

Japan's Sagging Birthrate & Future Outlook

By *ATSUMI Naoki*

Growing Sense of Crisis

A sense of crisis is growing about the prospect of Japan's population shrinking. On a TV program, "NHK Special," aired two years ago by Japan Broadcasting Corp. (NHK), this writer drew a future picture of Japan, demonstrating that the nation's GDP would start shrinking after reaching a peak in the mid-2030s if the current declining birthrate trend continued unabated.

Sakaiya Taichi, a noted writer/critic, and some others who appeared on the program along with this writer attacked this projection, repeating optimistic views such as "the Japanese economy will do fine" and "there is no need to take measures against the birthrate decline."

However, 80% of viewer responses to the program were said to be critical of such optimism. Among the comments were: "mere reiteration of groundless, optimistic views fails to convince us,"

"there is no understanding of the difficulties facing today's younger generations" and "sweeping measures are necessary to fight the birthrate decline." Results of numerous questionnaires also show that the sense of crisis about the falling birthrate continues to grow among the general public. Why?

Negative Effect of Aging Society with Falling Birthrate

In order to maintain the Japanese population at its present level (128 million), it is necessary to raise the total fertility rate (the average number of children a woman bears in her lifetime) immediately to 2.07 starting this year. This is impossible. Even if the birthrate rises somewhat, Japan's population will decline in the long term. According to an estimate released last year by the National Institute of Population and Social Security Research, Japan's population will decline to approximately 40

million, or a third of the present number, in 100 years.

If things remain unchanged, Japan will be trapped in a negative chain of events in which the declining number of parents reduces the number of children, which in turn further reduces the future number of children. The population decline due to the sagging birthrate and the aging of the population will bring about many grave structural problems to the Japanese economy and society.

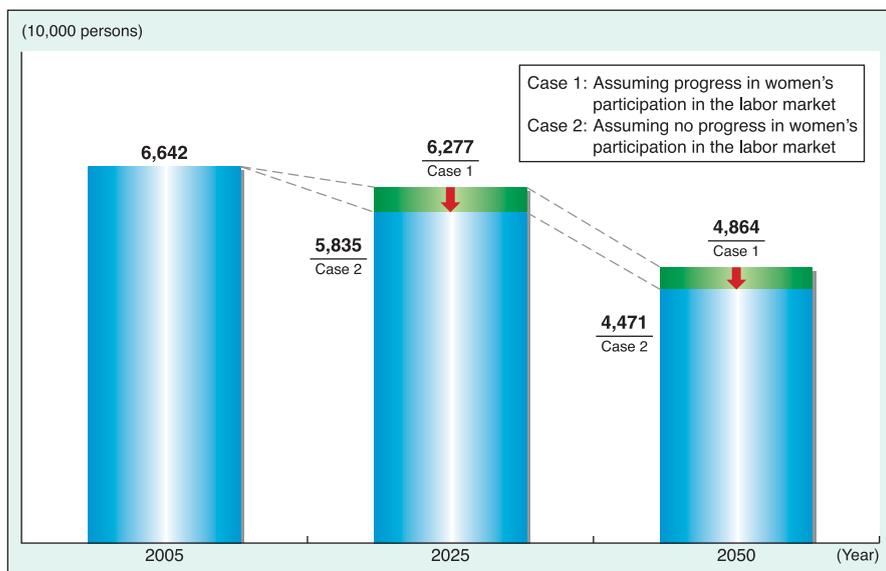
First, nearly one-third of Japan's 66 million-strong labor force (gainfully employed persons and job seekers, aged 15 years or older) will be lost in the next half a century (*Chart 1*). The population decline will be particularly severe in provincial areas and the hollowing out of regional cities will be crippling. Optimists argue that the burden of housing costs will be lightened as residences will outnumber people, but this is a pie in the sky. While an increasing number of regional cities will turn into ghost towns, the inflow of people to large cities is expected to accelerate. Hence, the burden of housing costs will remain unchanged for most people. Even if a couple were to sell their property in a provincial area their parents had left them, it would only fetch a dirt-cheap price.

Only Solution: Higher Birthrate

If the situation remains unchanged, the cost of social security benefits will burgeon as the aging of society becomes more pronounced while the younger population diminishes. Hence, government finances will worsen. The tax and social security payment burden on younger generations will triple in the next 50 years.

In an attempt to avert such a heavy burden, youths will flee the country one after another. The number of Japanese athletes and musicians working outside Japan continues to increase. In the

Chart 1 Overview of future workforce population in Japan



Source: Compiled by Fujitsu Research Institute based on reference material submitted to Social Security Council task force on structural population change in November 2006

future, there will be many more youths in other jobs opting to work abroad, starting with those who are more talented. As for those who stay behind, the opportunities to improve themselves through friendly competition with their peers from their early childhood onward will be lost, resulting in a decline in the quality of human resources.

A shrinking population will deal a serious blow to the economic foundation of Japan. The ratio of household savings will decline due to the aging of the population and bring on a shortage of funds for investment and fiscal spending. Japan has succeeded as an economic power thanks to the creativity and cleverness of its people. However, it will lose its human resources, which are the very foundation of its success. Since Japan, which is poor in natural resources, will be losing its only resources, its international competitiveness will deteriorate miserably. Then, it will be impossible to maintain the present systems of Japanese society.

The only solution to these problems, therefore, is a “sharp recovery of the birthrate.” Since the birthrate has been declining for more than 30 years, the fall in the number of parents is inevitable. Only a significant recovery in the number of births can offset the number of deaths. The most urgent priority for Japan is a comprehensive strategy to keep the number of Japanese from falling below the “80 million-100 million” level.

Delayed Policy Shift on Fertility Front

Every year, the United Nations releases “World Population Policies,” which is based on questionnaires to member nations. Now, this article will examine the appropriateness of the past Japanese policy stance based on a comparison with population policies of other countries.

This writer believes that the year 1984 was an interesting year in population studies. That year, Japan, France and the United States all had an identical total fertility rate of 1.84, which exceeded that of Sweden. France saw the rate as too low and its policy stance for the future was to “raise” it. Sweden, whose

Chart 2 Policy stance & evaluation regarding birthrate in major countries

	1984			2004		
	Total fertility rate	Birthrate evaluation	Policy stance toward birthrate level	Total fertility rate	Birthrate evaluation	Policy stance toward birthrate level
France	1.84	Too low	Raise	1.89	Too low	Raise
Sweden	1.80	Too low	Not to intervene	1.71	Satisfactory	Not to intervene
Germany	1.41	–	–	1.34	Too low	Not to intervene
Italy	1.34	Satisfactory	Not to intervene	1.29	Too low	Not to intervene
Britain	1.78	Satisfactory	Not to intervene	1.71	Satisfactory	Not to intervene
United States	1.84	Satisfactory	Not to intervene	2.04	Satisfactory	Not to intervene
Japan	1.84	Satisfactory	Not to intervene	1.29	Too low	Raise

Source : Compiled by Fujitsu Research Institute based on the United Nations' "World Population Policies"

rate stood at 1.80, viewed it as “too low,” but its policy stance was “not to intervene.” Both Japan and the United States viewed their rates as “satisfactory” and decided “not to intervene.” From that year onward, however, the fertility rate trends in these countries diverged widely. While Japan’s rate continued to decline, France, Sweden and the United States maintained high rates. (Chart 2)

Meanwhile, for Japanese parents in child-bearing years, their “ideal number of children” has always been much higher than two. This has not changed over the years. Therefore, the birthrate decline in Japan has meant a widening gap between “the ideal number of children” and “the actual number of children one will be able to have.” Policymakers should have perceived this growing gap between the ideal and reality as an urgent signal of warning that the social and economic environment in this country has become one in which people “are unable to have children though they wish to” and “find it hard to bring up children though they wish to.”

From Birthrate to Family Policy

In the United States and Europe, people do not usually use the kind of term used in Japan – “countermeasures against the declining birthrate” – mean-

ing how to fight the birthrate downward trend. What falls within the scope of countermeasures against the falling birthrate in Japan is generally covered by “family policies,” which support children and their families. In the future, it will be important for Japan to view countermeasures against the sagging birthrate in a wider perspective and deal with it from the viewpoint of a “family policy” to support all children and families bringing them up.

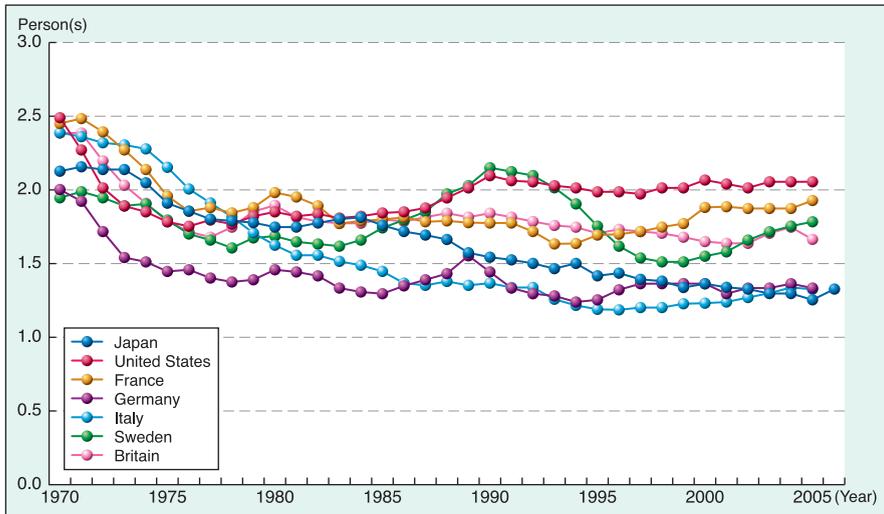
The series of measures taken by Japan, including the “Angel Plan” that began in fiscal 1995, were in the right direction, but they did not stem from a policy stance toward a serious family policy. As a result, budget appropriations were made in such a way as to treat symptoms as they appeared.

When the fertility rate declined close to 1.3 in 2003, the government finally shifted its birthrate rating to “too low” and adopted a policy “to intervene.” From now on, the Japanese government should give priority to a comprehensive “family policy” in its budget appropriations in order to make up for this delay.

Growing Interest in France, Sweden

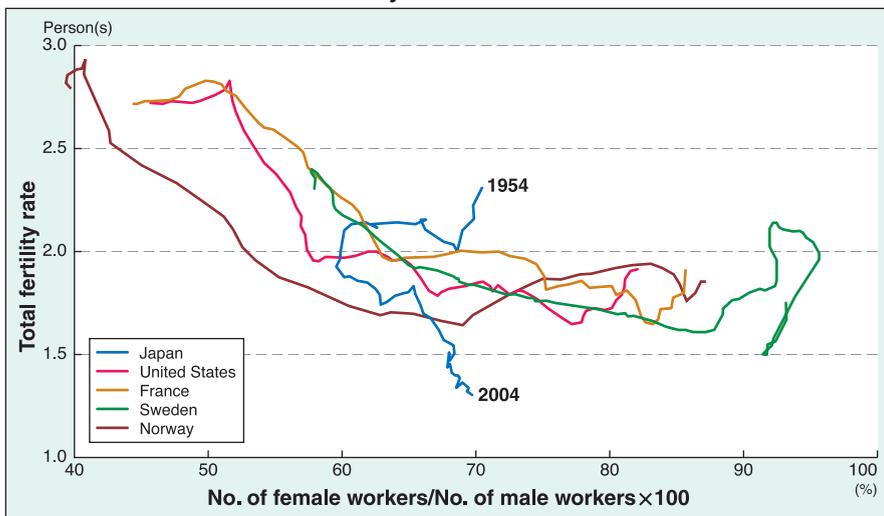
Recently, the government has shown growing interest in family policies in France and Sweden. This is because

Chart 3 Total fertility rate trends in major countries



Source : Compiled by Fujitsu Research Institute based on "Population Statistics of Japan 2007." National Institute of Population & Social Security Research

Chart 4 Changes in women's social participation & total fertility rate in major countries



Note : The start point on the left side is 1960 and the end point on the right side is 2004 for the countries other than Japan.

Source : Compiled by Fujitsu Research Institute based on ILO database, etc.

these countries have successfully raised their fertility rates that once fell to historic lows (Chart 3). At a government panel discussing strategic policy priorities to support children and families, of which this writer is a member, the Ministry of Health, Labor and Welfare, under the instruction of the finance minister, presented an estimate of ¥10.6 trillion as an amount necessary for Japan to implement a policy comparable to that of France.

It is a tectonic change that the head of

the Finance Ministry, which was always cautious about reinforcing measures against the birthrate decline because of its austere fiscal policy, has even said to the effect that although taking measures equivalent to those taken in France would cost more than ¥10 trillion, we should launch action right away since no delay is allowed in the fight against the birthrate downswing. However, the social and economic systems of Japan are widely different from those of France and Sweden. Therefore, the question is

not as simple as that every problem will be solved only if Japan copied their systems in their entirety.

It is true that both France and Sweden have successfully created a social environment conducive to having and raising children. In this sense, Japan needs to learn from their experience.

Women's Labor Participation & Birthrate

A historical study of the relationship between women's participation in the labor force and the birthrate shows that as women's labor commitment increased, its relationship with the birthrate has shifted from a negative correlation to a positive one in other countries. That is, as long as women's labor participation is in conflict with the old social systems, the birthrate declines. However, the birthrate begins to turn upward again as institutional changes take place. This trend is especially conspicuous in France, Sweden and the United States. Conversely, in countries (such as Germany) where institutional changes were slow to occur, the birthrate has not recovered.

More specifically, there is a tendency that the correlation between women's labor participation and the birthrate turns positive when the number of employed women exceeds 70% of that of employed men. In Japan, the present number of female employees is equivalent to approximately 70% of that of male employees. In most other countries, the birthrate declined before this female/male employee ratio reached 70%, but it turned upward in step with changes in social institutions. (Chart 4)

In Japan also, the birthrate continued to decline as women increasingly participated in the labor force, but there is a possibility that it may turn upward. Needless to say, the birthrate turned upward in Sweden and France against the backdrop of policy efforts. Whether or not Japan can do the same is an open question. Japan is now at a very important crossroads, where it is to choose between the old idea of family-focused child-rearing (that is, a "women should stay at home" approach) and the new thinking of children being brought up by an entire society with mothers committed to work.

Work/Life Balance as Management Strategy

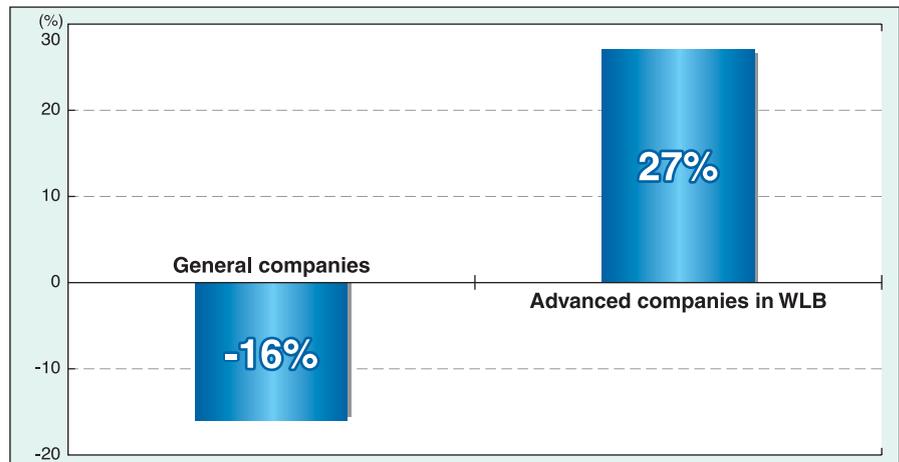
Recently, the “work/life balance” (hereinafter referred to as “WLB”) has become a term in vogue in Japan. Actually, this is under the strong influence of the United States and Britain. If Japan were to implement a family policy comparable to that of Sweden or France, it would cost somewhere between ¥8 trillion and ¥10 trillion, excluding the cost of infrastructure. As Japan is now in financial difficulties and is under a tight-budget policy, such expenditure is out of the question (the present requests for budgetary appropriations related to the birthrate decline amount to no more than ¥1.7 trillion). Therefore, the discussion is partly aimed at raising the birthrate through the WLB at the private-sector level, as in the United States and Britain, rather than through an aggressive family policy on the part of the government.

The Japanese government is also considering raising the ratio of women continuing to work from the present 57% to 71% in the future. It is the right perception to think that utilizing women is imperative for the future development of the Japanese economy. In order to attain this objective as well, the government must think strategically, ensuring enough nursery facilities for children based on the number of births and creating an environment conducive to couples having children and to families bringing up children.

This writer has analyzed data of 2,000 Japanese and 500 foreign companies and found that corporate WLB efforts sharply improve business performances in the long and medium term. Between 1992 and 2002, both sales and pretax profits of general Japanese firms declined some 20%. In contrast, those of companies striving for a better WLB rose as much as 30%. (Chart 5) Doubtless, the WLB was not the only factor behind this, but it was one of the variables that count.

In the past, WLB efforts were often viewed as costs, but actually they are investments that promise high returns. The WLB means giving consideration to not only employees with families but also to the private lives of all employees. The real substance of the WLB is to raise employee morale while at the same time

Chart 5 Sales growth in 1992 - 2002



Note : 1. Of 2,300 companies surveyed by Fujitsu Research Institute about 50 items such as the rate of use of child-rearing leave and the average working years of female employees, 120 were named “advanced companies in the WLB (work/life balance)” for exceeding the average for more than 40 items.
2. Data for “general companies” is based on METI’s annual “Basic Survey of Japanese Business Structure & Activities.”

Source : Compiled by Fujitsu Research Institute based on corporate financial statements.

improving the productivity of individuals and teams through reviews of work systems. The more aggressive a company is in reviewing its organization and work systems, the more advanced is its utilization of the WLB system, and this has a positive effect on its business performance. This is thought to result from improvements in productivity per hour per capita and in the work efficiency of a team as a whole.

An “All-out Effort” from Now On

The media community used to question primarily the responsibility of the country or its government. Recently, there have been proactive proposals, however. In the past, the central government has shelved sweeping measures while placing the burden on businesses and local administrations. But, finally, it is getting serious about solving the problem of the birthrate decline.

The business community always “agreed with ideas in general but opposed details” as soon as it perceived specific measures would increase its burden. However, its stance has been changing. Individual companies that are making serious efforts to fight the birthrate downfall are on the increase. Some local governments – those in which officials in charge are serious about it – are taking outstanding measures.

In the past, the situation did not

improve at all, as the national government, businesses and local governments continued to pass the buck among themselves. Finally, however, an environment permitting an all-out effort to reverse the birthrate downtrend is being created. Today, numerous family-support measures suitable for particular regions are being implemented, which may be compared to a profusion of all kinds of flowers. In 2006, the fertility rate rose to 1.32, the first increase in six years. This is thought to be the fruit of efforts on the part of the national and local governments, but it is still too early to predict the future.

In order to maintain the recovery in the fertility rate, governments, businesses, communities and individuals should join forces to make an all-out effort. Japan has so far successfully surmounted the defeat in World War II, oil crises and other difficulties. Hence, if the government and the private sector join and get serious about implementing necessary measures, the tough challenge of the birthrate decline is also sure to be resolved. If Japan overcomes the shrinking population proceeding at an unprecedented speed, its know-how thus gained will make valuable contributions to the rest of the world. **JS**

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