

The Problem of Intertemporal Justice

By Kazumasa Kusaka

“Society is a partnership... not only between those who are living, but between those who are living, those who are dead, and those who are to be born.” — Edmund Burke (*Reflections on the Revolution in France*)

The St. Gallen Symposium — also known as “Three days in May” — started in 1970 in response to the student riots of spring 1968, and this year returned to its original concept by choosing the “Clash of generations” as the topic of its 44th symposium. Now, under rapid globalization, the unwritten social contract such as full employment and welfare state has been challenged, and with the baby boomers retiring and people tending to live longer a great burden has fallen on the young. This is how Chairman Lord Griffiths introduced the subject, referring to Edmund Burke, the Irish-born English politician.

With its current birth rate, Japan's population is expected in time to decline to 87 million, two-thirds of the current 127 million, with 40% being 65 years old or older. The rapid aging of the population resulting from the decline in the birth rate produces an inverted pyramid-style demographic. As in the case of the deflationary impact of the post-financial crisis through the fall of asset prices, Japan will again serve as the front runner in addressing this common demographic change.

The public have started to doubt that social security will still be around when they retire. The pay-as-you-go system is unsustainable in the long run for demographic reasons. But which is fairer and leads to economic growth — pay-as-you-go or full funding by the beneficiary?

Recently the Japanese government has for the first time looked squarely at this problem and shared its vision of maintaining the population at 100 million, even 50 years from now. However, the discussion about fertility has drawn resentment from many women opposed to state intervention in the individual's right of choice, as well as to the idea of women being reduced to childbearing machines.

Oxford Professor Paul Collier argues that the starting point for discussion has been the question of whether a nation wants to keep its population stable. Many would instinctively agree that per capita GDP growth leads to welfare improvement, but when it comes to the actual size of population it is not so obvious.

Discussions should start not on the basis of fiscal necessity but of what kind of nation we want to see. The next step is then whether we think the fertility rate of our own country should be fixed or whether immigration is a viable alternative. And here comes the conflict of generations. The current generation, especially the business community, argues for an increase in immigrant workers to cope with the current labor shortage in the boom of

“Abenomics” and the forthcoming Tokyo Olympic Games. But we have to learn from the experiences of pioneer countries to assess whether immigrant workers will turn out to be assets for the future generation, or liabilities.

In the initial stage, almost all immigrants enter the workforce, but as time goes by they have families and become older just like the rest of the community. It will require herculean efforts to maintain trust in society, both from the original community and the growing immigrant community.

Is it fair for the baby boomers to ask the younger generation, with only half the population, to shoulder the burden of payments? This decision is made in the political system and what matters is the number of votes. But who has the vote? In terms of population and turnout rate, there will be no chance for the younger generation. This is why dialogue between the generations is necessary. And what about the unborn generations that have neither the vote nor dialogue?

Similar challenges exist in intertemporal resource allocation of depletable fossil fuels or in the global warming problem. Is it justifiable that the windfall assets of North Sea oil only be consumed by the current generation? What can be left to future generations in the Middle East oil-producing countries?

Economists answer that underground resources can be translated into financial assets or investments, including education, without reducing their economic value through the future flow of dividends. Norwegian and Gulf countries' sovereign wealth funds aim to maintain assets for the future. But even if economists could agree on an optimal solution, the problem in real life is how that can be realized through the political process.

Philosopher John Rawls argues that the veil of ignorance — with the veil blinding people from who they are so they cannot tailor principles to their advantage — leads to principles that are fair to all. Then the unborn can also benefit from the principles agreed.

Japanese corporate managements have been known to pursue optimization over the longer term rather than to secure their positions and maximize quarterly profits. Their mindset was devotion to the institution or the team in the period even long after they had left.

We should remember this team spirit. An opportunity exists now for Japan as a front runner facing a rapidly aging society to find a solution in an intellectual form that can contribute to the public good.

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