

# Depopulation in Japan

By Kojima Akira

It is argued that the ongoing population explosion threatens to widen the wealth gap between the North and South, cause food shortages and trigger international conflicts. Population problems, however, differ substantially from country to country and from region to region. For example, the population of Western Europe has remained static while that of Southern Europe has begun to decline. Japan is expected in several years' time to see its population drastically decrease, a phenomenon known as "depopulation."

Demographic changes will not only have a great impact on the economies of each country and the whole world but will also transform the basic political and economic frameworks of countries. Demographic differences among countries and regions will also have an impact on international politics and security relations. Such a demo-

graphic trend can be grasped if viewed calmly from a distance. But this vitally important development tends to pass unnoticed.

The importance of demography as a key factor in governing the economic and social trends of countries was raised many years ago by Peter F. Drucker, an American business economist and socio-ecologist. When I interviewed Drucker at his home in Claremont, California, for the first time in 1978, the subject was problems related to aging society. That year, the *Nihon Keizai Shimbun* took up the aging of population as an editorial theme of the year. As a New York correspondent of the newspaper, I was assigned to join in the project and interview Drucker, who two years earlier wrote *The Unseen Revolution*, which dealt with population aging.

A quarter of a century after its publi-

cation, *The Unseen Revolution*, which is very thought-provoking, remains required reading for those who discuss problems concerning the aging of society.

The interesting fact, however, is that this book had been neglected by American society for more than 10 years, as Drucker himself stated in the introduction of the new edition (the title is changed to *The Pension Fund Revolution*) "No book of mine was ever more on target than *The Pension Fund Revolution* when it was first published (under the title *The Unseen Revolution*) in 1976. And no book of mine has ever been more totally ignored. ... the book then was 'rediscovered' fifteen years later. In the late 1980s, it suddenly became 'hot.'"

Drucker argued in the book that "a major problem was going to be the support of old people; that a major health-care issue would be longevity; that pensions and social security would be central to American economy and society." But his argument fell on deaf ears. "There was only one positive review of this book. Kenneth Boulding, the distinguished economist and sociologist called me 'a foremost philosopher of American society,'" he said.

This episode seems to symbolize the fact that the population issue is initially unseen, though it is an important factor profoundly affecting economic, social and political values as well as international relations.

Paul Kennedy, an American historian and professor at Yale University who shot to fame with his book *The Rise and Fall of the Great Powers*, offered a very interesting argument on the Middle East issue from demographic viewpoints.

In a thesis carried in the May 6, 2002, issue of the *Yomiuri Shimbun*, Kennedy asked himself "Will Israel



A nurse tends to a newborn infant in the Women's and Children's Medical Care Center at Jikei University Hospital in Tokyo. The number of babies born in 2001 was down 20,000 from the previous year and the total fertility rate sagged to a postwar low of 1.33

survive?" Then he said he was not asking whether Israel would survive suicide bombings but he was "thinking of something that is more long term than the present emergency and, in its way, even more elemental" and thinking of Israel's "gradual but inexorable demographic eclipse over the next decades."

He said his head is aching when he ponders the implications of a United Nations document on population published last October, which received little notice at that time, yet it "might be one of the most significant commentaries upon the future of our world that we have before us – and certainly a lot more important than the multitude of writings about terrorism."

Kennedy's argument is reminiscent of what Drucker discussed in *The Unseen Revolution* in 1976.

The population issue develops slowly but indisputably. Its social, economic and political consequences spread in a similar way. Sooner or later, demographic changes and their consequences will become evident to everyone. But the population issue is almost unseen at the initial stage and tends to be overlooked. So, demographic changes trigger an "unseen" revolution.

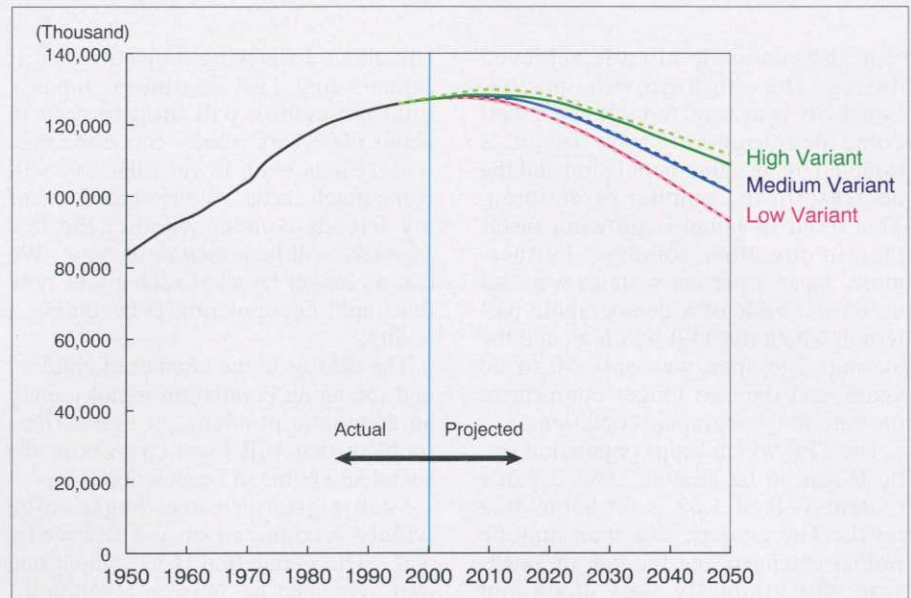
Kennedy's argument in his contribution to the *Yomiuri Shimbun* was prompted by the following points contained in the United Nations document:

1) At present, Israel's population totals about six million, of which 20% are of Arab descent. With its population growing at an annual rate of 2%, the total should rise to about 10 million in the year 2050.

2) The population of the "occupied Palestinian territory," now totaling 3.3 million, is growing almost twice as fast as Israel's. By 2050, there will be almost 12 million inhabitants in the already overcrowded Palestinian lands.

3) This total does not include the six million Palestinian refugees in other countries, who presumably will have roughly the same fertility rates as their kinsmen and thus will also double or treble in the next half-century. This means that by 2050, a total of eight million Jewish Israelis will be sitting

Figure 1 Actual and projected population of Japan, 1950-2050



Note: Dotted-lines are previous projections  
Source: National Institute of Population and Social Security Research, "Population Projections for Japan: 2001-2050," January, 2002

check by jowl with about 20 million Palestinians and a few million Israeli Arabs.

4) The rest of the Muslim world will undergo its own demographic explosion. In some Arab and Muslim countries, 45% of the population will be aged under 15.

These demographic changes will not be clearly visible in such a short period of a year or two, but will turn out to be a dramatic change in a 50-year time-frame. Kennedy's headache starts from here. He noted that there are hundreds of millions of desperate young men and boys in the Middle East and there are demographic pressures. "But to ignore the demographic boiling-over across the Middle East in favor of single-minded pursuit of eliminating (Osama) bin Ladin's terrorist cells is a really short-sighted policy," Kennedy warned. "Is there a way out of this? I simply do not know, which is why I have a headache. Does this seem too pessimistic? Right now, I am incredibly gloomy that the sheer force of demographic trends will obliterate Israel, or drive it to some desperate action.

Is there anybody out there who, after reading the (U.N.) population data, can happily come to a different conclusion?

I would like to hear from them."

Now, let us turn to the demographic difficulties in Japan.

The Ministry of Health, Labour and Welfare released in June a population report which contained shocking figures: the number of babies born in 2001 was down 20,000 from the previous year and the total fertility rate (TFR, or the average number of children born by a woman in her lifetime) sagged to a postwar low of 1.33.

The population structure is determined by three factors: the birth rate, the fatality rate of infants and average life expectancy. The declining infant mortality rate and the extension of average life expectancy have resulted in a longevity revolution in the developed countries. Japan is closest to achieving the human dream of creating a land of eternal life. Life expectancy is the average number of years that a person is expected to live from his/her present age. Life expectancy at birth is the average life span. The average life span of Japanese in 2000 was 77.6 years for men and 84.6 for women. Japan has been leading the world in average life spans since 1980. Longevity is a great achievement Japan realized after the war, perhaps greater

than the economic miracle achieved during the high-growth period. Longevity is a social miracle and a welcome development. But Japan is troubled by its aging population and the decrease in the number of children. This trend in Japan is growing faster than in any other country. Furthermore, Japan's present systems were set up on the basis of a demographic pattern in which the TFR was high and the average life span was only 50 to 60 years, and they no longer conform to the current demographic conditions.

The TFR which keeps population static is said to be around 2.08. Japan's present TFR of 1.33 is far below that level. The average life span may be further extended, but the rate of extension will gradually slow down and eventually stop, as there is a limit to the length of human life. Then, the impact of the declining TFR and fewer children will be clearly visible in the form of a decrease in the entire population. Japan's total population will likely begin to decrease sharply after hitting a peak of 127 million around 2004.

In fact, the number of Japanese aged between 15 and 64, the population of working age, has already been dropping since peaking at 87.26 million by 1995. It is projected to sag to 70.64 million by 2025, to 49.8 million by 2050 and further down to 27.76 million by 2100.

Japan's total population, meanwhile, is expected to dip to 117.48 million by 2025, fall below the 100 million mark to 92.31 million by 2050 and plunge to 50.88 million by 2100, according to a low-variant projection by the National Institute of Population and Social Security Research.

The 1992 *White Paper on the National Lifestyle* used the word "shoshika" (decline in the number of children) for the first time. Ten years later, "shoshika" and the aging population, which is inseparably linked to "shoshika," have become an important policy matter. Even the general public has begun to seriously worry about the impact of depopulation. The "unseen revolution" in Japan has surfaced and turned into a "visible revolution."

Several years ago, there was much

talk about a shocking projection that if Japan's low TFR continues, Japan's total population will drop to zero in about 600 years' time. Since the current TFR is even lower, that day will come much earlier. I once heard one of my friends wonder whether the last Japanese will be a man or woman. We can no longer laugh at such a joke now that rapid depopulation is becoming a reality.

The decline in the number of children and the aging population is not merely an economic problem. It is a serious problem that will force changes in the social and political frameworks.

Such a grim prospect began to be widely recognized only a few years ago. The population issue, which had long remained an "unseen revolution," surfaced due to the great economic stagnation or deflation that has continued to the present day since the asset-inflated bubble economy burst in the early 1990s.

The declining birth rate and the aging population were advancing in Japan faster than in any other country even before the burst of the bubble. A large number of Japanese were aware of such a trend then, but only conceptually. They didn't realize that it was really a serious problem that would affect their own future. They began to recognize the population issue as their own serious problem only after uncertainty about employment spread with the progress of the hollowing-out of the economy with an increasing number of companies transferring production bases abroad, as the economy remained mired in stagnation longer and more deeply than expected and the low-growth period seemed likely to continue in the future.

In this connection, I am again reminded of Drucker's *The Unseen Revolution*.

It is generally recognized that young people dominated U.S. society from the late 1960s through the 1970s. Against such a background, Charles Reich's *The Greening of America* (1970), which described the U.S. youth revolution, became a bestseller. In those days, Drucker's 1976 book, which

served as a warning against the aging population, did not match the trend of the times and hardly caught the attention of the reading public. Drucker was too far-sighted, proving the ancient adage that a prophet is not accepted in his birthplace.

The important policy matters that now challenge Japan, such as reform of the pension system, adjustment of employment, taxation reform, nursing care and medical care for the aged and educational reform, all boil down to the issue of a decrease in the number of children and an aging population.

The pension system is a mechanism in which the working generation takes care of the retired aging population. The declining birthrate and aging population mean that the weighting of the aged generation to be supported by the working generation increases, while that of the working generation which supports the aging population drops. In such a society, the balance of the pension accounts will rapidly deteriorate, if the benefit for each pensioner and the burden of the pension plan to be shouldered by the working generation remain as they are. As the balance is already deteriorating, the government has decided to raise the pension eligibility age in stages and is studying reductions in pension benefits and a substantial increase in pension premiums.

Policy debates on pension system reform make people more uneasy about their future livelihood and weaken their motivation for spending, which in turn prolongs the economic stagnation and puts further pressure on the pension system itself.

Senior people are getting less motivated to spend due to anxiety stemming from possible reductions in pension benefits amid the unstable employment situation. Younger people, for their part, are unsure whether they will even be able to recover what they pay in pension premiums, while worrying about the future increase in such premiums. This makes the pension system unfair between generations and both the younger generation and the aged are losing confidence in the current system.

Photo: REUTERS-SUN



The late Narita Kin (right) and Kanie Gin

As a result, senior people are becoming less motivated to spend due to their anxiety over pensions, while young people are turned off by the idea of the pension system itself.

Young people's rejection of the pension system specifically takes the form of an increase in those who default on pension premiums and those who fail to join the pension system. The rate of defaulting on national pension premiums totals some 30%, which is an extraordinarily high level. This amounts to a breakdown of the pension system.

The decline in senior people's motivation to spend has created a phenomena different from what economics generally teaches. According to economic theories, aged citizens who receive retirement allowances at the time of retirement and receive pensions after retirement will have made the best use of their savings if they spend all their money and leave little savings when they die. Economics teaches us that this is logical saving and spending behavior.

In Japan, however, the elderly are more motivated to save than spend. The late Narita Kin and Kanie Gin, the twin sisters who became popular TV personalities in the 1990s after their

100th birthday, and filed their own income tax return for the first time in their lives only after turning 100 years old, were once asked by an interviewer how they were going to spend their TV income. "We will save the money for our remaining years," they replied.

Drucker appropriately pointed out in *The Unseen Revolution* that the "demographic change makes traditional theories (classical, Marxian and Keynesian alike) and economic policies based on them obsolete." But Drucker's argument in the book that the demographic change "makes the economy permanently inflation-prone and makes 'undersaving' rather than the Keynesian 'oversaving' the endemic threat to economic stability" hardly applies to Japan.

Like Kin and Gin, the Japanese elderly have a propensity to save. More than half of Japan's individual financial assets (savings), now totaling ¥1,400 trillion, are held by those aged 65 or older.

Against such a background, there is an argument for taking measures aimed at motivating aged persons to spend their savings. The measures include revision of the inheritance tax system so as to allow them to transfer their assets to future generations while they

are still alive, not after they die, at lower tax rates than the ordinary inheritance tax. Proponents of the initiative say that transfer of purchasing power to younger generations with a high spending propensity would help expand consumption demand in macroeconomic terms. One factor behind Japanese aged persons' high saving propensity is perhaps the mandatory retirement age of 60, the lowest among the industrialized countries, which contradicts the country's current social conditions.

The mandatory retirement age was set at 55 by most companies until 10 or so years ago. The system was first introduced by the Mitsui Group some 90 years ago when the head manager of the company assured employees of employment until the age of 55. At a time when the average life span was 50 years, the retirement age of 55 amounted to an assurance of lifetime employment. Now that the average life span has been extended to 80, mandatory retirement at age 60 assures not "lifetime" employment but only "half-lifetime" employment.

As the economy remains mired in great stagnation for more than a decade, working people are increasingly concerned about their post-retirement life, which could last about 20 years. The present pension, employment and asset inheritance systems are all based on the precondition that people would only live 50 to 55 years. With the extended life span invalidating such preconditions, the current systems are becoming increasingly contradictory and the elderly are increasingly concerned about their future. JTI

*Kojima Akira is a managing director and chief editorialist of Nihon Keizai Shimbun (NIKKEI). He is a chairship professor at the Graduate School of Business & Commerce, Keio University, and is also a member of the Trilateral Commission and the Council for Gender Equality Cabinet Office.*