

Policy Research Center Research Project Accomplishment Report

【資料 3-1-3 ②】

Date: 2017/2/22

	Name	Title	Affiliation
Project Leader:	Ponpoje Porapakkarm	Assistant Professor	GRIPS

Research Project Title: Macroeconomics of Health, and Mandatory Retirement in Japan

Project duration:
2016/4/1 ~ 2018/3/31 2年間

Project Participants:

	Name	Title	Affiliation
Leader	Ponpoje Porapakkarm	Assistant Professor	GRIPS
Participant 1	Mariacristina De Nardi	Professor	Federal Reserve Bank of Chicago (USA)
Participant 2	Svetlana Pashchenko	Assistant Professor	University of Georgia (USA)
Participant 3			

Project aims and goals:

The first part of the project is to review existing studies related to health in macroeconomics. One of the consensus from literature is that unhealthy people tend to have much worse economic outcomes than healthy ones. Moreover, the evidence from reduced form regressions is inconclusive in terms of the direction of the causality. On the one hand, bad health can lead to unfavorable economic outcomes; eg. low earning ability, high medical expenses, and less saving for retirement. On the other hand, people with a bad economic status are constrained to access healthcare services, consequently having a worse health status. The goal of the first part is to use a structural macroeconomic model to explain the large difference between accumulated wealth among healthy and unhealthy people near retirement age. In the second part, we try to establish facts relating to the labor market outcomes among Japanese males. Unlike other developed countries, Japanese labor market is unique. A large fraction of Japanese male works in firms offering lifetime employment contracts while a non-trivial fraction works under short term contracts. More importantly the lifetime employment contracts are terminated at a certain age, usually between 60 to 65. We intend to explore the link between the dual labor market structure to the earning inequality and its implication on the public pension system.

Accomplishment of Project(in 400 words):

The results from the first part of this project can be summarized as following. 1) We first documented that the persistence of an unhealthy state increases monotonically with the length of unhealthy spell. We show that a parsimonious health shock process featuring a heterogeneity in ability to recover from bad health can well capture this feature of the data. 2) Furthermore, the estimation from our structural model shows that people with a low ability to recover tends to discount the future consumption far more than people with a high ability to recover. Thus the large wealth difference between healthy and unhealthy people is non-trivially attributed to the compositional difference between the two groups. Specifically, the large fraction of unhealthy people tends to be impatient and has a lower marginal propensity to save while the opposite is true for the healthy group.

For the second part, we have documented important facts about labor market outcomes among Japanese male using Keio Household Panel Survey 2009-2015. We find that the earning inequality gradually increases with ages before 50, then quickly increases afterward. And if we divide the sample into those with lifetime employment contracts and those without, the earning inequality among the former group is much lower. More importantly, the earning inequality within each group increases linearly till age 60. We illustrate that the rapid increase in earning inequality after 50 is explained by the steep increase in the fraction of people with short-term contracts. *Why people with lifetime contracts till a mandatory retirement age, normally at 60, switch to short-term contracts much earlier?* One salient feature among Japanese firms offering lifetime employment is their emphasis on seniority and on-the-job training. Their employees are hired as a batch after finishing schools. While people within the same batch progress together within the firms, there is a heterogeneity in term of their career progress and earning. We plan to capture this observation using a model of human capital accumulation through learning by doing. The heterogeneity in career progress is due to the shock to human capital. Thus people with a long spell of negative shock to human capital will have lower earning and might find the outside option, jobs with a short-term contract, more attractive. In addition, the mandatory retirement age can reinforce this mechanism and induce people with low human capital to switch to jobs with short term contract even earlier.

Accomplishment:

Please fill in the list of Accomplishment

Other things to report:

- The results from the first part of this project was presented both domestically and internationally.

- i) Dept of Economics, Keio University (Oct 25, 2016)

- ii) Dept of Economics, University of Tokyo (Dec 1, 2016)

- iii) Dept of Economics and Finance, University of Hong Kong (Dec 9, 2016)

- The findings from the second part in this interim report will be used to support our application for an external grant (Kakenhi) in October 2017. And we will submit a copy of our application to the Policy Research Center once we submit the application.

List of Accomplishment
(including forthcoming)

Article											
0 in total		The number of referred article		0				0		0	
Author	Title	Publisher		Vol/No/ Page	Date of Publications	Start page	Finish page	Referee Report (yes=1)	International joint authorship (yes=1)	DOI	Open Access (yes=1)
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Book
*For collaboratively edited or authored books, please underline your name.
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Verbal Report
*Please report peer-reviewed academic conference papers in "Article" category. Please report non-peer-reviewed academic conference papers "Verval Report" category.

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