

Outlook for Japan's Aging Society

By *Oshio Takashi*

The Rapid Aging of Society

Japan is the fastest aging country in the developed world. The population projection for Japan issued afresh by the National Institute of Population and Social Security Research at the end of January 2002 (Figures 1 and 2) are quite shocking. The total fertility rate (TFR), which is the average number of children a woman will have in her lifetime, fell to 1.35 in 2000 and is only expected to rebound to 1.39 by 2050, according to the Institute's estimates (previous estimates issued in 1997 predicted that the figure would rebound to as high as 1.61). If these new estimates are correct, the percentage of the population that is aged 65 and older, which was 17.4% in 2000, will rise to 28.7% by 2025 and 35.7% by 2050. There are few other countries in the world that are aging at such a rapid pace. As society ages, the population is also predicted to decrease over the long term.

There are two fundamental reasons why the number of children has fallen to such a low level in Japan. The first is the nation's inadequate social structure for supporting childbearing and childrearing. The increase in the number of women pursuing a higher academic career and the rise of the female employment rate are phenomena also seen in other developed countries, increasing the opportunity costs of having and raising children. However, if there were adequate political support for childbearing and childrearing, such as a maternity leave and childcare allowance system or an improved daycare system, this would not necessarily directly result in a decrease in the birth rate. In Japan, however, it is still, unfortunately, quite difficult for couples to choose a lifestyle where they both work while raising children.

The second reason is the strong traditional view toward marriage. Later marriages as a result of women entering the workplace are a common phenom-

non in developed countries. However, one reason why the birth rate is not falling in places like Scandinavia and France is that marriage and having and raising children are kept quite distinct. In Japan, however, there is a strong sense of the desire to protect the traditional family, making children the inevitable next step following marriage. This is why late marriages are directly resulting in fewer children. This trend is also seen in countries and regions like Germany and southern Europe that, like Japan, are experiencing a falling birth rate.

Falling Potential Growth

With no ideas about how to eliminate these negative factors in a short term, the Japanese economy will see a continuous decrease in the number of children in the next several decades. Japan will have to confront major demographic pressures as a result of its aging society. The aging of society will have the following enormous impacts on the Japanese economy. First, the working population will decrease. Japan's working age population (ages 15-64) already peaked in the mid-1990s, and will decrease by about 0.9% annually over the next 50 years. This is the exact opposite of what happened after World War II, when the working age population continued to increase by about 1% annually.

Second, the pace of the accumulation of capital stock will slow down. As society ages, the savings rate, which has thus far supported the accumulation of capital stock, will decline. The life cycle hypothesis explains human economic behavior by saying that people save when they are young and then use those savings when they retire. If this hypothesis is correct, then the savings rate in the overall economy is going to decline. This is because aging will yield a relative decrease in the saving population and an increase in the popu-

lation that is withdrawing their savings. Some economists predict that in the next 20-30 years, Japan's household savings rate is going to dip into the negative numbers. If the savings rate decreases that far, it can be reasonably predicted that the pace of capital accumulation is going to be dull.

Technological progress can be looked to as a factor that has a significant impact on economic growth, but Japan's Ministry of Education, Culture, Sports, Science and Technology is inexplicably trying to slim the curricula of school education, and if things continue as they are, the pace of technological progress will invariably slow down. This suggests that all three of the factors that support economic growth – labor, capital stock and technological progress – will lose their ability to provide that support, and the increase in the potential growth capacity of the Japanese economy will therefore be much slower than in the past.

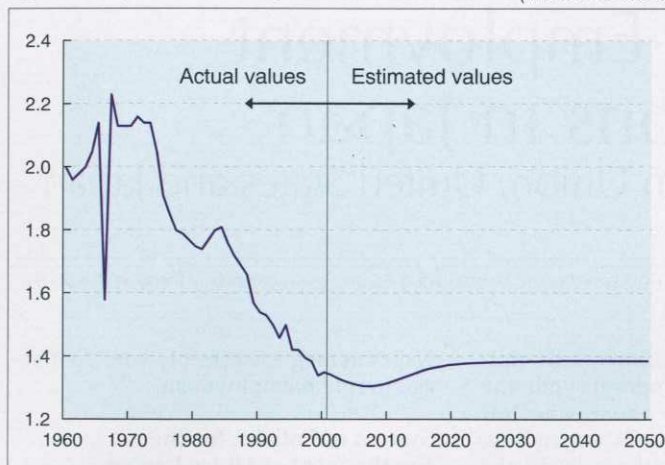
Three Policy Systems for Combating the Problems of an Aging Population

Resisting the demographic pressures of the aging society is no easy task, and requires that the Japanese government mobilize all possible policy measures. There are three fundamental policy measures the government must take;

First, to maintain the nation's potential growth capacity, the government must expand employment opportunities for older persons and women, populations whose skills have thus far not been fully exploited. It is especially important that greater employment opportunities be made available to older persons. Japan's large companies have a mandatory retirement age of 60, and reemployment opportunities beyond that point are very hard to come by. Many older persons who have both the desire and ability to work are nonetheless living off their pensions. The government needs to take steps to

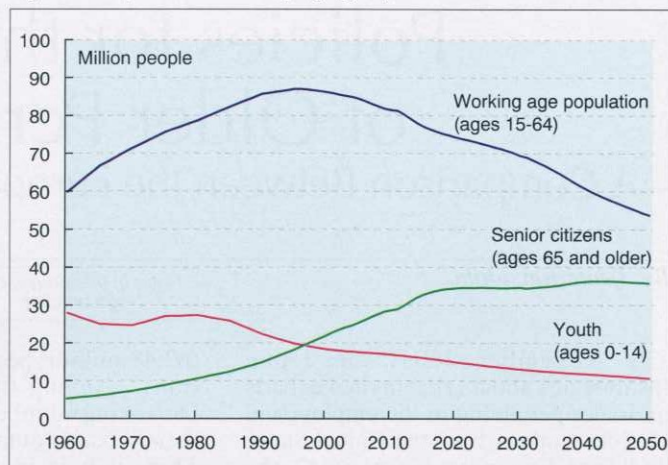
Figure 1 Japan's total fertility rate

(medium estimate)



Source: National Institute of Population and Social Security Research, "Population Projection for Japan" (January 2002)

Figure 2 Population trends by age group



Source: National Institute of Population and Social Security Research, "Population Projection for Japan" (January 2002)

lead companies to reform their seniority-based wage systems and to adopt wage assignment and hiring strategies based on capacity regardless of age.

Second, to avoid at least some of the decrease in potential productive capacity, efforts need to be taken to increase economic efficiency and improve productivity. The economic structural reforms that the Koizumi Cabinet is now proposing must be accepted as long-term growth strategies, not short-term economic packages. The government needs to improve Japan's inefficient economic structure, with its reliance on unnecessary public investment and various kinds of public regulation, and rebuild it as an economic structure that emphasizes market mechanisms.

The third and the most important governmental policy is to reform the socioeconomic system, which was established on the premise of steady population reproduction, into a system that can be sustained regardless of the overall population decreases and the rise in the senior population. A declining population and negative economic growth do not necessarily have to cause problems if people can continue to live meaningful lives and have a sense of security. However, Japan's socioeconomic system is premised on an increasing population and economic growth, making it extremely vulnerable to the problems of the aging society.

Necessary Social Security Reform

It is the third of the policies listed above that the government most urgent-

ly needs to initiate. More specifically, this means reforming the social security system.

Social security in Japan is built on a framework in which the resources for paying social security benefits to the retired generation, including public pensions, come from the working generation currently paying into the system. Maintaining this system is going to grow more difficult with the aging of society occurring at such a rapid pace. In the pension system reforms announced by the government in 2000, the benefit amounts of the *Kosei Nenkin* (Employees' Pension) to which private company employees subscribe would be reduced, and the age at which a person can start receiving pension benefits would gradually be pushed back from 60 to 65. However, since future population estimates have been revised downward even further, another reexamination of the system has become necessary.

In addition, the net pension liabilities which have no resource backing rose to ¥550 trillion at the end of fiscal 1999 (about 110% of gross domestic product), increasing the probability of a bankruptcy of the pension system. It is highly probable that these net pension liabilities will continue to swell as long as the current system is maintained. To increase the sustainability of the pension system, pension benefits need to be substantially decreased, and the government needs to end the forward-shifting of the burden to future generations as much as possible. No one will welcome a reduction in benefits, but if things stay as they are, the entire safety

net for ensuring older persons some level of income will entirely collapse.

The same kinds of problems affecting the pension system are also affecting medical care. Japan's medical system is highly regarded and offers easy access to everyone. However, the system relies heavily on the working generation to supply the resources necessary for the current services that are provided to older persons. Thus, the system's income and expenditure situation is rapidly worsening as a result of the aging of the population. Reforms are needed that reduce the excessive burden being placed on the current working generation by, for example, raising the rate that older persons must pay. Opposition from the Japan Medical Association and older persons has been strong, however, and as is the case with the pension system, no real progress has been made toward reform.

Social security reform that aims to reduce the burden on future generations is politically difficult to implement because, no matter what form it takes, it essentially asks the current generation to take on an additional burden. This makes it all the more necessary for the general public to have a correct understanding of the problems that the aging population is producing, and for leadership to be exercised by the politicians who will promote reforms. **UJI**

Oshio Takashi is an associate professor in the Faculty of Education, Tokyo Gakuzei University. He specializes in social security issues.