

INSIDE

PAUL S. HEWITT

The Gray Roots of
Japan's Crisis

page 4

JOHN CREIGHTON
CAMPBELLPopulation Aging:
Hardly Japan's Biggest
Problem

page 10

CHIKAKO USUI

Japan's Aging
Dilemma?

page 16

The Demographic Dilemma: Japan's Aging Society

ABSTRACT: Japan is the most rapidly aging country in the world: By 2005, one-fifth of the population will be aged 65 years or older. Should the demographic dilemma be termed a "crisis," or is it a manageable problem for Japanese policy makers? The three contributors to this Special Report give very different answers. According to Paul Hewitt of the Global Aging Initiative Program at the Center for Strategic and International Studies, the aging society is driving the Japanese economy toward collapse. A major economic crisis, with worldwide consequences, will be difficult to avoid, since negative trends are reinforcing each other. By contrast, John Creighton Campbell of the University of Michigan does not see aging as a major cause of Japan's current slump or a necessary obstacle to future prosperity. The gradual nature of demographic change will allow Japan to adjust, Campbell maintains. Chikako Usui of the University of Missouri at St. Louis sees increased productivity as the key to Japan's economic revitalization. By making the transition to a more efficient, information-based economy, Japan will be able to use the skills of both young and old to weather the challenges of the coming decades.

Introduction

Amy McCreedy

The Japanese enjoy the world's longest and healthiest lives. This fortunate situation, however, is also causing concern. By 2005, one-fifth of the population will be aged 65 years or older; meanwhile, fertility has dropped to 1.3 children per woman, well below replacement level. No country is aging as quickly as Japan, though many other industrialized countries are following in Japan's demographic footsteps. One fundamental concern—the main question addressed in this Special Report—is whether Japan's already feeble economy will weaken further under the burden of demographic imbalance. How important is population aging to Japan's future prosperity?

The three contributors to this Special Report, who took part in a symposium sponsored by the Woodrow Wilson Center's Asia Program on October 31, differ in their answers to this question. Besides addressing this central

issue, they also offer perspectives on other important concerns related to Japanese society, such as changing roles of women, the demise of the lifetime employment system, and the information technology revolution.

According to **Paul S. Hewitt**, director of the Global Aging Initiative Program at the Center for Strategic and International Studies, most of Japan's problems are related to or exacerbated by demographic trends. For example, the economic slump of the 1990s arose in part from a plateau in the number of workers. The labor force will shrink by an average of 0.7 percent a year between 2000 and 2025, crippling the economy further, Hewitt argues. Meanwhile, the lack of "new blood" in society will lead to protectionism and excessive caution, just at the point when Japan needs ideas and innovation to remain competitive. "Old Japan, with its old thinking and old way of doing things, is the crux of Japan's political crisis."

The lifetime employment system is one example of these "old ways," Hewitt explains. After World War II, this system provided support



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to Japanese workers, forestalling the need for a generous unemployment scheme of the type being implemented by other industrialized countries. Japanese companies did not have to slash inefficient jobs as long as they could pass on the cost to consumers; the government cooperated through protectionist policies. Since Japan joined the World Trade Organization, however, companies have faced price competition and cannot play their role of social-support providers. The second pillar of Japanese corporate culture, the seniority system, is also increasingly inefficient in that it overpays older workers. Hewitt writes that there are as many as 17 million workers “unemployed within companies”—collecting paychecks while accomplishing little of economic value. No easy solution exists. The government avoids tackling the bad-loan problem because throwing millions of workers into the street when the economy is already weak could be disastrous.

Hewitt also links the Japanese problem of underconsumption (“oversaving”) to the aging society. The Japanese government has been unable to spur consumption partly because the number of middle aged people (45–64) has grown by 42.1 percent during the past twenty years. This age group tends to save more than any other. They will become net consumers again upon entering retirement—but will not spend enough to make up for the lack of young (household-forming) adults. Hewitt points out another tendency of older people: low-risk-low-return investment in government bonds. Japan’s national debt is now 140 percent of GDP, but the

interest is only 1 percent. Cautious older savers continue to provide the government with a “costless source of borrowing,” even while international bond rating agencies such as Moody’s Investors Services have downgraded Japanese government bonds to the lowest possible grade. When this bubble bursts, Hewitt warns, the effects may be felt worldwide.

John Creighton Campbell, professor of political science at the University of Michigan, agrees that aging is a problem, but doubts that it is the dominant dilemma facing Japan in the coming decades. He points out that aging is gradual and predictable, and therefore manageable. However, to cope “without undue strain,” Japan must grow again, preferably at a rate of at least 3 percent annually. Campbell maintains that such growth is possible—aging itself will not prevent it. While Hewitt sees aging as a trap, driving down the very economic health that is necessary to mitigate its ill effects, Campbell portrays aging as a burden that can be carried reasonably easily—at least with an extra economic “umph.” Given a healthy economy, Campbell is confident that the market will spur the necessary adjustments in public policies and social institutions.

Aging is not behind the economic problems of the 90s, Campbell writes. For example, he disagrees with Hewitt and other analysts that an elderly society is necessarily less “vital.” The pattern of young managers and quite old leaders was as prevalent during Japan’s high-growth period as today, Campbell writes. He sees aging, inflexible institutions—“social arteriosclerosis”—as a major problem, but one largely unrelated to the ages of the specific individuals working within those institutions.

And underconsumption? Campbell is more optimistic than Hewitt that retirees will spend enough to make up for the lack of household-forming young adults. Since Japanese benefits are better than anywhere else in the world (except Scandinavia), Japanese have little cause to worry about the financial burdens of aging, Campbell writes. “The problem of low consumption should, if anything, be helped by population aging, although broader economic trends are more important.”

And what of rising health care costs? According to Campbell, other factors—particularly how the medical system is organized—are more important than the age of the population in determining the

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manageability of health care costs. For example, the relatively young United States spent 13 percent of GDP on health care, while Japan spent 7.8 percent. Japan, apparently, is adept at holding down costs. As for pensions, premiums will have to go up and benefits down, but “that should not cause a disaster.”

Chikako Usui, associate professor of sociology at the University of Missouri at St. Louis, does not see aging as an insurmountable dilemma either. Usui argues that older people will be less of a burden than is commonly supposed, and criticizes analysts who (in her view) are too quick to assume that anyone over 65 is an economic encumbrance. For example, why should a woman who babysits her granddaughter, thereby enabling her daughter to hold a job, be considered “non-productive”? Studies show that the flow of goods and services from older parents to adult children is much greater than vice versa, Usui points out. Moreover, “active aging” is on the rise, and Japanese people into their 70s will increasingly contribute directly to the economy.

Women, too, are capable of participating more fully than in years past and are part of the solution to a demographically driven labor shortage. According to Usui, the government should make working easier on women. For example, Japan stints on child allowance compared to most other industrialized nations, and child care is not plentiful in urban areas. Maternity leave and child-care leave are generous, but women feel pressured (or are forced, Usui maintains) to quit their jobs after giving birth. Therefore they do not end up making use of available benefits.

Women are at the center of any discussion of the aging society. One “demographic dilemma” is that if women participate more fully in the workforce (thereby staving off a labor shortage), the fewer children they will probably have (thereby worsening the problem of depopulation). Why are working women in Japan so adverse to childbearing, compared to other industrialized countries? One reason is that Japan’s work-driven corporate lifestyle makes family life difficult for both mothers and fathers.

While Usui mentions some helpful suggestions, none of the three essayists in this Special Report propose serious plans for raising fertility in Japan. They concentrate on how society is handling depopulation, rather than how (even in the long term) the decline can be reversed. In this, they are probably wise. Usui cites the stunning statistic that

only 9 percent of Japanese mothers report that they derive satisfaction from childrearing, compared to 40–70 percent in some other countries. It is unlikely that any government policy could be successful in turning around this trend any time soon.

Which brings us to productivity, which all three essayists agree is crucial to handling the problems of an aging society. Only through increasing productivity (getting more output from each individual) can Japan prevent the ill effects of a contracting labor force. One of the main reasons that Hewitt is so pessimistic about Japan’s future is that he does not believe an aging society can learn “new tricks.” That is, he argues that older people will hold back society by resisting reform; using their disproportionate clout at the ballot box to protect traditional industries; funneling public money into pensions, health care and inefficient subsidies; and discriminating against women, immigrants and youth. Campbell, on the other hand, is not so pessimistic about older people’s abilities to reform society, contribute to the economy, and improve their own performance. According to him, studies show that (at least under the right institutional conditions) older workers can be as productive and adaptable as younger ones.

Of the three essayists, Usui is the most optimistic about drastically raising productivity. She maintains that Japan is moving toward what sociologists call the “post-Fordist” economy (sometimes called the “new” economy). The stable employment pattern of the past—characterized by lock-step hiring, seniority-based promotion and “firm specific” training—will gradually vanish. The new economy will be flexible, automated, and based on information technology. Workers will have multiple careers, constantly upgrade their skills even into old age, and retire gradually. All of this will increase the “carrying capacity” (productivity) of workers of all ages. Usui compares this societal shift to the agricultural revolution of the 20th century, which drastically boosted farmers’ capacity to feed an expanding population.

Whether Japan can improve its productivity enough to meet the challenges of the coming decades remains to be seen. As the world’s most aged society, Japan has no model for how to deal with the demographic dilemma. Whether Japan founders, flourishes or just muddles through, one thing is certain—other fast-aging industrialized countries will be carefully watching.

The Gray Roots of Japan's Crisis

PAUL S. HEWITT

4

As Japan begins the “Asian Century” it had once been anointed to lead, it finds itself in the grips of mutually reinforcing social, political, economic, fiscal, and financial crises that outside observers are coming to regard with increasing alarm. Japan poses the “largest economic crisis since the 1930s,” says Ken Courtis, vice chairman of Goldman Sachs.¹ On its current course, Japan’s economy and financial system eventually will collapse, with dire consequences for global prosperity.

A variety of explanations—from deflation to bad banks to inept politicians—have been offered for Japan’s myriad problems. All are true, as far as they go. But I argue here that this sickness stems not from discrete and manageable phenomena, but rather from the more intractable challenge of aging and depopulation. Indeed, most of Japan’s economic ills either arise directly out of, or are being exacerbated by its demography.

Japan’s political culture and labor market institutions are particularly ill-suited to cope with demographic change. But Japan is not alone in having such rigidities. Hence the implications of Japan’s decline extend beyond the purely economic sphere to encompass the very structure of global economic and social organization during an era when a great many countries will be undergoing similar aging transitions.

THE “HYPER-AGING” SOCIETY

The world is aging. But Japan and all of Europe are aging so rapidly that they are on course to significantly depopulate. Their plight illustrates an important truth about global aging: it is primarily a story of declining fertility, which is reducing the share of youth in our populations. Depopulation is merely what happens when fertility rates remain below the “replacement level” of 2.1 children per woman for an extended period. Some 61 countries currently have below-replacement birthrates, according to the



United Nations. Of course, aging is also a byproduct of rising longevity—more people living to older ages—which increases the number of the old relative to other age groups. Japan stands out in both respects. With a median age of 42, Japan is the world’s oldest society, and therefore a case study for an aging world.

Japan’s demography is unique among the industrial countries. Births were especially robust in the decades leading up to World War II. In 1942, Japan was a very young society, with a median age of just 22—younger than present-day India. In the immediate postwar period, other developed countries experienced baby booms while Japan’s birthrates barely climbed above replacement. In the mid-1970s, birthrates fell below replacement and have trended downward ever since. Demographers currently estimate Japan’s birthrate to be about 1.3—less than two-thirds of replacement. To dramatize the long-term implications of this trend, the Health, Labor and Welfare ministry recently reported that, at the current birthrate, there would be just 500 Japanese left by the year 3000. This would be down from about 127 million today.

The Japanese also enjoy the world’s longest life spans. Males live to an average age of 77.8 years,

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while females survive on average to 85. The combined life expectancy of 81.5 years exceeds Western Europe's by three years and America's by four years. The fact that Japan's pre-1942 "baby boom" cohorts were the first to benefit from these gains in longevity, has created an unusually large bulge in the older age groups.

As a result of these trends, Japan has been propelled into what Makoto Atoh of Japan's National Institute of Population Research calls "hyper-aging." Currently 23 percent of Japanese are over 60, the typical age of forced retirement. This share is on course to reach 33 percent over the next 12 years. In contrast, 23 percent of Europeans and just 20 percent of Americans will be older than 60 in 2015. Assuming a significant (but so far unrecorded) slowdown in longevity gains, the United Nations estimates that Japan will reach a median age of 50 by 2025, with more than 35 percent of its population over 60.

ECONOMICS OF AGING

Over the past decade, there has emerged a robust body of literature examining the implications of population decline for labor markets, financial markets, and public sector budgets. Before looking at how demography has interacted with Japanese institutions, it is useful to review what economic theory says should be happening.

Most straightforwardly, shrinking working-age populations constrain potential growth rates. A nation's gross domestic product (GDP) is the sum of its labor force times average production per worker. In other words, countries with shrinking numbers of workers will also see GDP decline, unless productivity rises faster than the rate of labor force decline.

Labor force growth added about 1 percent a year to Japan's GDP during 1970 to 1990. The number of workers stopped growing during the 1990s, depriving the economy of an important source of stimulus. This decade, it began to shrink at an accelerating rate. The Organization for Economic Cooperation and Development estimates that Japan's labor force will decline by an average of 0.7 percent a year between 2000 and 2025, and 0.9 percent a year between 2025 and 2050.² Demography therefore promises to exert an increasing drag on Japan's GDP going forward. By late next decade, productivity—a notoriously erratic measure—will

have to grow at roughly two-thirds its trend rate in order to bring economic growth up to zero. Recessions—let's call them aging recessions—will become a regular occurrence.

A second body of analysis concerns the impacts of aging on the financial economy. Because financial outcomes involve the interplay of savings, investment demand, productivity, profits, currency values, and international capital movements, the conclusions here are much more speculative. Nevertheless, it is possible to make a few observations.

First, aging and depopulation tend to depress consumption—which accounts for about two-thirds of GDP in Japan—and therefore profits and investment demand. Depopulation means fewer consumers. Stagnating or shrinking demand, in turn, translates into fewer profitable investment opportunities. Explains Deutsche Bank Chief Economist Norbert Walter, "Enterprises operating in stagnating or even shrinking sales markets run a higher rate of misplaced investment."³

Changes in the age structure of Japan's population may also be playing a role in the current slump. The life cycle theory of economics suggests that people save little during their early working years, when they are forming households. In middle-age, they save heavily for retirement. Then, in retirement, they become net consumers again when they spend down their savings. Societies with a growing share of their population in middle-age will therefore tend to see more saving and less consumption.

According to this theory, however, savings will decline as more and more of the population enters retirement. Might this provide a stimulus to consumption? Probably not. Transfer payments enable the elderly to save from pension income. Meanwhile, regardless of whether or not the elderly save, they consume less than working people. A rising number of elderly households will tend to weaken consumer demand.

All of these demographic factors were at play in Japan over the last two decades. After growing by 18 percent during 1970-1990, the population stabilized

CHANGE IN AGE GROUP SIZE IN JAPAN

Age group	1980-2000	2000-2020
25-44	-7.3%	-15.6%
45-64	42.1%	-5.9%
65 +	107.9%	60.8%

in the mid-1990s. Meanwhile, as shown above, during 1980–2000, the number of Japanese in their household forming years (ages 25–44) declined by 7 percent, even as the retirement-saving population (45–64) surged by a stunning 42 percent. The effect of these three trends was to leave Japan with stagnant numbers of thrifter consumers.

A third area of analysis suggests that a sluggish economy combined with surging populations of dependent retirees will lead to fiscal crisis. A sharp rise in the number of pensioners has pushed up pension and health spending. According to some estimates, the excess of social security outlays over contributions already accounts for almost a quarter of the 2002 budget deficit of 8.6 percent of GDP. The Ministry of Health, Labor and Welfare, meanwhile, estimates that age-related spending will grow by 2.5 percent of GDP by 2010, and 10 percent by 2025.⁴

Meanwhile, flagging corporate profits have caused tax revenues to consistently come in under estimates. Receipts have fallen from 27.4 percent of GDP in 1990 to 22.9 percent in 2002. To the extent that aging was behind the collapsing consumption and profits of the 1990s, it has been a factor on both the revenue and expenditure sides of Japan's fiscal crisis.

In a recent analysis developed for Mitsubishi Corporation, Shigeru Nakahira suggests that consumption tax will need to double to 20 percent by 2010 in order to put Japan's budget back on a sustainable path. However, students of Japan will remember that the abortive consumption tax of 1996 was widely blamed for depressing demand and plunging the economy back into recession. Even these large tax increases would not close the existing budget deficit, let alone pay for the still-to-be absorbed cost of bailing out banks, pension funds, and insurance companies. This is why economists believe it is essential to remove the structural roadblocks to economic growth.

TOO JAPANESE TO FAIL

The foregoing discussion suggests that aging and slowing population growth have weakened Japan's growth rate, depressed tax revenues, and accelerated public spending over the past 12 years. But other questions remain. How has demography contributed to the flagging competitiveness of the

Japanese corporate sector? And what does it have to do with problems facing the banking system? Here we turn to the impact of aging on Japan's unique social institutions.

The great lesson of the first half of the 20th century was that large populations of unemployed young men were the dry tinder for revolution and war. Turn-of-the-century population explosions in Japan and Europe led to massive unemployment. Marxism mobilized these suffering masses around demands for abolition of private property. And in both regions, the post-feudal power structures responded through programs of military conscription and territorial expansion. Germany justified its invasion of Czechoslovakia in the name of acquiring *Lebensraum* ("living space"). Japan's seizure of Manchuria was likewise driven, at least in part, by population pressures. In the wake of World War II, every industrial country sought to calm these furies by creating social systems whose principal purpose was to minimize unemployment.

Retirement systems, for example, were widely advocated as mechanisms to remove the old from the workforce in order to make room for the (potentially violent) young. But while other industrial countries were creating generous unemployment schemes to absorb their surplus youth, Japan created the "lifetime employment system." Under this system, companies, not government, provide social support to workers. A combination of mutually supportive employer practices, commercial regulation, and labor and trade law emphasized the creation and preservation of jobs—even inefficient ones. Anyone who has been waited on by five attendants at a Japanese gas station has witnessed an example of this philosophy in action.

In return for performing these non-economic services, companies needed a mechanism for passing the cost on to consumers. The government cooperated by strictly limiting competition in the domestic market. Japan's very high prices are a legacy of this collusion. According to the Ministry of Finance, in 1991 consumer prices were 60 percent higher than they would have been in a perfectly competitive market. Yet this system began to unwind when Japan joined the World Trade Organization in the 1990s. A gradual opening of markets to international producers led to growing price competition—led, in large part, by Japanese firms that were moving manufac-



turing to China. Deflation, in turn, undermined the profits of local producers stuck with high lifetime employment costs.

Domestic producers were also hobbled by another Japanese labor market institution: an especially strong seniority system. Under the seniority system, younger workers are underpaid relative to their marginal product, while older workers are overpaid. This system leads to a number of perversities—among them, mandatory retirement at age 60 and young people who are too poorly paid to start families. But it also has made domestic producers vulnerable to the aging of their workforces. As the average age of the Japanese worker rose during the 1990s, more and more employers lost money.

But simply letting money-losing companies go out of business was unthinkable. After all, employers have social obligations that are normally carried out by governments in other countries. Preserving Japan's unique social contract meant that companies could not be permitted to fail. And in the unique institution of the *keiretsu*, or manufacturing group, the stronger members—particularly banks—have a social obligation to help the weaker ones. Thus did massive losses at the cash register brought about by the unwinding of the lifetime employment and seniority systems back up onto the balance sheets of banks. All of this happened, moreover, with implicit government support.

According to some estimates, by 2000 there were an estimated 17 million workers “unemployed within companies.”⁵ If this is true, a very large share of the workforce is collecting paychecks while doing nothing much of value. Correcting Japan's legendary bad loan problem would release millions into the unemployment system, wrecking consumer demand and sending the economy into a full fledged depression. Policy makers rightly fear that the very medicine needed to make Japanese companies and banks competitive again would kill the patient.

THE THIRD BUBBLE

Given the dangers of this complicated crisis, the government's desire for a light touch on the problem of bad bank loans is perhaps understandable. But what is the alternative? Japan's economy has become “addicted” to its structural deficit of 8-9 percent of GDP. Unless this problem is solved, says one panel

report, Japan will be “bankrupt” by 2010. During the early 1990s, the folly of Italy's excessive deficits was quickly exposed by risk premiums that briefly pushed debt service costs above 13 percent of GDP. But in 2002, Japan's debt service amounted to a paltry 1.4 percent of GDP on a significantly larger debt. This new “bond bubble”—reflected in falling risk-weighted returns on government securities—poses a danger to the global economy.

As we have seen, the life cycle theory holds that people save more as they near retirement. They also tend to prefer low-risk-low-return classes of assets. Into this safe-but-unexciting category typically fall government bonds. Burned by the bursting of the real estate and stock market bubbles, and with few other profitable places to invest, aging savers have been plunging their money into government bonds

Most of Japan's economic ills either arise directly out of, or are being exacerbated by its demography.

in record amounts. Cheap money from aging savers, in turn, has provided the government with an essentially costless source of borrowing. By the end of fiscal 2002, Japan's official national debt totaled 140 percent of GDP. Yet the interest on this debt averaged just over 1 percent. Off-balance-sheet borrowing hides the extent of this binge. The Postal Savings System funneled a tenth of household financial wealth to the Ministry of Finance while paying almost no interest at all.

Yet Japan government bonds (JGBs) are no longer regarded as risk-free by the international bond rating agencies. Moody's Investors Services has downgraded JGBs to the lowest possible investment grade. In theory, as the public debt rises to ever more dizzying heights, interest rates ought to be rising as well. The fact that they haven't signals a collapse of risk-weighted returns—and the emergence of yet another financial bubble. Should the bubble burst—and Japan be forced to refinance its debt at higher rates—default is a grim possibility.

Consider a scenario where Japan achieves its stated monetary objective of re-inflating, causing a significant increase in nominal interest rates. Were

Japan to pay the same rate on its long term debt as other leading countries, debt service would cost an additional 6–7 percent of GDP. If inflation were to surge, of course, this number could go much higher. Significantly, a large and growing share of Japanese debt is short-term. Japan has so far escaped the costs of its profligacy because the Japanese people are willing to accept below market returns. But this can't go on forever. If Japan were forced to borrow on the international markets, the risk premiums already inherent in recent credit downgrades could easily compound this problem, putting public finances on a very slippery slope. On the eve of Argentina's default, the spread over U.S. Treasury yields soared from 20 to 60 percent almost overnight.

A financial collapse and depression in Japan would pose a grave danger to other industrial economies on the brink of hyper-aging themselves. According to Goldman Sachs, on- and off-balance sheet claims on the household, corporate, and government sectors in Japan are about \$30 trillion, versus \$19 trillion in the United States.⁶ A financial

will come exclusively from productivity gains. Yet many of the characteristics of older people militate against such a pursuit.

As Japan's experience illustrates, older workers have older skills and congregate in older industries. They are less prone to take risks, start a business, or change locations. They use their disproportionate clout at the ballot box to protect old industries from competition. They support politicians who promise to public money for pensions, health care, and subsidies for old-economy activities, such as farming or tatami-mat making. They are more prone to indulge their prejudices against immigrants, women, and youth. Old Japan, with its old thinking and old way of doing things, is the crux of Japan's political crisis.

To succeed in the era of global aging, aging societies will have to go against trend. They must invest in volatile, but high-return equities, instead of "safe", but low-return government bonds. For only by specializing in new technology, and getting more productivity from capital, will aging societies be able to keep national incomes from falling. They must embrace globalization, both by outsourcing labor-intensive work and bringing in the best foreign talent to fill key labor bottlenecks. They will also have to invest more abroad, where markets are growing. And they must shift social resources toward reinvigorating the middle-aged in order to prepare them for second careers. Above all, successful aging societies will learn how to re-set the life clock. The behaviors and attitudes of youth will need to be extended later into life. In the process, social contracts geared for younger societies—with their focus on maximizing employment at the expense of efficiency—must be dismantled.

The restructuring of aging societies constitutes a social project of historic proportions, one that must be accomplished in a very short time. Alas, in hyper-aging Japan, the time for gradual adjustment already may be past. The old order is rapidly falling of its own weight.

ENDNOTES

1. Benjamin Fulford, "The Panic Spreads," *Forbes*, February 18, 2002, 1. See: http://www.forbes.com/global/2002/0218/022_print.html.

2. Dave Turner, Claude Giorno, Ann De Serres, Ann Vourc'h, and Pete Richardson, "The Macroeconomic

The restructuring of aging societies constitutes a social project of historic proportions, one that must be accomplished in a very short time.

collapse would almost certainly shock the fast-aging European Union, whose slow growth and rising pension costs already are eroding budget discipline under the Growth and Stability Pact. Japan is a principal export market for China and the United States. Should import demand collapse, economic weakness and deflation will follow in these two engines of global growth. The collapse of Thailand's bond market precipitated a chain-reaction that eliminated \$300 billion in global output in a year. With an economy 42 times larger than Thailand's, Japan's potential for contagion would be orders of magnitude greater.

CAN AGING SOCIETIES RESTRUCTURE?

Japan has little alternative but to restructure in a relentless pursuit of efficiency. In the future, growth



conomic Implications of Ageing in a Global Context” (Economics Department Working Papers, No. 193, OECD, Paris, 1998), Table 3, 47.

3. Norbert Walter, “Is Slow Growth Conducive to Rising Productivity?,” paper presented at the Third Plenary of the Commission on Global Aging, Tokyo, Japan, August 28, 2001, <http://www.csis.org/gai/tokyo/agenda.htm>.

4. Ministry of Finance, FY2002 budget, http://www.mof.go.jp/english/budget/pamphlet/cjfc_o.htm

5. Noboru Hatakeyama, paper presented at the Third Plenary of the Commission on Global Aging, Zurich, Switzerland, January 23, 2001, citing a study, “Report on Aging, Low Birthrates and the Japanese Economy,” by the Japan Policy Research Institute. This figure includes the agricultural sector.

6. Fulford, “The Panic Spreads,” 1.

Population Aging: Hardly Japan's Biggest Problem

JOHN CREIGHTON CAMPBELL

Japan's problems these days are many and severe. Japanese and American pundits often mention the fact that Japan has the most rapidly aging population in the world, and see that as a major cause of current difficulties and the dominant dilemma for the future. In my view, both contentions are incorrect. The economic doldrums today are not because of aging. For the future, aging brings various problems, but generally they are manageable if—admittedly a big if—the government, corporations, and consumers of Japan can somehow pick themselves up. Actually, with regard to aging problems per se, in some ways Japan has a leg up on the United States.

FOUR PHASES OF WORRIES ABOUT AGING

Japanese have been concerned, or maybe obsessed, about aging since the end of the immediate postwar period. That is, once the severe problems of poverty and unemployment were dealt with, people occupied with social policy started worrying about aging. I published a book on policy toward the elderly about ten years ago, in which I argued that this concern had gone through three phases, and Japan was then entering a fourth.¹

To summarize these phases briefly, the first phase involved anxiety about whether workers would have enough money when they got old. It was dealt with when the pension system was extended to cover everyone in 1959.

Concern then focused on the people who were already old. They had been left behind economically when the working population got so rich during the rapid growth period. That problem was dealt with during the first “old people boom” in the early 1970s, which saw a more than doubling of pension benefits for current recipients, initiation of “free” medical care for the elderly, and an expansion of services.

The third phase was in a way a reaction to the first two policy changes, and was called the “aging



society problem” or the *koureika shakai mondai*. The issue: can society as a whole afford all these benefits without wrecking the economy? In the late 1970s and early 1980s, there was an attempt by conservative politicians—Prime Ministers Fukuda, Ohira, and Nakasone most prominent—to go backwards to what came to be called the “Japanese-style welfare society” (*nihongata fukushi shakai*). Part of the worldwide neoconservative mood of the time, this notion was that old people and others needing help should be taken care of by individuals, families, companies, and communities (especially families, which is to say women) rather than by expansions of a western-style bureaucratic welfare state.

It is not widely recognized that this attempt to roll back the welfare state did not really succeed. However, the aging-society concern was dealt with to some extent through several incremental reforms, including more realistic levels of pension benefits for the distant future, and small restrictions plus a new financing system for old-age medical care. Such reforms did slow the rate of growth of social spending. There were also new efforts to raise the retirement age (*teinen*) in large companies and to create

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employment opportunities for older people, partly with an eye to the economic implications of population aging.

The fourth concern was for a specific group among the elderly, the people who are too frail to live independently (in all nations this runs 8–12 percent of the population 65 or older, depending on how narrowly one defines frailty). This concern was dealt with in the last policy change I described in my book, the “Gold Plan” of 1989, which called for a major expansion of government programs for frail elders, including institutional care, home helpers, day care, and so forth. The Gold Plan was so successful that it ran into financial and administrative problems, which were decisively dealt with by the mandatory, public Long Term Care Insurance program (Kaigo Hoken), which was passed in 1997 and went into effect in 2000.

Note the term used above was that the government “dealt with” these four problems. Certainly none of them were solved once and for all. That would be impossible—all are profound and continuing problems for any society. In particular, the third problem of the economic implications of population aging continues to worry many Japanese.

This brisk tour through the history of Japanese aging policy (in my book it takes over 400 pages) is obviously oversimplified. Oversimplifying still more, that same template can be applied to American aging policy. We dealt with the first problem, retirement income security for workers, with the Social Security Act and its postwar expansions. We dealt with the second, the problems of people now old, with Medicare (and in a small way with the Older Americans Act) in 1965. We got to the third phase, worrying about the impact of aging on the whole society and economy, in the 1990s—a bit behind the Japanese, but that is logical since we weren’t aging as quickly. (Americans have yet to face up to the fourth problem, what to do about frail and dependent older people, except for the inadvertent and inadequate solution of using Medicaid for most nursing home coverage).

THE “GRAY DAWN” VIEW

Of course, the third concern about aging—that it would severely impact the economy—is the topic of this Special Report. In the United States a focal

point was the book published by Peter G. Peterson in 1999 called *Gray Dawn: How the Coming Age Wave Will Transform America—And the World*.² The book’s first sentence refers to global aging as a “massive iceberg” looming ahead:

Visible above the waterline are the unprecedented growth in the number of elderly and the unprecedented decline in the number of youth over the next several decades. Lurking beneath the waves, and not yet widely understood, are the wringing economic and social costs that will accompany this demographic transformation—costs that threaten to bankrupt even the greatest of powers, the United States included, unless they take action in time.

Peterson, who is a leading investment banker, continues that “Those who are most aware of the implications of this extraordinary demographic shift will best be able to prepare themselves for it, and even profit from the many opportunities it will leave in its wake.”

Here in no particular order are some of the key points that are often made in the “Gray Dawn” argument by Peterson and others. They pertain to both the United States and Japan, although more seriously for the latter due to its more rapid demographic change. The aging of the population will bring:

- Skyrocketing medical costs, because old people use so much more medical care, leading to impossibly high premium burdens for younger people, or else giant fiscal deficits.
- Expanding public pension outlays—also leading to either high premiums or big deficits.
- More generally, a growing “dependence ratio” of older consumers to younger workers, resulting in an ever-deteriorating economy.
- Low economic output due to a serious labor shortage.
- In the classic argument at least, a drop in the savings rate—fewer younger people to save, more old people to use up their savings—leading to lower investment.
- A loss of vitality, along with lower energy devoted to work and perhaps an inability to reform.

All this should take Japan (and eventually the United States) into a severe long-term recession, or even a depression.

NOT SO BIG A DEAL

Incidentally, since the 1990s were a decade of rapid aging in Japan, and certainly also a decade of recession, one might conclude that one caused the other. In my view that is not the case. Japan's economic problems have been severe since 1990, but the main cause was not aging; it was some combination of economic structural problems, poor economic policy, and bad luck.³ Economic success or failure in the future will also depend more on such factors than on aging. Here is why:

Health care costs

Older people use three to four times more medical care than younger people, so it stands to reason that the more old people, the higher the costs. But in fact, differences in the age of the population among nations does not predict health care spending at all. For example, in 2000 Japan spent 7.8 percent of GDP on health care and the United States 13 percent, although 17.2 percent of the Japanese population was 65 and older, compared to 12.3 percent in the U.S.⁴ Other factors—particularly, how the medical system is organized—are far more important.

the young United States, not old Japan, and it is not because of aging.

Public pensions

Japanese pensions have serious problems, particularly in the system for non-employees (Kokumin Nenkin), where many younger enrollees are not paying their premiums. Company-sponsored private pensions are also in bad shape due to terrible returns on investment. However, the great bulk of Japanese workers will get most of their retirement income from the public pension system for employees (Kousei Nenkin), which is reasonably sound. It is true that premiums will have to go up and benefits trimmed a bit (hikes in the pensionable age are already scheduled). That should not cause a disaster. About a year ago, the OECD released a report on pension outlays in nine member countries.⁶ It said that Japan is fairly low on pension outlays compared with European countries right now, at 7.9 percent of GDP in 2000. Based on existing legislation including recent reforms, these are estimated to rise to 8.5 percent of GDP in 2050. Incidentally, the US figure was 4.4 percent in 2000 going up to 6.2 percent in 2050. Neither prediction could be called alarming.

Dependence ratios

Beyond the question of pension finance is the broader question of how a declining number of younger workers will support a growing number of retired elderly. After all, at any point in time, some people will be working for a living and consuming, and some people will just be consuming. Whether retirement income is based on private savings or public pensions, and whether the pension program is pay-as-you-go or funded, the amount of stuff produced by the working population must be divided up somehow between workers and those not working. This "dependence ratio" is not only a question of retired people: in most industrialized countries including Japan and the United States, the number of children, adolescents not in school, and non-working housewives has dropped more than the number of non-working elderly has increased, so the "dependence ratio" has actually improved. It will certainly deteriorate in the future, but the trend line is considerably more moderate—and the prospects less frightening—when the ratio of workers to non-

The generation of people now in their sixties and even seventies is drastically different from our traditional image of "honorable elders"—far more active and innovative.

The same is true for the annual growth of health care spending in a given country. In the United States spending rose by 10 to 12 percent in the past year. About one-half of one percentage point of that was due to aging. The rest was due to other factors, such as technology advances, the popularity of new drugs, the increased market power of hospitals, and so on. Aging is more rapid in Japan, and so the direct effect is somewhat larger, but none the less the growth of health care spending has been averaging only 1-4 percent a year for quite a few years. The key point is that Japan is very good at controlling other cost factors.⁵ The economic burden of ever-growing medical spending is a serious problem for



workers is considered (rather than the more common approach of looking at the ratio of older people to the “working-age” population).⁷

In at least one respect, Japan has a substantial advantage over other nations. Observers are often misled by the point that most company employees are forced to retire at age 60, and miss the fact that most find other jobs, on their own or with the assistance of company and government programs. In 1999, the average age of withdrawal from the labor force was 68.5 for men and 64.7 for women, substantially higher than the average for the nine countries surveyed by the OECD, which was 62.3 and 61.1 years old.⁸ This practice is well established in Japan, and if the economy improves the number of older people finding jobs will increase substantially.

That means that a substantial proportion of Japanese older people will be producing and consuming rather than just consuming. The comparison with the United States is interesting. In both countries, about 30 percent of the household income of people aged 65 and older comes from public pensions and other social transfers, but in Japan over 60 percent of income is from employment, compared with about 30 percent in the United States. For Americans, the rest of income comes from savings or private pensions. In terms of the real economy, of course, those funds (along with public pensions) allow them to purchase stuff without producing.

Labor force

Having more older people working means the drop in the labor force in Japan will not be as severe as implied by simple age-dependency ratios. Moreover, the entire population will get smaller, so that not as much total production will be needed to maintain standards of living. Still, younger people will have to produce more. Along with women's employment, average production per worker, or labor productivity, will have to increase. What are the prospects?

The export-oriented manufacturing sector notwithstanding, average labor productivity in Japan is low relative to other advanced nations.⁹ That is due to many historical and structural factors, such as so-called “permanent employment” and the protection of many backward sectors from foreign and indeed domestic competition. The effect is large numbers of underemployed people. Of course, today there are also many unemployed people—a clear

indication that labor shortages due to aging did not in any sense cause the 1990s recession.

When Japanese productivity was going up rapidly in the high-growth era, the main cause was a dramatic shift in the structure of the labor force from very low-productivity jobs (notably farming) to high-productivity jobs in the manufacturing and modern service sector. Current restructuring efforts by the government and private companies are aimed at once again closing that “productivity gap” with other nations—the fact that this gap is so wide makes it easier to improve productivity than in some other countries. If these efforts succeed, the amount of stuff produced by workers would go up substantially even though the number of workers may well decline.

Incidentally, if the economy picks up, labor shortages will certainly develop (as during the 1980s boom), but they will largely be in the categories of jobs that few Japanese want at the lower levels of manufacturing and services. Despite the many worries about Japanese insularity, there is little reason to doubt that much of this demand can be met through increased immigration, as has happened in most industrial countries and indeed in Japan a decade ago.

The point again is that population aging is not the most important factor. The size and productivity of the future labor force will be more heavily influenced by other factors, in particular by the success or failure of reform, and by the kinds of fundamental structural changes in industry discussed by Chikako Usui in her paper included in this Special Report.

Savings

For years, writers on the economic impact of population aging have argued that the savings rate will go down, presumably inhibiting investment.¹⁰ The logic is clear: there will be fewer people in the age bracket that save, and more old people who are consuming their savings. Obviously that was not a cause of the troubles in the 1990s, since *oversaving* (which is the same as underconsumption) was and is the problem. One cause of oversaving is the bulge in the pre-retirement age group that saves at the highest rate, as Paul Hewitt points out in his essay in this Special Report. But as the proportion of that age group declines relative to the elderly (see his table on page 5) that effect will dissipate.

Japanese households have saved at a high rate throughout the postwar period. That was a plus in the high-growth period, when it supported massive industrial investment, and has been a minus since because consumer demand has been anemic. It is commonly argued that years ago people saved mainly because they worried about aging—particularly about low pension benefits and high medical or caregiving costs should they become physically or mentally disabled. This reason no longer holds (indeed, fears of unemployment have come to the fore). Japanese pension benefits are pretty good for current employees once they retire (well above American Social Security), and full medical care is available with low out-of-pocket costs. Moreover, the mandatory, public, Long-Term-Care Insurance program that started in 2000 provides ample institutional or home-based care as an entitlement for all disabled people aged 65 and older.¹¹ Compared with the citizens of virtually every other industrialized nation outside of Scandinavia, Japanese have the least cause to worry about the financial burdens of aging. Thus, they should save less and consume more—if and when fears of unemployment die down. The problem of low consumption should, if anything, be *helped* by population aging, although broader economic trends are more important.

A key point about the aging “crisis” is that it is a very gradual crisis

Vitality

Finally, is there something inherent in population aging that makes a society less productive, less flexible, less able to change? That is certainly a common belief, although I know of no solid evidence for the proposition. At the individual level, many studies have shown that older workers can be just as productive and adaptable as younger workers, although fulfilling that potential may require institutional changes.¹² At the societal level, it could be argued that America’s relatively youthful population in the 1990s was a source of its dynamism and economic growth compared to Europe and Japan, but most would see population age per se as a minor factor compared to other aspects of the economic system

(and perhaps that observation about the U.S. is not as compelling in 2002). For Japan, one might well see aging and inflexible *institutions* as an important cause of the inability to fix its economic woes. “Social arteriosclerosis” might be an apt term. But that is not directly related to the age of the people staffing those institutions. Indeed, the pattern of young managers (due to the early retirement ages in companies and public organizations) and quite old top leaders was just as true in Japan’s dynamic high-growth period as it is today.

As for having so many older people around, the past decade has been an era of rapid social change in Japan, for everyone except middle-aged men. The generation of people now in their sixties and even seventies is drastically different from our traditional image of *otoshiyori* (“honorable elders”)—far more active and innovative, in or out of the workplace. If Japan finally perks up, they will be right out in front.

CONCLUSION

Taking all these points together, would I argue that population aging is not a problem, for Japan or for the United States? No. Aging is a problem, one that will require adjustments in public policies and social institutions, and that will bring inevitable market adjustments as well. Incidentally, although I am a strong believer in positive social policy (e.g., I would certainly like to see the American government do something intelligent about long-term care), I have a high regard for the ability of markets—particularly the consumer and labor markets, even in Japan—to adapt to changes in supply and demand efficiently and fairly rapidly.

A key point about the aging “crisis” is that it is a rather gradual crisis. Even at Japan’s current “hyper-aging” pace, the percentage of people 65 or older in the population is going up “only” at a rate of 0.51 percentage points a year over twenty years, at quite a steady pace. The drop in the putative working age population (15–64) is a touch slower at 0.40 percentage points a year, also at a steady pace.¹³ In my view, this is a pace of change that can be managed without undue strain—if the economy grows at a decent rate through that period.

What is a decent rate? Unfortunately, I know of no estimate of the annual incremental cost of population aging, and the calculation would require more



assumptions than I care to make. At the one extreme, it is clear that if there is no growth, aging (and indeed other economic and political needs) would be very difficult to manage. At what might be the other extreme, say a 3 percent real annual growth of GDP, my guess is that the costs of population aging could be covered without much strain on other problems. That rate has been accomplished by many countries for extended periods.

As to how much (or whether) the Japanese economy will grow over the next 20 years: that is a much debated issue in which my opinion would be of little value. Clearly the answer will depend on the interplay of quite a few economic factors. It is my contention that population aging may be one of these, on the margin, but it will be far from the most important.

ENDNOTES

1. John Creighton Campbell, *How Policies Change: The Japanese Government and the Aging Society* (Princeton, NJ: Princeton University Press, 1992).
2. Peter G. Peterson, *Gray Dawn: How the Coming Age Wave Will Transform America—And the World*, (New York: Random House, 1999).
3. My own view is that policy mistakes have been the main problem. For support see Kenneth N. Kuttner and Adam Simon Posen, “The Great Recession: Lessons for Macro-economic Policy from Japan,” *Brookings Papers on Economic Activity*, no. 2 (2001), 93–185.
4. The difference in per capita spending, purchasing power parity, was \$2012 to \$4631. OECD Health Data 2002, 4th ed., downloaded 11/11/02 at <http://www.oecd.org/EN/document/0,,EN-document-684-5-no-1-29041-684,00.html>, Tables 9, 10, 20.
5. For how that works see my book with Naoki Ikegami, *The Art of Balance in Health Policy: Maintaining Japan's Low-Cost, Egalitarian System* (New York: Cambridge University Press, 1998).
6. “Ageing and Income: Financial Resources and Retirement” in *9 OECD Countries* (Paris: OECD, 2001), 68, Table 4-1.
7. For explanations and data, see two works by James H. Shulz, *The Economics of Aging*, 5th ed. (Westport, CN: Auburn House, 2001), and James H. Shulz, Allan Borowski, and William Crown with the assistance of Shinya Hoshino, *The Economics of Population Aging: The “Graying” of Japan, Australia, and the United States* (New York: Auburn House, 1991).
8. *Ageing and Income*, 82, Table 5-1.
9. The most appropriate measure is GDP/hours worked, and the most recent good estimates of total hours worked I know of are for 1998. GDP/hour was then \$37.07 in the United States compared with \$22.04 in Japan (in 1990 “international dollars”). Calculated from Angus Maddison, *The World Economy: A Millennial Perspective* (Paris: OECD, 2001), 348 and App. B.
10. For a review of the argument and some data, see Schulz, *Economics of Aging*.
11. For the latter program, see my articles with Naoki Ikegami, “Long-Term-Care Insurance Comes to Japan,” *Health Affairs* 19, no. 3 (May-June, 2000): 26–39, and “Japan’s Radical Reform of Long-Term Care.” *Journal of Social Policy and Administration*, forthcoming in 37, no. 1 (February 2003).
12. Cf. William A. Jackson, *The Political Economy of Population Aging* (Cheltenham, UK: Edgar Eldar, 1999), 98–100.
13. Calculated from National Institute of Population and Social Security Research, *Population Projection for Japan: 2001–2050*, Table 1: Projected future population and proportion by age group, 2000–2050: medium variant. This is based on the 2000 Census and is the most authoritative estimate available. The period measured here is 2000–2019. See <http://www.ipss.go.jp/English/ppfj02/top.html>.

Japan's Aging Dilemma?

CHIKAKO USUI

Discussions of the “aging dilemma” in Japan usually center on future demographic changes based on static assumptions of dubious application. My thesis is that the issue of population aging has been incorrectly framed, and should be viewed in the larger context of the entire economy and government policy. That is, if the economy is robust and social policy is on target, a graying Japan is not necessarily an impending social problem. By making a swift transition to a post-Fordist economy, Japan will be able to successfully cope with the consequences of population aging. This transition requires policy adjustment and coordination to reorient labor, welfare, family, and educational institutions.

RAPID POPULATION AGING

The Japanese population is projected to peak at 127.7 million in 2005, thereafter declining to 105 million in 2050. Meanwhile, the proportion aged 65 and above is expected to rise from 17.1 percent in 2000 to 26.7 percent in 2025, making Japan one of the “oldest” industrialized nations (see Table 1). Women are at the center of Japan’s so-called “aging dilemma.” The trends of depopulation and aging are driven by women’s reproductive choices, and will be further intensified if fertility continues to decline.

The “aged dependency ratio”—the number of actively working people divided by the number of “aged dependents”—is a common measure for gauging the burden of an aging society. In 2000 in Japan, there were 3.9 active workers supporting each person 65 years or older. By 2010, there will be fewer than three workers, and by 2025 the figure is predicted to drop to two active workers for every “aged dependent” member (see Table 2).

The frequently cited “aged dependency ratio” is actually based on doubtful assumptions. For example, the productivity and consumption patterns of different age groups are based on past patterns and



assumed static. On average, people of working age (15–64) are considered to produce more and consume more than those 65 and over. In addition, policymakers often focus exclusively on the denominator in the aged dependency ratio, and look for ways to reduce the burden of “aged dependents.” The aged population is viewed in isolation and given no possibility of contributing to society.

In contrast, I make a different set of assumptions. First, demographics are an intrinsic part of social organization. Historically, demographic patterns have been altered by political, economic, and technological changes in society. Second, I focus on both the numerator and denominator of the aged dependency ratio, because expansion of the *carrying capacity* of either age group will decrease the level of dependency for the same proportion of elderly. Third, productivity and consumption (of people of any age) are more variable and dynamic than presently supposed. The size of the “burden” that the aged dependents pose is based on assumptions of social organization and life cycle that characterized the Fordist economy of the 20th century. In the 21st century, industrialized countries are shifting to a



post-Fordist economy with new levels of *productive capacity*. Any discussion of the aging society must take this into account.¹

SHIFT FROM A FORDIST TO A POST-FORDIST ECONOMY

Is population aging a “dilemma”? The answer depends on economic conditions and the carrying capacity (productivity) of active workers—that is, on the economy’s capacity to support its members. In this regard, the transition from a Fordist to a post-Fordist economy is critical, along with labor, social welfare, family, and education policies that support such a transition.

Sociologists use the “Fordist” and “post-Fordist” distinction to discuss the transformation of modern economies. (Sometimes the terms “old economy” and “new economy” are employed in similar fashion.) “Fordist” refers to an innovative industrial organization system associated with the Ford Motor Company of the early 20th century.² Essentially, a Fordist economy is based on mass production and mass consumption, with products having relatively long life cycles. Worker skills, once acquired, also have relatively long life cycles; the productivity levels of workers remain relatively static throughout their working lives. The auto, steel, and rubber industries are good examples of the leading sectors in this type of industrial economy. Workers in these sectors receive relatively high wages and enjoy employment stability. “Retirement” is a socially created category to manage the work force of a Fordist economy.

A post-Fordist economy is quite different. It is more oriented to the application of information technology. The economy is geared to the flexible production of selective goods and the consumption of variety of goods. Goods and services have relatively short production life cycles, requiring continual innovation. Workers must adjust to the flexible production system by constantly upgrading their skills and seeking multiple careers over their lifetimes. The payoff for an educational investment does not last for a lifetime; new career junctures require additional training. The computer software, telecommunications, and information-based service industries represent the leading sectors of this type of economy.

The so-called “aging dilemma” is appropriately

viewed only in the context of this transition from a Fordist to a post-Fordist economy. As production and consumption patterns are altered, the assumptions of the aged dependency ratio are no longer valid. The transformation is analogous to the shift in how many farmers it takes to feed a population.³ At the turn of the 20th century, more than one-third of the American labor force (37.6 percent) was required to supply the food necessary to feed the nation.⁴ However, innovations in farm technology, improvements in crop yields, resistance to disease and pests, and better organization have geometrically increased the capacity of farmers to support the population. Today, the agricultural sector comprises less than 2 percent of the American labor force. The unneeded workers found jobs in the expanding manufacturing and service sectors.

The manufacturing sector has similarly used technology to raise productivity. Today, even service industries are increasingly mechanized and automated. Analogously, future boosts in worker productivity will support ever-increasing numbers of “dependents” in a post-Fordist economy. It is not the ratio of working to dependent individuals but rather the economy’s output that largely determines whether an aging population becomes a problem.⁵

Second, the older population is in a position to consume more than is currently assumed. Quality of life becomes an important goal in the post-Fordist economy, creating new demand for more selective goods and services in health care, housing, telecommunications, and other service industries. For example, in the Sunbelt of the United States, the “mailbox economy” is the economic engine. The migration of retirees into the area not only saved the local economy but also contributed to the growth of the service

TABLE 1: DISTRIBUTION OF AGE GROUPS, AND AGED DEPENDENCY RATIO, JAPAN

Age	2000	2010	2015	2025
0 - 14	14.6%	13.4%	12.8%	11.6%
15 - 64	68.1%	64.1%	61.2%	59.7%
65+	17.4%	22.5%	26.0%	28.7%
(15-64)/(65+)	3.92	2.84	2.36	2.06

Source: National Institute of Population and Social Security Research (2002), www.ipss.go.jp. The author calculated the aged dependency ratio.

TABLE 2. PEOPLE OVER AGE 65

(Percentage of total population)

	1985	1995	2000	2005	2025	2050
Japan	10.3	14.6	17.1	19.2	26.7	31.8
Italy	12.7	16.8	18.2	22.6	26.1	34.9
Germany	14.5	15.0	16.4	17.8	23.4	28.4
Sweden	17.9	17.6	17.2	17.6	22.5	27.0
France	12.5	15.0	15.9	16.7	21.7	25.5
U.K.	15.1	15.9	16.0	16.4	21.2	24.9
United States	11.8	12.5	12.5	12.6	18.8	21.7

Source: United Nations, *Replacement Migration* (New York: United Nations, 2001), 8, Table 2 and 112-143, Appendix. Projections for 2005, 2025 and 2050 are based on the UN's medium-variant projections. For Sweden, two additional sources were used: United Nations, *The Sex and Age Distribution of World Population* (1998); and Council of Europe, *Social Cohesion and Quality of Life* (2001).

and housing industries.⁶

Japan's future hinges on whether growth industries will emerge and raise economic productivity and whether labor-market fluidity will accommodate these new industries. Japan's dilemma has more to do with restructuring the economy and institutions to raise economic productivity than how to maintain the current aged dependency ratio.⁷

In the Fordist economy, education followed by a stable, lifelong job characterized a typical male worker's adulthood. In the post-Fordist economy, workers will be more differentiated in terms of their skills, sequential careers, mixing of part- and full-time work, and gradual retirement (as opposed to complete, one-step retirement). The traditional male career patterns of the Fordist economy will be "feminized," with more chaotic career transitions throughout life. In other words, a life cycle in which adulthood is supported by a stable employment and old age begins with retirement, will be replaced with intermittent employment, continuous educational training, and gradual retirement. Life cycle transitions will be blurred and more irregular.

As Japan moves to the post-Fordist economy to boost its carrying capacity, it needs to overcome several major challenges. One is labor-market rigidity. The corporate employment system, characterized by lock-step hiring and seniority-based promotion, neither uses skilled workers efficiently nor encourages their flow to more productive industries. Corporate job training and the education system are geared to support lifelong careers. Skills acquired through in-house training are "firm specific" and

not portable on the job market. Lateral movement between large firms is almost impossible. By contrast, the new post-Fordist economy requires flexibility and mobility. Corporations may engage in more mid-career and contractual hiring, snapping up talent for short-term projects to supplement a small number of core workers.

The government, in addition to corporations, will have to adjust. It needs to facilitate the creation of start-up companies with appropriate provision of capital and changes in the bankruptcy laws. The government should also encourage work sharing, the creation of new part-time and subcontractual positions, and the improvement of work conditions with new technology.

In meeting these challenges, Japanese society has several strengths. First, the population is healthy, and it benefits from a good national health-care program. There is potential for increased *active aging*, which changes the consumption and production patterns of people 65 and above (as assumed in the denominator of the aged dependency ratio). According to the World Health Organization, Japan is the world's healthiest nation; the typical Japanese person lives free from disability until age 75. This fact is often overlooked in dire predictions of Japan's future. Older people are a vital resource to society, as volunteers, care givers, grandparents (providers of child care), and consumers. On the open market, these services would have a significant economic value. In addition, studies on intergenerational exchange have repeatedly shown that the flow of goods and services from older parents to adult chil-



dren is much greater than vice versa. Considering future advancements in health and medical technology, longer lives will not necessarily aggravate old-age dependency. It is more likely that increasingly healthy older persons will raise the social and economic output of the society.

Japanese people will tend toward “active aging” not just because they enjoy good health, but because they do not view leisure-based retirement as an entitlement. That is, they do not expect to completely take it easy at the end of a long career, partly because Japan’s public pension programs are relatively new (introduced in the 1960s) and partly because continuing as a productive member of society is seen as virtuous. Thus, leaders in Japan can more feasibly implement policies for encouraging active aging compared to other countries where generations of people have looked to retirement as “pre-paid leisure.”

Japanese policymakers have begun to address labor market rigidity with legislation designed to support labor mobility. Portable corporate pensions (the Japanese version of 401K) were introduced in 2001. Similarly, new accounting regulations will bring Japanese accounting standards in line with international standards. These changes will make joint ventures with foreign firms more practical and facilitate mid-level hiring. In addition, more transparent accounting standards will raise the ratings of corporate bonds, making it easier for Japanese firms to raise capital.

Japan has an untapped supply of labor that will help the country cope with its demographic changes: middle-aged and older females. As previously mentioned, a post-Fordist economy is oriented toward services, and job requirements tend to be “feminized.” Will the new jobs require high skills and training? In Sweden, the service industry is highly skilled, but in the United States it is dominated by low-skilled, low-wage jobs. Given Japan’s reluctance to admit immigrants, it may be necessary to keep the wage scale attractive to female workers in this sector.

WOMEN, WORK, AND DECLINING FERTILITY

Women occupy a critical position in discussion of the aging population of Japan. First, increased participation in the labor force of women aged 15-64

would raise the numerator in the dependency ratio. Growing numbers of unmarried or divorced women have contributed to increases in female employment rates.⁸ In order to raise productivity of female workers, Japan should facilitate female labor mobility and make childrearing easier for women, along with encouraging change in corporate employment policies and practices. As of now, Japanese policies (both government and corporate) are from the Fordist economy and are geared to protect traditional families consisting of male breadwinners and dependent housewives and children. These policies provide more income support for stay-at-home wives than for women who work full-time while raising children.⁹

The second reason that women are central to the issue of population aging is that women’s postponement of marriage is what is driving Japan’s demographic change. More educated than in years past, young women have found new opportunities for enrichment and tend to remain single much longer. Thus they have directly contributed to declining fertility, even though the age-specific fertility rate among married women is unchanged. Women aspire to more than marriage and family, which are increasingly seen as burdens rather than sources of satisfaction.¹⁰

*Japan is the world’s healthiest nation . . .
Increasingly healthy older persons will
raise the social and economic output of
society.*

The significance of marriage has declined since the mid-1980s. Premarital sexual activity is tolerated, eroding the benefit of marriage and changing the nature of gender negotiation in the marriage market. In the Japanese system, the wife of the eldest son is expected to care for aging parents. Thus, marrying eldest sons incurs a higher opportunity cost for women. In addition, as the gender gap in university education narrows, women want to marry men who are at least as well educated as they are. Yet, university-educated men still prefer to marry women who are somewhat less educated than they are. All these factors constrict the pool of desirable men and encourage women to postpone marriage.

The high costs of raising children create yet another pressure to postpone marriage. Japan, Italy, and Spain rank lowest in the provision of child allowance among industrially advanced countries.¹¹ In Japan, the benefits are \$500 per child per year for the first two children from age 0 to 6 (age 0–3 until 2000) and \$1,000 for each additional child.¹² High costs of housing and education are additional burdens on young couples. The competitive nature of Japan's education system involves emotional costs as well as sacrifices of time and money. The burdens of a work-driven corporate lifestyle hinder men from participating in childrearing.

Although Japan's government policies for maternity leave and child care leave are generous,¹³ actual use of these benefits is limited. For example, in 1998 56 percent of working women who gave birth (and only 4 percent of all women who gave birth) took maternity leave. Between 1995 and 1997, only 8 percent of women who gave birth took advantage of the Child Care Leave (which provides relief until a child reaches the age of one).¹⁴ Women who give birth tend to leave their employment; thus it may seem natural that they should lose such benefits. Yet, some corporations force women to retire upon marriage or pregnancy.¹⁵ In addition, women who are not "regular" workers (such as part-time, contractual, dispatched, or temporary workers) are excluded from

The experiences of other countries such as Sweden and Canada indicate that women's desire to seek employment need not lower fertility. It is telling that Japanese women with children aged 0–14 who report that they derive satisfaction from child rearing has dropped to 9 percent. The figure has remained as high as 40–70 percent in other countries.¹⁷

In short, policies that were developed during the Fordist economy are not meeting the needs of changing families. Such policies worked well in the era of rapid economic growth, improving living standards while assuring secure income and the stability of family life. Today, however, the existing social institutions are out of sync with women's new productive roles in the post-Fordist economy.

CONCLUSION

The so-called "aging dilemma" should not be viewed in isolation but in the context of economic, political and social institutions. An aging population is a problem when the economy is weak and the policies uncoordinated. Japan's dilemma has mainly to do with restructuring the economy and institutions to raise carrying capacity in a post-Fordist economy. This transition requires policy adjustment and coordination in employment, family, and educational institutions. Instead of creating psychological anxiety over a graying Japan, the government should restore public confidence by re-conceptualizing the relationship between the changing economy, social policy, and demographic aging.

ENDNOTES

1. Chikako Usui, "The Misplaced Problems of Aging Society: Crisis or Opportunity?," *International House of Japan Bulletin* 21, no. 1 (spring, 2001): 42–55. Also published in Japanese as "Koreikashakai o meguru gokai," *Kokusai Bunka Kaikan Kiahō* 12, no. 1: 54–65.


2. David Jaffee, *Organization Theory* (New York: McGraw Hill, 2001). John Myles, "States, Labor Markets, and Life Cycles," in *Beyond the Marketplace: Rethinking Economy and Society*, ed. R. Friedland and A. F. Robertson (New York: Aldine de Gruyter, 1990), 71–298.

Existing social institutions are out of sync with women's new productive roles.

such benefits. For example, one in three employed women are part-time workers, but nearly 20 percent of these are "quasi part-time workers," meaning they (in effect) work full time. The employer's policy of "sound fiscal rationale" classifies these women as non-regular workers.¹⁶ Moreover, while Japan provides high-quality childcare that is equitably distributed to families of different income levels, there is an acute shortage of childcare facilities in urban areas. Many families must rely on private childcare, which is more expensive than government-certified facilities. The idea of childcare organized by neighbors is still foreign, leaving grandparents and in-laws as the only sources of informal childcare.



3. Myles, 282.
4. Ramona L. Ford, *Work, Organization, and Power* (Needham Heights, MA: Allyn & Bacon, 1988), 40.
5. James H. Schulz, Alan Borowski, and William H. Crown, *Economics of Population Aging: The "Graying" of Australia, Japan, and the United States* (New York: Auburn House, 1991).
6. Robert C. Atchley, *Social Forces and Aging*, 9th ed. (Belmont, CA: Wadsworth, 2000), 468.
7. According to Schulz, continuous 2-3 percent economic growth rates is the key to sustaining a robust economy. See Schulz, *Economics of Aging* (New York: Auburn House James, 1995).
8. Some demographers estimate that by 2010, close to 20 percent of men and 8 percent of women aged 45-49 will be unmarried. See David E. Horlacher, "Aging in Japan: Causes and Consequences -- Part I: Demographic Issues," Interim Report, IR-01-008, rev. and exp (Laxenburg, Austria: International Institute for Applied Systems Analysis, August 2002), www.iiasa.ac.at, Figure 12, 14.
9. The Japanese national income tax deduction for dependent spouse and children, introduced in 1961, provides more income support if the wife stays home or works only part time. There are four main categories of tax deductions: basic allowance, spousal allowance, special spousal allowance, and allowance for dependents (children and elderly parents). Each of these deductions is worth \$3,167 (380,000 yen), or \$4,417 if a child is aged 16 to 22. Thus, a traditional family consisting of a male wage earner with a non-working wife and two children can write \$12,667 off their income. For more information, see Hiroyuki Takahashi, "Prospects for Personal Income Tax Reform in Japan." *Japan Economic Institute Report*, no. 24 (June 26, 1998), www.jei.org/Archive/JEIR98/9824f.html. However, if the wife earns more than about \$8,000 (about 1 million yen) of her own income, the family loses the deduction for the wife. See Kaku Sechiyama, "Shifting Family Support from Wives to Children," *Japan Echo* 28, no. 1 (2001): 35-42. Moreover, national old age pension and health insurance premiums are configured in a way so that the wife does not pay any premium as long as her own earnings not exceed about \$10,833 (1.3 million yen). The National Long-term Care Insurance introduced for the elderly in 2000 makes the same special treatment of the dependent wife. These treatments encourage married women to stay as housewives or to work only part time.
10. As Horlacher ("Aging in Japan," 46) puts it well, "to a great extent, the decision by a Japanese woman to marry is equivalent to a decision to move from full-time employment to part-time employment, either immediately or after the birth of her first child." Also, the corporate practice of moving workers to different geographic locations increases the likelihood that married women will quit their jobs when their husbands are relocated. In addition, unlike in the United States where parents expect their adult children to leave home as soon as they are able, many young men and women in Japan live with their parents until they marry. Parents welcome the company of adult children (especially daughters), and adult children enjoy the free room and board their parents provide. It increases the discretionary income of a young single worker, improves the single life style, and reduces the need for young women to rush into marriage for financial reasons.
11. Sechiyama, 41.
12. Single parent households (separated or divorced parents) receive \$4,237 per year (42,370 yen per month) for the first child, \$500 per year (5,000 yen per month) for the second child, and \$300 per year (3,000 yen per month) for each additional child. See Ministry of Health and Welfare, *White Paper on Health and Welfare* (Tokyo: Government Printing Office, 2002), www.fpcj.jp/e/shiryo/pocket/security/security.html.
13. The Japanese maternity benefits are provided for 14 weeks with 60 percent of wages paid during the leave. The provision is made by the National Health Insurance. In addition, Japan enacted the Child Care Leave Law in 1992 allowing a male or female parent for leave from work until a child reaches the age of one. The leave paid 40 percent of wages in 2001 (increased from 25 percent in 1995, which was up from mere non-paid leave in 1992). See Nagase,



“Balancing Work and Family in Japan: Inertia and a Need for Change,” *Issues for the 21st Century: Think Social Harmony* (Canada-Japan Social Policy Symposium, 2001), 18.

14. Nagase, 12.

15. The Equal Employment Opportunity Law (EEOL), legislated in 1985, stipulates that employers not discriminate against women in job training, fringe benefits, mandatory retirement age, resignation, and dismissal. Also, the law “requests” that employers do their best not to discriminate against women in recruiting and hiring, job assignment, and promotion. The EEOL does not sanction employers who violate the law, because compliance with the law is voluntary, not mandatory. The Ministry of Health, Labor, and Welfare administratively guides companies in upholding the law. In addition, the receipt of maternity benefits and childcare leave requires the employer’s consent, making it difficult for women to take them. Employers of small firms are often excused from honoring these benefits to women.

16. Corporate practices such as lifetime employment and seniority-based promotion, which were developed in the Fordist economy, have shaped women’s roles to complement their husbands’ careers. After leaving the labor force for child rearing, women return to work in middle age as non-regular full- or part-time workers to support their families. Forty-seven percent of the female labor force were non-regular workers in 1999. Wages of female non-regular workers corresponded to 60 percent of those of regular workers in 1998. See Nagase, 15.

17. Horlacher, 56.



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