, *HOW POLICIES CHANGE: THE JAPANESE GOVERNMENT AND THE AGING SOCIETY* 345-346 (Princeton, NJ, Princeton University Press 1992).

included.

C. *Quantitative Content Analysis of the PCSSC Minutes*

In this section, we will explain why each PCSSC member thought about the new policy ideas, IPLEM and MESF, according to the PCSSC minutes, although the opinions of Imai, Ide, and Osawa are not showed because they mainly discussed pension rights of women and expressed neither approval nor disapproval of the new ideas.²⁶

The almost scholars were supported the new policy ideas because they thought the sustainability of pension and intergenerational equity should be secured thorough decreasing the burden of younger generation. A part of the business representative and actuary also sustain the new idea in this point of view. On the other hand, the business representative also insisted the adoption of this idea considering reduction of employer burden and international economic competitiveness of business. According to the same line of thought, a portion of scholar and financial paper writer agreed new tools as a measure to retrench the public pension in order to replace it with private pension. By contrast, the labor representatives stressed maintaining pension benefits to guarantee a reasonable cost of living for the aged and they objected to the new ideas. In short, the new policy ideas, IPLEM and MESF, enjoyed the backing of PCSSC members except for the labor union representatives.

Following the content analysis about the meeting transcripts of the PCSSC,²⁷ we find it useful to make a sketch of these views through correspondence analysis of the minutes of 11 PCSSC meetings (7, 10, 12, 13, 14, 15, 19, 23, 25, 26, and 27) during which the members discussed the IPLEM and the MESF.

Correspondence analysis can be viewed as an extension of principal component analysis.²⁸ It is used to analyze text data and to map relationships between words, though it is always performed on the basis of a frequency data table. The correspondence map visually shows the associations between categories and characteristic words, with distance on

²⁶ *Ministry of Health, Labour, and Welfare*, MINUTES OF THE PENSION COMMITTEE IN SOCIAL SECURITY COUNCIL (2012). Available at <http://www.mhlw.go.jp/stf/shingi/2r98520000008f07.html> (in Japanese).

²⁷ Shizume, Masato, *The Role of Ideas and Framing in 2004 Pension Reform*, 32 JOURNAL OF JAPAN PENSION ACADEMY 150-159 (in Japanese 2013)

²⁸ GREENACRE, M. J., *THEORY AND APPLICATIONS OF CORRESPONDENCE ANALYSIS* (London, Academic Press 1984); HAIR, J., ANDERSON, R., TATHAM, R., AND BLACK, W., *MULTIVARIATE DATA ANALYSIS* (5TH ED.) (Upper Saddle River, NJ, Prentice-Hall 1998).

the map being a representation of correspondence (similar categorical scores are plotted closely). Plots near the origin mean neutral or featureless characteristics in a high-dimensional space.

Before performing correspondence analysis, we must extract characteristic words about the IPLEM and the MESF from the PCSSC minutes. The approval of new ideas was composed of two discourses. That is, one was the emphasis on intergenerational equity and ensuring the sustainability of the public pension system. The other rationale underscored corporate competitiveness and individual efforts toward a more private pension system. In contrast, the rejection was based on preservation of pension benefit. So, we coded the peculiar words into three categories: affirmation on the ground of intergenerational equity (AIE), affirmation on the ground of corporate competitiveness (ACC), and negation on the ground of social security for the aged (NSA). Then, the map is drawn to visually delineate the remarks of the 15 PCSSC members according to these categories.²⁹ The selected keywords for these categories are the following.

AIE: intergenerational equity, disparity between generations, defined contribution, final premium, IPLEM & (appraisal/worth considering), Swedish method & (adoption/approval), MESF & (adoption/approval/worth considering). For the above, & means AND, for instance, A & B denotes the presence of both A and B within a sentence; and/means OR, for instance, A & (B/C) denotes the presence of A and B or the presence of A and C within a sentence.³⁰

ACC: company, international, competition, private pension, occupational pension, business, efforts on one's own, profits, economic trends, IPLEM & (appraisal/worth considering), Swedish method & (adoption/approval), MESF & (adoption/approval/worth considering).

NSA: guarantee of benefits level, preservation of benefits level, indexation based on workers' disposal income, IPLEM & (objection/fault), MESF & objection.

The results from a correspondence analysis are given as singular values (or eigen values) and the proportion explained by each estimated dimension. We obtain two dimensions: Dimension 1, in which the singular value is .46 (the eigen value is .21), with an explanatory power of 68.88%; and Dimension 2, in which the singular value is .31 (the eigen value is .098), with an explanatory power of 31.12%. Figure 3 shows the position of the three categories and those of PCSSC members. The size of a circle in each

²⁹ Using the KH coder for quantitative content analysis. Available at <http://khc.sourceforge.net/en/>.

³⁰ See, KH Coder manual. Available at <http://sourceforge.net/p/khc/wiki/KH%20Coder%20Reference%20Manual/>.

category expresses the number of keywords and the size of a square for each member expresses the number of remarks. Dimension 1 could be interpreted as implying approval or disapproval of the IPLEM and the MESF and Dimension 2 as implying the reason for approval of the IPLEM and the MESF—that is to say, approval on the basis of intergenerational equity or enterprise competitiveness.

The dissenting opinions around the new policy ideas are very few and voiced principally by the representatives of the labor unions, Mukouyama, Ohyama, and Ojima. The approval opinions came mostly from the AIE category and are stated by Hori, Okamoto, Okina, Sugiyama, Yamasaki,—a majority of whom are scholars. The chair, Miyajima sums up the committee's opinion in this point. The other approval opinions founded on ACC come from Watanabe and Yano. The position of Wakasugi is an outlier because he asserted the establishment of a public-private pension best mix.

These results can be interpreted on the basis of prospect theory. First, the new policy ideas, the IPLEM and the MESF, were presented as agenda items by MHLW bureaucrats on the assumption of unforeseeable socio-economic conditions—meaning that there was every possibility of falling into the domain of losses. Second, the most members except representatives of the labor unions approved the new policy ideas on the ground in discourse of AIE or ACC, whereas only the labor union members disapproved of the new ideas in view of NSA.

Among all 18 members (aside from the chair), 10 members support for the new policy ideas: Hori, Koshiro, Kondo, Okamoto, Okina, Sugiyama, Yamasaki, Yano, Wakasugi, and Watanabe. Four opposed: Mukouyama, Ohyama, Ojima, and Yamaguchi. Three members remained neutral. The PCSSC members obtained a majority, so the new policy ideas were authorized, especially basing on the point of AIE, by the PCSSC.

A former statistical chief of the MHLW pension bureau reflects that the response of PCSSC members and the mass media to the new policy ideas were not negative, but rather positive at large, though somewhat hard to understand.³¹ It will be detailed later. The next section will pursue how negotiations on the new policy ideas were conducted to draft the reform bill within government parties and what reactions the stakeholders, such as pensioner and insured, had towards the proposal.

³¹ Rensai zadan kai, *Discussion on Half Century of National Pension: Benefits are Determined within the Contributions by Micro-Economic Slide Formula*, SYUKAN SHAKAI HOSHYO 2669, 50-55 (in Japanese 2012)

Fig 3. Positioning Map for Three Categories and PCSSC Members.

Notes, A: Actuary, C: Chair, J: Journalist, L: Labor unions, M: Managerial Representatives, S: Scholars.

III. BARGAINING WITHIN GOVERNMENT PARTIES

A. Manifest of the 2003 Lower House Election

The Liberal Democratic Party of Japan (LDP) and New Komeito (NK) formed a coalition government under Koizumi, the president of the LDP, at the time the PCSSC final report was published. The new policy ideas and the discourse which the committee contrivance were adopted in the manifesto at the 43rd Lower House election on Nov. 9, 2003 though the expressions about pension reform in their manifestos were a little bit different between LDP and NK.

LDP had made a public commitment in the election, known as “The Koizumi Reform Pledge”, promising that the government would raise the

tax subsidy ratio from a third to a half for the basic pension provision, which means NPS and a part of EPS, in order to construct sustainable and fare pension system in the point of intergenerational equity. Although the details of reform plan were not described in it, the aim of reform was repeatedly expressed on the occasion of the prime minister's general policy speech on Sep. 26, 2003.³² Furthermore, in media and speech for the voters, PM Koizumi showed that the replacement rate of new pension plan was 50% and the premium rate for the insured was below 10% of their wage.³³ However, the manifest also committed to restraining the future ratio of tax and premium to GDP within 50%. So, broadly speaking, LDP hoped to shrink the public pension as far as possible because they had to consider the business community which supported LDP and demanded the cutting down the premium rate.

On the other hand, NK had set forth a manifesto: "Security and Lively Society", in which, as a pension reform slogan, "A Century Reliable Plan", was presented. The plan committed to containing the final premium rate for the EPS below 20% and for NPS below 18,000 yen, together with raising the tax subsidy ratio up to 50% for the basic pension provision in the same way as LDP reform plan. That also promised that the EPS would provide a certain level of benefits from 50% up to around the 55% replacement rate. In its design, this plan was the almost same as MHLW Minister Sakaguchi's personal proposal—not so startling given that this latter was a member of NK. All in all, the Sakaguchi's personal proposal was also similar to the committee report, so the reform plan of NK was a carbon copy of the report.

LDP sought to curtail public pensions whereas NK put emphasis on preserving pension benefits. Therefore, the government parties did not fully agree upon the form of the reform plan at the election. So, at first, the Council on Economic and Fiscal Policy, chaired by PM Koizumi, requested that any measure adopted keep the rate of the final pension premium under 16% so as not to harm economic competitiveness.³⁴ After that, PM Koizumi and the executives of LDP requested a final rate of 18% in the Pension Reform Conference (PRC) that was created by LDP and NK together in the face of the 2004 pension reform. This proposal was made because LDP took into consideration both NK and business community which wanted to keep the rate below 16%.³⁵

³² PM Koizumi general-policy speech, Sep. 26, THE MAINICHI SHIMBUN 5 (2003).

³³ Pension Reform, Oct. 29, THE YOMIURI SHIMBUN 2 (2003).

³⁴ OHTA, HIROKO, THE BATTLE OF THE COUNCIL ON ECONOMIC AND FISCAL POLICY 144-145 (Tokyo, Tokyo Keizai, in Japanese 2006)

³⁵ NIHON KEIZAI SHIMBUN, INQUIRING A PENSION 73 (Tokyo, NIKKEI, in Japanese 2004)

However, MHLW Minister Sakaguchi confronted LDP members about the final rate and asserted that a final rate of 20% should be put into practice on the grounds of the “Expert Survey of Pension Reform”.³⁶ In contrast, the executives of LDP consulted with LDP members who are well versed in social security matters in LDP’s Pension Investigative Committee in order to harmonize Sakaguchi’s personal proposal with their claim. As a result, the Committee settled on a final rate of 18.35%, by which a 50% replacement rate was projected to be secure.³⁷ At last, after NK negotiated with MHLW bureaucrat over the final rate, NK and LDP came to a final agreement—18.30% premium rate and 50% replacement—in PRC on Jan. 30, 2004.³⁸ This final rate was published in the official version of the pension reform report at the 27th PCSSC meeting.

B. Reactions of Public Pension Stakeholders

The reform plan was not opposed by the voters at the 2003 Lower House election even if it means both the reduction of benefits and rise of premium. Although only a pensioner group who received EPS resisted the reform proposal before the election,³⁹ it was calmed down because MHLW Minister Sakaguchi promised not to cut the face value of pension benefits for the pensioners.⁴⁰ As Figure 4 shows, the number of opposition movement by labor union and pensioner, the movements against the reform had not been activated immediately before the legislation on Jun. 5, 2004.

The attitude of media is important to understand how the policymakers successfully conveyed the new policy ideas and the discourse for the voters. As a pension system is complicated, the voters seem to judge a pension reform on the frame of reference which is made by the specialist and media. So, it is possible that the attitude of media influences the voters’ preference. Figure 4 exhibits the attitude toward the reform plan of three major newspapers, *The Asahi Shimbun*, *The Mainichi Shimbun* and *The Yomiuri Shimbun*. The attitude by media denotes how they reported the new policy ideas: the IPLEM and the MESF, and the discourse: intergenerational equity and sustainability of the public pension system, which were expressed in the committee report and the manifest of LDP and NK. In Figure 4, when the

³⁶ OHTA, THE BATTLE OF THE COUNCIL ON ECONOMIC AND FISCAL POLICY 145.

³⁷ NIHON KEIZAI SHIMBUN, INQUIRING A PENSION 80.

³⁸ *Ibid.*, at 98, Governmental Party Agree with Pension Premium Rate, Jan. 31, 2004, THE ASAHI SHIMBUN 1.

³⁹ Pensioner Union against Cutting down of Pension, Oct. 2, 2003, THE YOMIURI SHIMBUN 4.

⁴⁰ Minister of MHLW Sakaguchi denies the cutting down pension benefit, Oct. 8, 2003, THE YOMIURI SHIMBUN 4.

media reported these policy ideas and discourse affirmatively, it is coded 3, on the other, if they were negatively reported, coded 1, and in the case where they were neither affirmatively nor negatively, coded 2. As the Figure 4 shows, the postures of newspapers were hardly negative to the reform ideas at least until the election although the trend had been changed after that. The attitude of media is correlated to the movement against the reform plan. Policymakers could well inform their reform ideas to the public in the election.

Fig 4. Media Attitude and Number of Oppositions around the Pension Reform

Notes, Media: Number of articles which are sum of reported new policy idea in three newspapers from Jan. 1, 2002 to Jun. 5, 2004. The total sum is 59 in The Asahi Shimbun, 43 in The Mainichi Shimbun, 77 in The Yomiuri Shimbun. Labour & Pensioner: Number of oppositions which are sum of reported protest meetings and demonstration parades in the three newspapers.

The new policy ideas and the discourse were congruent with these public attitudes at that time. According to an opinion poll for the pension reform before the election, which was *The Ashahi Shimun* asked the public for the most appropriate pension reform policy, the ratio of people who wanted to reduce the pension benefit was 26% while the ratio of support for rising the pension premium was 19%.⁴¹ So, the *pseudo-vice into virtue* strategy which put highly value on alleviation of burden for the insured was accepted for the voters.

⁴¹ Social Security System Opinion Poll, Jun. 21, 2003, THE ASAHI SHIMBUN 17. The question is: Although pension fund will be severally tightened in aging society due to the increase of pensioners, what policy is the most appropriate? (multiple-choice question). The answers are as following: Reduction of pension benefit 26%, Rise of pension premium 19%, Rise of tax burden 34%, DK/NA 21%. Date: Jun. 8-9, 2003. Sample size: 3,000 people, valid respondents: 1,949 people, man 48%, women 52%, method: stratified two-stage sampling, survey by interview. Source: "Social Security System Opinion Poll" (Jun. 21, 2003), THE ASAHI SHIMBUN 17.

After the election, LDP lost representation in the House from 247 to 237 seats, whereas NK, which enthusiastically appealed the pension reform for the public, increased its seat share from 31 to 34 seats. The victory of NK was crucial to enforce the pension reform law because NK allegedly had a significant voice on the pension reform within the coalition government.⁴² With MHLW Minister Sakaguchi playing a central role, NK exercised a certain degree of veto power against LDP.⁴³ This situation is already shown as the concession of LDP to NK which advocates almost the same pension plan as Sakaguchi's personal proposal.

In the last phase of the 2004 pension reform, major labor unions and pensioner groups fiercely resisted the reform proposal because the faults of the proposed reform were highlighted by the media: a possibility of imperfect socio-economic estimations such as fertility rate, a prospect of a lower than 50% pension benefit except for a model household type, and an outlook of losing in real benefits for pensioner due to inflation.⁴⁴ The movements opposing the bill were peaked around May Day in 2004 (see Figure 4). However, they could not block the bill in the end since the 2004 pension reform bill was steamrolled in the diet by the government parties which believed the implementation of the election promise was essential to get support from voters.⁴⁵

CONCLUSION

We considered the process of the 2004 pension reform in Japan by referring to prospect theory and discourse analysis. The manipulation of the voter's reference point from status quo to the worst future scenario make an unpopular reform acceptable since their satisfaction seems to be improved. In that manipulation, successful policy idea and discourse are indispensable. The affirmative media reports at the initial stage play an important role in

⁴² Dispute over the statement by PM Koizumi, Nov. 7, 2003, THE ASAHI SHIMBUN 2. PM Koizumi in dilemma between NK and Business Community, Nov. 18, 2003, THE ASAHI SHIMBUN 2. LDP Complaint about NK leadership, Dec. 5, 2003, THE ASAHI SHIMBUN 4.

⁴³ Shinkawa, Toshimitsu, *The Politics of Pension Reform in Japan: Institutional Legacies, Credit-Claiming and Blame Avoidance*, AGEING AND PENSION REFORM AROUND THE WORLD: EVIDENCE FROM ELEVEN COUNTRIES 157-81 (in Giuliano Bonoli and Toshimitsu Shinkawa eds., Cheltenham and Northampton, MA, Edward Elgar 2005).

⁴⁴ Rengo, *Rengo's Actions for Improvement of Pension Reform* (2012). Available at <http://www.jtuc-rengo.or.jp/kurashi/nenkinkaikaku/torikumi/index.html> (in Japanese). Zenroren, *Strike Against Pension Reform by Zenroren* (2004). Available at <http://www.zenroren.gr.jp/jp/old/nenkin/top-page/WHATsNEW.htm> (in Japanese). Real Value of Pension Benefit Reduce by 13%, Jun. 3, 2004, THE ASAHI SHIMBUN 1.

⁴⁵ LDP Sacrifices to NK, Mar. 20, 2004, THE ASAHI SHIMBUN 4. Redesign of Pension, Apr. 3, 2004, THE YOMIURI SHIMBUN 1.

conveying them.

MHLW bureaucrats presented new policy ideas, the IPLFM and the MESF, in addition to showing the unforeseeable socio-economic conditions of the future which indicated domain of losses. These new ideas were incorporated into the MHLW Minister Sakaguchi's personal proposal and the final report of the PCSSC—and, ultimately to the 2004 pension reform bill. The report's idea was successfully conveyed via media until the Lower House election, so NK came into power in the coalition government and, together with LDP, passed the bill.

The new policy ideas gained traction because of *pseudo-vice into virtue* strategy, which targeted younger generation and defended cutting down the final pension premium rate to attain sustainable pension system and intergenerational equity, together with economic competitiveness. In this regard, the policy ideas conditioned people's preference for the reform. Put a different way, the new policy ideas had a causal relationship with overcoming the opposition. In addition to this *pseudo-vice into virtue* strategy, the complicated MESF device contributed to the avoidance of blame for pension retrenchment due to obfuscation of the lowering benefits it would prescribe.⁴⁶ Intricate reform methods, such as MESF, allow for a wide range of political maneuvering—say, framing.

The reform process is also consistent with the explanation of the policy creation.⁴⁷ The policy creation which contains long-term investments depends on the necessary conditions, that is, electoral safety, expected long-term social returns, and institutional capacity.⁴⁸ In the 2004 pension reform, these three conditions had been met. The new policy ideas and the discourse make governmental parties to avoid criticisms from the voters and convinced their electoral win. These ideas also gave voters expectations of gains in the long-term viewpoint. A great deal of institutional capacity for change was also filled since hyper-insulation from the obstructions was secured. That is to say, veto points within coalition government were successfully eliminated and unelected MHLW bureaucrats played an important role in the reform process.

The 2004 pension reform aimed to reduce pension benefits by 15%, not only for future pensioners, but also current pensioners in the foreseeable future. Current pensioners had, until 2004, never before experienced such a dramatic curtailment of benefits. However, whether the reform discourse

⁴⁶ WEAVER, THE POLITICS OF BLAME AVOIDANCE.

⁴⁷ JACOBS, ALAN M., GOVERNING FOR THE LONG TERM: DEMOCRACY AND THE POLITICS OF INVESTMENT (Cambridge, Cambridge University Press 2011).

⁴⁸ *Ibid.*, at 42-71.

comes true remains unforeseen.