

What's at Stake with a Declining Population?

By Masakazu Toyoda

Japan's decline in both its fertility (birthrate) and its mortality rates is exerting strong pressures on public finances. Japan's declining birthrate, combined with an increasing proportion of older people (aging population), has become a major issue in Japan. It is no wonder that the Kishida administration is addressing the declining birthrate from a different perspective or dimension. To this end, a variety of measures are being developed, including economic support such as child allowances and free collage education for the third child, combined with reforms in the way people work. Naturally, many people support them. Is resolving the declining birthrate enough to eventually alleviate the issue of an aging population?

Japan's population peaked in 2008 and has been declining ever since. According to the National Institute of Population and Social Security Research, Japan's population (excluding foreign nationals) in 2022 was about 122 million. By 2070, almost 50 years from now, it will be 77 million. This means that the population will decrease by 0.9 million people per year, 10 million per decade, or 45 million people in about 50 years. That's nearly 40% less than today. A population decline of around 50 million is almost equivalent to the population of Spain or about twice that of Australia.

Despite major gains in productivity, if the population continues to decline, GDP will inevitably shrink. "The national strength of the Japanese economy will decline" and "Japan's finances will go bankrupt" due to the increased burden of social security costs caused by a larger ratio of the aging population. Many people are accepting the idea that a slow population decline is unavoidable and that the country will have to find ways to survive as a middle power. As the media, the business and political worlds give the impression to be sympathetic to the concept of a slow decline in population, it seems that measures to increase the birthrate would be appropriate and suffice.

I would like to raise two objections to this view.

First, among the G7 countries, only Japan and Italy show a continuous decline in population while the others are maintaining or even increasing their populations. Viewed from a fertility rate approach, it is said to maintain population the fertility rate must be around 2.07. Sadly, it is not the case in Europe where bold measures to combat their declining birthrates are introduced. France reports the highest European birthrate at about 1.8, Germany is at 1.6, the U.K. at 1.6, and Italy at 1.2. In the Americas, the U.S. is at 1.7 and Canada at 1.4. As these rates are all well below the required fertility rate of 2.07, why is it that most of the G7 countries are maintaining or even increasing their populations? The reason is that they are accepting a considerable number of immigrants, i.e., they are increasing their human resources. To stop the decline in population, it may be time for Japan to think seriously about how to attract and secure foreign human resources.

Second, a declining population will not only bring about a "decline in national strength" and "financial collapse," but it may also lead to a "security crisis". For example, the North Atlantic Treaty Organization (NATO), with its primary purpose to provide collective defense, was established 50 years ago with 12 countries.

It has over time more than doubled in size to 31 countries, including U.S. and Canada. Furthermore, Finland joined in March 2023, after the Ukraine crisis broke out, and Sweden is close to joining. Why is this? It is because the era in which one superpower, the United States, guaranteed peace and order in the world is over. That was the era of Pax Americana, after post-World War II. No one can stop the crisis in Ukraine nor the conflict in Gaza. Now, with relentless U.S.-China confrontation, with the uncertain developments in North Korea and with the possibility of armed unification of Taiwan by China, the North Asia region has become one of the most unstable and unpredictable regions in the world. While Japan cannot be reassured that the Japan-U.S. Security Treaty is still in place, the U.S. is placing high and more expectations on Japan to defend itself. It may say that Japan is safe because it has its Self-Defense Forces, however, we must not forget that Japan's declining population is one of the reasons why the Self-Defense Forces have difficulties recruiting the desired number of personnel.

The declining birthrate and the fiscal implications of an aging population are problematic, of course, but they are not the only problems. A population decline means that its labor force is also declining and that is a problem.

"Measures to deal with the declining birthrate in a different dimension" are essential, but a second round of measures may also be necessary to further enhance the situation, while learning from the European countries. The study group of Japan Economic Foundation (chaired by Naoyuki Yoshino, professor emeritus at Keio University) has proposed increasing the income of working people to reduce the burden of living expenses, making public education free of charge for all the children, including graduate school, and enhancing rural life by increasing remote education and promoting remote work.

Furthermore, the policy proposal also calls for measures to increase the labor force, pointing out the need to "increase the number of women in the labor force" and to "encourage the elderly to remain active throughout their lives".

Even this, however, is not enough. The experience of Europe has shown that there is a limit to improving the birthrate, and the time has come for Japan to make a full-scale effort to secure (and integrate) foreign human resources. There are, however, concerns that the mass acceptance of foreign human resources will bring about social unrest. Therefore, while a shift to a "specified skills" system is welcome, a "point system" similar to that used in the U.K. should be introduced in order to accept highly skilled foreign human resources while ensuring quantity and quality. In addition, it is desirable to improve the education of their children, spread "easy Japanese", and improve the English proficiency of Japanese people to create a better living environment so that foreign human resources can live comfortably in Japan and easily assimilate into the Japanese society. **JS**

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