

Introducing Investing to Students Before it is too Late:

Shifting Demographics and the Financial Ramifications for Young Japanese

Steven E. Quasha

アブストラクト

本論は、日本の大学において教育者が学生たちの個人財産管理能力を育成することにもっと努力すべきことを明らかにしようとするものである。教養課程を履修する大学1年生を対象に実施されたある定性調査によると、18-19歳の女性は成人期に堅実な投資活動をするために不可欠な知識や能力に欠けていることが示された。日本では、高齢化社会の到来によって現在の就業者への税負担が増えると同時に、若年世代の年金所得が減少する不確実性が増すことになる。このような状況に対応して、学生の個人財産管理能力育成に向けて、今教育者はケーススタディーによる分かりやすい教材を開発する必要がある。少人数グループによる学習が個人財産管理能力育成と将来の経済的自立に効果的であることが明らかになった。

Key words : ☐ Demographics ☐ Personal Investing ☐ 401-K
☐ Blue-Chip Stocks ☐ Stock Splits

Introduction

Within Japanese familial structures, it is most often the role of the housewife to make financial decisions. Affectionately known by the time-honored Japanese phrase, a good wife and wise mother, the woman of the house is expected to know the best ways to allocate family finances. Some of these responsibilities may include child rearing costs, educational expenses, possible overseas travel, and ensure that the family has saved enough money for retirement. Previous discussions by the author with a focus group consisting of Japanese housewives echoed the sentiment that investing in the stock market is perceived as highly risky and akin to a legalized form of gambling for the affluent (N. Fuseya, personal communication, December 19, 2006).

So, where does the nation's savings end up? Living in Japan it is virtually impossible to avoid the 25,000 nationwide branch offices, sheer convenience, and financial security of

the Japanese Postal bank. In fact, for millions of Japanese, the post office—which acts as sales agents for insurance and investment products—is their only bank. When the Koizumi administration decided to privatize the postal bank, Faiola (2005) reported that it was essentially the largest bank in the world with assets of \$3 trillion as Japan Post receives 28% of Japan's household savings.

Yet, convenience and risk aversion does come at a price. Although a large percentage of the nation's savings remain squirreled away in the postal bank vaults, the problem is that these accounts are earning less than 1% annual interest in federally insured certificate of deposit (CD) accounts. There is certainly nothing wrong with being inherently conservative provided a person has enough cash to fund a lifetime's worth of expenses. While this may be the case for an elite minority of society, it is not the financial reality for the average Japanese family circa 2008. Today, consumer loan businesses dot the urban landscape revealing a nation increasingly mired in personal debt. Concurrently, the once vaunted high national savings rate resembles a faded cultural footnote from the Showa era. While the national savings rate once represented an admirable 23% of household disposable income back in 1975, more recent data from 2005 reveals that this percentage has steadily dropped to a record low of 3.1% (Japan Times, 2007), and now rivals the poor saving habits of households in the United States. Moreover, the investment choices earmarked for these diminished savings accounts remain quite conservative. Fiscal common sense seems to have given way to unbridled consumption of brand name goods (Quasha, 2005).

With this shift in values, it certainly appears as though the nation would benefit from including personal finance in the educational system. A deeper understanding of personal finance education has the potential to stem the current tide of rising personal debt and help the average wage earner gain higher returns on low interest bearing savings accounts. More importantly, better financial education would be a welcome contribution toward the livelihood of women. It would provide necessary financial leverage to the growing number of unmarried and single mothers in Japan documented in the government's annual White Paper (2005). Additionally, financial independence among women would elevate the role of housewives beyond the stereotype of a glorified domestic servant. Perhaps a far-reaching goal would be for Japanese women to help raise capital as potential entrepreneurs that could create new businesses.

Since Japan experienced a prolonged deflationary cycle during the post-bubble 1990's, many young people today have yet to face the specter of escalating consumer prices. Therefore, without any firsthand knowledge of inflation, class discussions revealed that young people found it incomprehensible that a low interest savings rates would need to outperform the inflation rate to effectively pay for future life expenses. In fact, it took far

too much class time to explain this seemingly logical economic point. So, it was based on these student encounters that I initiated a qualitative 3-year study that culminated with this research paper. On a personal level, it is my belief that investment savvy young women are more likely to land prominent positions within the Japanese corporate world and make better contributions to society. This attainment of financial knowledge will help our university graduate more empowered adults capable of charting their own course in life.

Social Issues Affecting Retirement Incomes

As part of the academic training in an academic skills course for 1st year management majors at Sugiyama Women's University, the prevailing Japanese social conditions are initially taught and discussed to provide students with a background for the reasons personal investing should become an integral component of their adult lifestyle. With increasing longevity and falling fertility rates, Japan faces a new social and economic environment in which the population is rapidly changing. Japan's elderly population (aged 65 or older) now represents a record high at 20.8 percent of the total population (Ministry of Internal Affairs and Communication, 2006). By 2015, one in four people in Japan will be elderly. Falling birth rates are also expected to shrink Japan's population to around 95 million people (from the current 128 million) by mid-century, which will impact the labor market, housing sector, and markets for most consumer goods (Allianz, 2007).

If this sharp demographic shift were not enough to trigger the warning bells, there is also the unnerving fiscal reality that the Japanese national budget continues to operate well in the red. Today, gross debt as a percentage of GDP remains at an alarming 147%. Remarkably, this figure represents a higher combined amount than the second and third debtor nations, France 72% and Germany 68% respectively (Moffet & Nakamichi, 2007). Although the Koizumi administration did attempt to curtail the cycle of pork barrel infrastructure projects that has dominated the political arena for decades, it has been quite difficult breaking the chain of coddled relationships among bureaucrats and the construction sector. It is no wonder citizens remain weary of government overtures to increase taxes as government scandals continue to grace the front pages of the daily newspapers.

To alleviate this looming fiscal labyrinth, the Liberal Democratic Party, or LDP, continues to float the idea of a gradual increase for the nation's consumption tax from its current rate of 5%, to a more northern European level of 11–17%, as Japan grapples with ways to provide quality health care for the elderly and maintain the current level of social welfare (Japan News Review, 2007). While the aforementioned data supports the need to

quickly rectify this formidable social problem, Japan's ruling parties continue to vacillate on the issue of whether to increase the consumer tax. Although it does appear inevitable, pundits tend to view the consumption tax increase as potential political suicide for the incumbent prime minister (Forbes, 2005).

Participants

Student Reactions to the Government Proposals

Another sign of public skepticism is that young Japanese remain disillusioned by hollow government promises to provide an adequate national pension system to its citizens. A class survey of 14 students revealed that 12 (or 86%) did not expect to receive any retirement income from the pension system. Further inquiry and discussion generated feelings of confusion and helplessness. It was clearly not my intention to create a somber class mood, but rather an attempt to place students in the experiential role of a future member of society and eventual retiree. This segment of class proved quite cogent since it stimulated interest regarding the topic and led to more active involvement amongst previously indifferent students.

To help remedy the national budget woes, the next topic introduced was the possibility of promoting immigration to Japan. Experts on international migration have determined that Japan requires a more open immigration policy to better compete in the 21st century global economy (Papademetriou & Hamilton, 2001). This political initiative would envision large legions of young foreign workers flocking to the Japanese archipelago and contributing sizeable portions of their wages into the national pension and social insurance programs. According to The New York Times article, "Insular Japan Needs, but Resists, Immigration," a UN report recently forecast that to maintain the size of its working population, "Japan would need 17 million new immigrants by 2050," which "would represent 18 percent of the [Japanese] population" compared to today's one percent. Our class discussion on this topic led us to question whether this bold policy initiative was even remotely possible.

Today, many foreign workers in Japan — especially those of Japanese descent — remain employed in lower skilled manufacturing jobs or within the service sector (Tsuda, 2006; Yamanaka, 1993). While these temporary workers certainly provide the potential to help subsidize the aforementioned budgetary deficit, the reality is that foreign laborers meager earnings are significantly lower than the national average and will likely never offset the retirement of tax-paying socially obligated Japanese workers.

In addition, a sizeable increase of foreign workers runs the risk of threatening the cultural tradition of social harmony. Moreover, new arrivals to Japan face a steep language

learning curve along with cultural barriers that limit assimilation. Narratives addressing the troubled assimilation of the approximate 1 million Korean immigrants in Japan revealed that discrimination remains prevalent and opportunities for upward mobility are socially restricted (Kim, 2004; Wender, 2005).

Also, any immigration promotion policy may encounter opposition from right-wing politicians or interest groups that view it as a threat to Japanese identity and nationality. In the end, student responses for this proposal were not very supportive. Their answers echoed the sentiment that there is simply no guarantee a comprehensive immigration plan would help reverse the rising tide of public debt. Due to the Japanese government's lack of experience in multiculturalism, students feared that the majority of immigrant workers could just as easily flee the country for higher wages and lower taxes in other countries should the Japanese government decide to place more of the financial burden on the shoulders of these new arrivals.

A third option, and one that the author advocates, is to educate a higher percentage of the population in the area of personal finance. Using this kind of action plan would encourage more young people today to become actively involved in their own retirement investments. This approach would have several distinct advantages. First, it would shift the burden of retirement planning away from the public sector onto the computer trading screens of the nation's private citizens. Such a move would enable the government to gradually designate less public finance as income replacement for retired people. Therefore, any public opposition against future diminished pension system payouts should be muffled because a larger percentage of the population would offset this shortfall with personal gains generated by their own investments.

Since the impending demographic shift is going to further strain public debt, a more holistic move toward a financially adept society is an advisable option rather than the proposed steady consumption tax hike over the next decade. In fact, the latter is always a tenuous maneuver for policymakers. And if history is any guide in Japan, a poorly timed consumption tax increase—which hastily occurred in 1997 under the tutelage of the Hashimoto cabinet—can push the nation into a prolonged recession and/or inflationary spiral (Koo, 2001).

In Search of the Financial Prosumer

Incorporating personal finance into the educational system will accordingly help improve Japanese students' knowledge of the global economy. By actively looking for the best global returns for their money, young people can learn to identify growing economies and anticipate future business trends beyond the domestic front. This element of critical thinking has the potential to help students foresee global shifts. As investments become a

significant part of students' life experiences, they can continue to learn and grow as educated individuals. With a profoundly deeper understanding of international economies and markets, Japanese university students will become a more internationally aware segment of society and a much sought after source of human capital for future employers.

Noted futurists Toffler and Toffler (2006) have dubbed this growing trend for people to combine the knowledgeable elements of a producer with the role of a consumer, and termed it "prosumer." This function of prosuming is already quite evident for adult women throughout Japan. The numerous volunteer activities conducted as members of neighborhood associations, the PTA, and festival organizing are all areas of prosuming. To promote more empowered Japanese women, the 21st century challenge is to integrate investing into their prosumer lifestyle.

Lastly, with the bursting of the bubble economy and subsequent corporate restructuring, time-honored social contracts such as lifetime employment and generous company severance packages—so prevalent during the Showa era—are unfortunately becoming less commonplace. In addition, as bankruptcies are less of an anomaly in corporate Japan, the rising numbers of company employees summarily left without enough financial security for their silver years is on the rise (Schulz, 2004). For today's young people, any vision of joining a well-known company with the underlying premise that the employer would look after its workers is no longer a certainty. In the current job market, even among the most reputable companies, there is simply no guarantee of a lifetime job or a generous retirement payout. However, there does appear to be additional measures of assistance that could benefit the next generation of retirees.

Financial Structural Reform

Under the guidance of former finance minister Heizo Takenaka, Japan introduced its own version of the 401(k). Originally created in the United States in 1981, and named after a section of the U.S. Internal Revenue Code, a 401(k) is a type of retirement plan that allows employees to save and invest for their own retirement. A 401(k) plan allows a worker to put money away for retirement while deferring income taxes on the saved money and earnings until withdrawal at retirement age. The employee elects to have a portion of his or her wage paid directly, or deferred, into a 401(k) account. In participant-directed plans (the most common option), the employee can select from a number of investment options, usually an assortment of mutual funds that emphasize stocks, bonds, money market investments, or some mix of the above. Many companies' 401(k) plans also offer the option to purchase the company's stock. One of the main advantages of the savings program is that a 401(k) plan account is not considered an asset of the employer or company. Rather, it is held in trust in a separate account for the individual employee. This

means that the 401(k) plan money, which includes all contributions and all vested company contributions, is not commingled with the company's money. Best of all, a company cannot access an employee's 401(k) plan money for any purpose related to maintaining its business (IRS, 2007).

Given the changing corporate climate in Japan, the prospect for more wide scale adoption of the Japan 401(k) represents a beacon on the horizon for future retirees. However, one of the keys to ensure a more successful rollout of the program is to educate participants regarding investments. Without more knowledgeable participants in the system, the Japan 401(k) will never generate the consistent 7–9% average returns that can help offset the 2–4% commissions fees currently charged by brokerage firms and/or financial planners that specialize in offering mutual funds or investment trusts. If the investment acumen of participants reaches beyond a basic comprehension level and generates investment success stories among citizens, this should provide an incentive for more people to join the Japan 401(k). At this point, the program will become recognized as a bona fide alternative to the threadbare national pension system.

Methods

Why Blue Chip Stocks?

According to previous scholarship, (Siegel, 2002; Makiel, 2007) the long-term investment returns generated by United States stocks listed on the S&P 500, with reinvested dividends, has returned an annual average rate of 8% since the 1890's. Unfortunately, when this historical fact is explained in class it fails to elicit much of a response. The reason is because 18 year-old students are unable to neither understand the notion of a blue chip stock nor appreciate such long-term aspects of investing for the future.

At this juncture of the class, I presented a short list of well-known U.S. stocks that are considered blue chips. From here, students worked in pairs to discuss the various industries of these companies. Next, I asked them to predict which of the following companies (Proctor & Gamble—better known as P&G, 3M, and McDonalds) provided the best investment return for its shareholders since 1970. These companies were chosen on the criteria that they all have operations in Japan and students are generally aware of each company's products. Regarding investment return, class predictions always varied as students expressed that they had never quite thought about such a question before. This step provided a crucial stage since participants slowly became more curious about the class topic and more involved in the lesson. Upon further elicitation that allowed students to reflect on their predictions, additional small group work helped students tap into critical

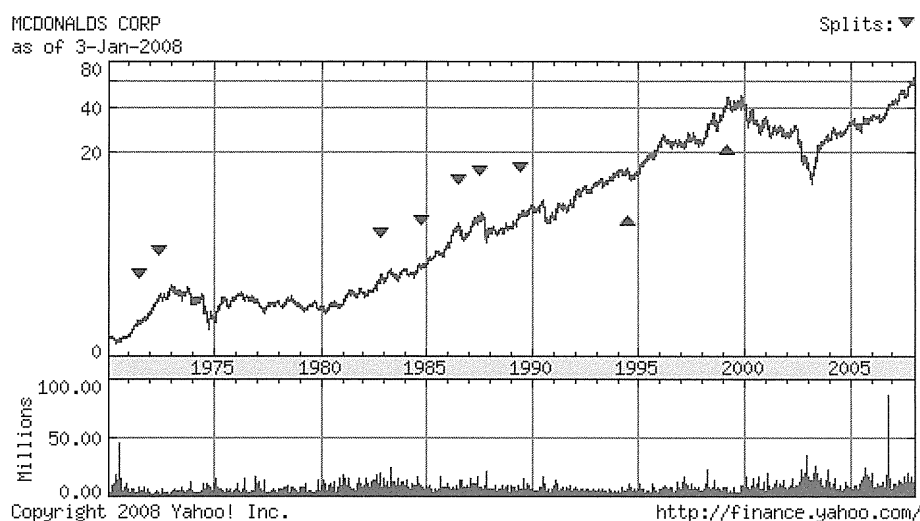
thinking skills to defend the reasons why they chose their particular answers. At last, after compiling a class vote using the blackboard to tally responses, the answer of McDonalds was revealed. The next objective was to determine how much of a return the famous fast food giant company provided to its investors.

Using a printed out graph culled from Yahoo Finance — see below — students were then instructed to work in pairs to try to determine the basic stock data. Usually, most of the students in class can comprehend the current stock price and identify the historical prices located on the timeline dating back to 1970. For the next step, I posed students with the question that should help them appreciate the time value of stock investing. If your grandparents had purchased 100 shares of McDonalds stock back in 1970 at the market price of \$50 per share equaling a total of \$5,000, how many shares would they own today?

The question represents somewhat of a riddle. As students explored the graph, some quickly answered 100 shares, assuming that the total number of shares never changed, while others searched for some possible missing clues. While I have attempted this exercise over the past 3 years, each group came up with different answers. However, a few pairs within each class always managed to ask the key question; “what is a stock split?”

Upon further review, one can rather easily locate within the McDonalds price graph multitudes of small diamond-shaped figures that indicate a stock split by the company. Just below the stock chart graph are the corresponding value amounts for these stock splits. My own experience revealed that this step can be an overwhelming task for students to comprehend and must be explained in very basic terms. Here students are taught that one of the main reasons companies choose to split their stock is to entice more investors to purchase it at a lower price. Granted, a stock split is supposedly a mere accounting procedure, yet it does have a more self-serving corporate goal in mind. Once the stock has split, it then has a higher propensity to once again rise up to a new high - assuming corporate earnings continually exceed expectations and the company’s business model remains strong - and then possibly repeat the entire process over again. Along the way, the best companies will continue to reward its investors with increased dividend payouts that coincide with the rising stock price.

In the case of McDonalds, the accompanying graph indicates the 9 stock splits the company has issued to shareholders since 1970. Based on the fictional grandparents as shareholders situation where the initial holdings were 100 shares in January of 1970, students are permitted to use the calculators on their mobile phones



McDonalds Corporation

Splits: 14-Jun-71 [3: 2], 06-Jun-72 [2: 1], 07-Oct-82 [3: 2], 25-Sep-84 [3: 2], 26-Jun-86 [3: 2], 23-Jun-87 [3: 2], 19-Jun-89 [2: 1], 27-Jun-94 [2: 1], 08-Mar-99 [2: 1]

Last Trade:	57.93	Day's Range:	57.74-58.80
Trade Time:	4:00PM ET	52wk Range:	42.31-63.69
Volume:	6,514,978	Avg Vol (3m):	8,177,190
Market Cap:	68.52B	P/E (ttm):	29.97
EPS (ttm):	1.93	Div & Yield:	1.50 (2.50%)

to help determine the split-adjusted holding amounts. This is not an easy feat for the mathematically intimidated learners, so it is necessary to walk students through the first 2 stock splits using the board to write examples. Working in pairs helped provide elements of collaborative learning and, along with the board figures, served as a form of scaffolding. For some students figuring out the stock splits has an element of competition, since they are quite eager to find the final answer. As students correctly crunched the data to determine the final stock split (as is indicated in the chart below), they then realized that the final holdings amount has changed from 100 shares in 1970 to a staggering 12,150 shares in 2007 all due to the numerous stock splits.

Finally, I asked students to calculate the current value of the original 100 shares of McDonalds stock. This is determined by taking the new split adjusted amount of 12,150 shares and multiplying it by the current stock price of \$57.93. The new figure shows us that the original 100 shares, that cost their grandparents \$5,000 in January of 1970, are now worth the rather hefty sum of \$703,849.50. Revealing this figure is a powerful

<i>Year of Stock Split</i>	<i>Stock Split Ratio</i>	<i>Readjusted Shares</i>
1971	3: 2	150
1972	2: 1	300
1982	3: 2	450
1984	3: 2	675
1986	3: 2	1,012.5
1987	3: 2	1,518.75
1989	2: 1	3,037.5
1994	2: 1	6,075
1999	2: 1	12,150

learning experience for students' as many seem in awe of the dollar amounts as they covert it to Japanese yen. It is at this moment that these young students likely learned to appreciate blue chip stocks and the value of investing long-term.

The case study of McDonalds is important for 1st year students because it helps them understand investing from both the personal and corporate side. The personal investor benefits from a buy and hold strategy which appreciates through dividend reinvestments coupled with multiple stock splits. Also, students begin to fathom how companies use the split to encourage new investors and maintain stockholders through a long-term policy of increased dividends that helps develop trust.

Conclusion

The final investment scenario presented to students is the notion of setting investment goals. While the stock performance of McDonalds since 1970 is certainly an amazing success story, the fast food giant is unlikely to repeat such stellar results over the next few decades. Therefore, it is imperative for students to realize that it is in their best interest to find the next great blue chip stock. I asked them to think about how they can follow upstart industries and become better informed as personal investors.

For this particular class, individual portfolios are a large component of student assessment. Quite often students reflect that the stock split lesson helped them to become acquainted with financial markets and recognize why it is important for their future. The knowledge acquired from this lesson using stock splits—such as McDonalds, P&G, and 3M—are all valuable learning tools that can help provide an impetus for young people to acquire deeper understanding of the stock market. All of which will directly benefit students as they are placed on the path to take control of their financial futures and

become less dependent on the unpredictability of Japan's national and corporate pension systems.

References

- Allianz Global Investors (2007, June). Demography: A global trend.
- Cabinet Office. (2005). *White paper on national life*. Tokyo: National Printing Bureau.
- Faiola, A. (2005, October 15). Japan approves postal privatization. *The Washington Post*. Retrieved on December 19, 2007, from <http://www.washingtonpost.com/wp-dyn/content/article/2005/10/14/AR2005101402163.html>
- Forbes (2005). *Japan ruling party eyes consumption tax rise in 2007*. Retrieved on January 4, 2008, from <http://www.forbes.com/home/feeds/afx/2005/08/28/afx2193994.html>
- French, H. (2003, July 24). Insular Japan Needs, but Resists, Immigration. *The New York Times*.
- Japan News Review (2007, October 18). Fukuda eyes consumption tax hike, predicts up to 17% by 2025. Retrieved on December 17, 2007, from http://www.japannewsreview.com/politics/politics/20071018page_id=2510
- Japanese Ministry of Internal Affairs and Communication. *Results of the 2006 national population census*. Retrieved on December 30, 2007, from <http://www.stat.go.jp/english/data/jinsui/2006np>
- Kim, J. (2004). Hidden treasures: *Lives of first-generation Korean women in Japan*. Oxford: Rowman & Littlefield.
- Koo, R. (2001). *Balance sheet recession in Japanese economy*. Retrieved on February 12, 2008, from http://www.asahi-net.or.jp/~ny3k-kbys/contents/balance_sheet_recession.html#ch3
- Malkiel, B. (2007). *A random walk down Wall Street: The time-tested strategy for successful investing*. New York: Norton.
- Moffet, S., & Nakamichi, T. (2007, December 21). Japan budget set to rise next year. *The Wall Street Journal Asia*, p. 10.
- Papademetriou, D., & Hamilton, D. (2001). *Reinventing Japan: Immigration's role in shaping Japan's future*. Washington, D.C.: Carnegie Endowment for International Peace.
- Quasha, S. (2005). A typology study of young Japanese female consumer behavior: Beyond the brand name bonanza. 梶山女学園大学研究論集』第37巻社会科学篇p. 199-206.
- Schulz, M. (2004). Changing the rules of the game: The reform of corporate governance in Japan. *Japanese Economy*, 32(1), 87-131.
- Siegel, J. (2002). *Stocks for the long run: The definitive guide to financial market returns and*

- long-term investment strategies*. New York: McGraw Hill.
- Toffler, A., & Toffler, H. (2006). *Revolutionary wealth*. New York: Knopf.
- Tsuda, T. (2006). *Local citizenship in recent countries of immigration: Japan in comparative perspective*. Lanham, M.D.: Lexington Books.
- United States Department of the Treasury - Internal Revenue Service (2007). 401(k) Plans. Retrieved on December 10, 2007, from <http://www.irs.gov/taxtopics/tc424.html>.
- Wender, M. (2005). *Lamentation as history: Narratives by Koreans in Japan, 1965-2000*. Palo Alto: Stanford University Press.
- Yamanaka, K. (1993). New immigration policy and unskilled foreign workers in Japan. *Pacific Affairs*, 66(1), 72-91.

---【著者略歴】---

Steven E. Quasha

1962年 Brookline, MA, U.S.A. 生まれ

所 属 ・ 現 職 梶山女学園大学 現代マネジメント学部講師

最終学歴・学位 修士 (Master of Arts) : Asian Studies (1994) & Applied Linguistics-TESOL (2007)

所 属 学 会 JALT (全国言語教育学会) National Chapter Representative Liaison
専 攻 領 域 Communicative Language Teaching & Training, Business English

主 要 著 訳 書 “Reinterpreting Japanese Business Communication in the Information Age”, co-authored with Edwin R. McDaniel, *Intercultural Communication: A Reader*, 10th ed. Larry A. Samovar and Richard E. Porter (eds.) Belmont, CA: Wadsworth Publishing Co. 「IT革命における日本のビジネス・コミュニケーション再考」, 2003年2月、pp. 283-292.
“A Typology Study of Young Japanese Female Consumer Behavior” 「若い女性のライフスタイル調査」平成18年3月『梶山女学園大学研究論集』第37巻社会科学篇 pp. 199-206.
“More Insight into Young Japanese Female Consumer Behavior” 「若い日本人女性消費者行動に関する類型学研究」平成18年9月、現代マネジメント学部紀要『社会とマネジメント』第4巻第1号、pp. 33-42.