

The Effect of the Baby Boomer Generation on Japan

By Yoshida Kazuo

IN 2007, Japan's economy and society will be at an important crossroads, which is known as the Year 2007 problem. The problems that will occur in 2007 are of many different sorts. The first is the issue of population decrease. In 2007, it is estimated that the population of Japan will start declining for the first time ever, and some experts predict that the decline will start even before 2007. There is growing concern about the negative impact on Japan's economic growth and the severe financial problems caused by the aging of the population. Also in 2007, the number of university applicants will fall below the numbers the universities were designed to accept, bringing a new era where everyone who takes an entrance examination can get in. While this will moderate the traditional "exam wars," there are also fears that universities could go bankrupt. These problems all derive from the "baby bust" problem, reflected in the current low birthrate of 1.29 children per woman.

Another Year 2007 problem is the retirement of the baby boomers. In 2007, the bulge in the population known as the *Dankai no Sedai* or the baby boomer generation, born from 1947 to 1949, will begin to reach retirement age. The fear is that this will have a major

economic impact on labor supply. Additionally, calls are being made for reform of the employment system itself.

In 1945, Japan was defeated in World War II, and large numbers of ex-soldiers returned to civilian life, got married and had children. As a result, a spike in the population occurred between 1947 and 1949. This baby boomer generation accounts for about 5% of Japan's current total population of 128 million and has had a large impact in every area it has touched. The number of births exceeded 2.6 million a year between 1947 and 1949, with the peak in 1949 at 2,697,000, resulting in a total of 8 million children born during that period. The size of this number becomes apparent when it is compared with the 1.1 million born in 2004.

Since the emergence of the baby boomer generation, Japan's economy and society have changed significantly to accommodate them as they grew up. The first issue they faced was a food crisis. Many struggled to survive because food was in extremely short supply. As they finally came out of their state of infancy, Japan's economy started to recover with the special procurement boom due to the Korean War. The Japanese economy started achieving the miraculous growth that turned the country into an economic superpower.

The first wave of the baby boomers turned 6 years old and entered elementary school in 1953, which brought about overcrowding in the classrooms. Each class was packed with between 55 and 60 pupils, and each grade level had around 10 classes every school. The number of school buildings itself was insufficient and there were many "prefab" buildings. When they

went on to junior high school, the baby boomers were still forced into larger sized classes, and what awaited them at last was the "examination war." This was a time of intense competition to get into high schools and universities, which were still insufficient for the numbers of applicants. It was often said that those who passed the university entrance exams only had four hours of sleep a night, while those who failed slept for five hours. When the baby boomers eventually got to university, it was a battleground. Campuses were dominated by an extreme left-wing student group known as *Zenkyoto* (The All-Campus Joint Struggle Committee) shouting for revolution and railing against imperialism. There were frequent violent strikes and campuses were locked-out. This was linked to the peak of the peace movement against the Vietnam War and the automatic extension of the Japan-US Security Treaty, whose 10-year term was coming up for renewal in 1970.

As a result of Japan's rapid growth, finding employment was not really a problem because of labor shortages. The period from the late 60s to the early 70s, when the baby boomers were entering the business world, was the so-called "Izanagi Boom," the longest period of economic expansion after the war. The fact that the baby boomers supplied plentiful labor was one factor in the advance of the Japanese economy, because they helped to support the Japanese-style management system. In other words, companies competed for fresh graduates and hired them in large numbers so that they could smoothly operate their lifetime employment and promotion-by-seniority systems. The structure of the whole Japanese population was consistent with the pyramid-like employee age structure required by the Japanese-style management system, and this consistency efficiently fostered its advance.

The baby boomers also greatly changed how marriage is perceived.

Photo : The Mainichi Newspapers



The baby boomers brought about overcrowding in the classrooms

Photo: THE YOMIURI SHIMBUN

Prior to the baby boomer generation, husbands were usually a few years older than their wives. However the baby boomers had to find partners who were closer to their own age because of their large numbers. Consequently, subtle changes occurred in the relationships between husbands and wives at the home. The previous age gap between the partners had played an important role in creating an order between the couple. The new social phenomenon where marriage was a sort of extension of friendship, created “new families” where the husband was no longer the leader and the wife the follower. New industries such as special restaurants targeting these families sprang up in response.

While Japan’s economy experienced some major ups and downs, such as the twin oil shocks of 1973 and 1979 and the strong yen recession in 1985, Japan maintained a high economic growth rate from a global perspective and the baby boomers steadily advanced in their careers within the lifetime employment and promotion-by-seniority systems that characterized the Japanese-style management system. When they started to have children, known as the “baby boomer juniors,” the demand for housing increased. This led to the beginning of the bubble economy (of course, this was not the only reason) and resulted in steady corporate growth and asset accumulation.

This was followed by the long economic slump of the 90’s, caused by the bursting of the bubble economy. The overinvestment, overemployment and excessive indebtedness incurred during the bubble economy period forced companies to make painful adjustments. Because it was initially thought that these adjustments would not take long, Japanese companies tried to maintain their Japan-style management systems. However, under the prolonged stagnation, companies’ profits failed to improve as the average age of employees became disproportionately high, since companies did not hire new employees during the economic slump and most of the employees were the baby boomers. This led to the question of the sustain-



Demonstration by Zenkyoto

ability of the Japan-style management system. As a result, many companies embarked on fundamental reforms. Many reviewed their seniority-based pay scales, and introduced performance-based pay systems and function-based remuneration. At the same time, over-staffing was relieved by voluntary retirement. These measures all led to a review of the lifetime employment system. The baby boomer generation was forced to accept the bitter results of the reform at a time during the period when the Japanese style management was expected to offer them the greatest benefits.

In the case of the Year 2007 problem, the vast numbers of employees concurrently reaching retirement age brings difficulties for both employers and employees. On the employer side, the situation leads to shortages of skilled labor. While Japan’s economy is finally starting to show signs of a steady recovery as a result of the corporate reforms, labor shortages are predicted as the number of young workers declines because of the plunging birthrate. On the employee side, the eligibility age for a public pension is being gradually raised and people are being forced to work to obtain income until they can receive their full pensions. As part of these trends, moves have begun toward formulating reemployment systems to utilize those who have passed the retirement age. This is resulting in a system of senior-age employment reflecting the age of eligibility for pensions.

An even bigger issue is the financial problem facing the nation. After 2010,

the baby boomer generation will become pensioners. In 2004, the “macroeconomic slide” method was introduced in recognition of the fact that employee pensions were reaching the limits of sustainability. The premiums for pensions gradually rose but an upper limit was set and a sliding scale applied to keep annual pensions in line with this. As a result, the pension replacement ratio for wage-earners’ incomes was reduced to 50%. In “Japan’s 21st Century Vision,” the social insurance benefit costs, which currently stand at 15.4% of GDP, are predicted to rise to 17.2% by 2015, and by 2020 when the baby boomers are in their 70s, are expected to reach 18.4%, climbing to 20.5% by 2030. The main reason for this is an increase in medical and nursing services. At any rate, social insurance costs are rapidly climbing along with the aging of the baby boomer generation, and a radical review of the system is required. Currently, Japan’s finances depend on substantial borrowings, and an increase in social insurance benefits for the baby boomer generation can be expected to worsen Japan’s financial situation. The government’s policy is to restore the primary balance of the nation’s finances by the early 2010s, and to implement financial reforms by the time the baby boomers draw their pensions. The aging of the baby boomer generation will require fundamental reform of Japan’s finances. **JS**

Yoshida Kazuo is a professor at the Graduate School of Economics, Kyoto University.