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**THE IMPACT OF POPULATION DECLINE AND POPULATION  
AGING IN JAPAN FROM THE PERSPECTIVES  
OF SOCIAL AND LABOR POLICY \***

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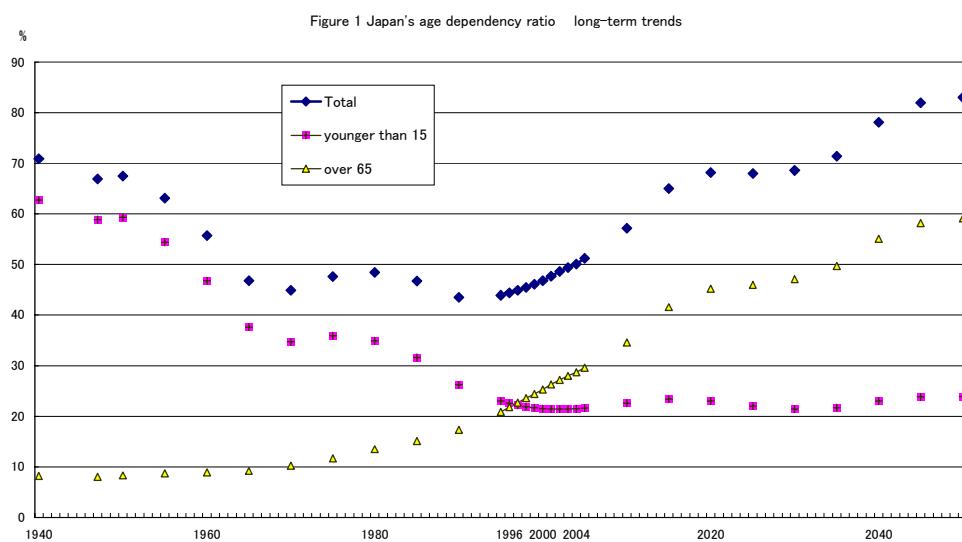
# The Impact of Population Decline and Population Aging in Japan from the Perspectives of Social and Labor Policy

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## A . The Impacts of Population Decline and Population Aging in Japan -Domestic Discussions-

The socio-economic consequence of population aging and declining fertility has been a change in the role of “those who support” and “those who are supported.” This is illustrated by the change in the dependency ratio of the working-age population to the retired-age population (the population of those aged 15 to 64 divided by the population of those aged 65 or older). The dependency ratio was relatively high before World War II, but began to decline after the war and reached its lowest point (43.5) in 1990. Then the ratio began to increase again and has continued to do so up until the present day. Before 1990, the ratio increased as a result of the decreasing child population (those under the age of 15); however, after 1990, it was due to the increasing elderly population (those above the age of 65) (see **Figure 1: Japan's age dependency ratio--long-term trends--**). In 1950, shortly after the war, the ratio was recorded as 67.5. Population projections estimate that the ratio will reach the same level again between 2015 and 2020. Although the ratio is the same between two periods, the social phenomena are quite different. These differences--that the vast majority of ‘those who are being supported’ have become elderly and that the number of ‘those who support’ is no longer increasing but decreasing--are the key issues of domestic discussions. Important issues to be discussed are the socio-economic consequences of the declining working-age population and how to cope with the changes by reforming social schemes.



Source: Statistica Bureau, Management and Coordination Agency, Population Census of Japan, Various Years (1940–1996)  
Population Estimates in 1997 by National Institute of Population and Social Security Research (1997–2050)

### 1. Various Projections for Declining Labor Participation Rates in Japan

Projections for labor participation rates have been reported both by the government and a private think-tank. The major results are collected in **Table 1: Japan's labor participation rate: present status and various projections**. At present, Japan's labor participation rate is 62.9%, based on the average between male and female labor participation rates for 1999. However, the labor participation rate for men and women should be analyzed separately due to the great differences in their characteristics. Therefore, separate data is examined in the following sections.

**Table 1 Japan's labor participation rate present status and various projections**

	1999	2025		
men&women	(1)	(2)	(3)	(4)
total (15-)	62.9	59.1	58.5	60.2
15-19	17.7	17.8	18.8	
20-24	72.7	74.1	75.1	
25-29	83	85.2	84.4	69.9
30-34	77.3	81.6	78.7	
35-39	79.8	82.9	81.7	
40-44	83.8	86.7	85.4	
45-49	84.7	87.2	86.4	87.2
50-54	82.4	85.2	84.2	
55-59	76.3	79.8	78.6	
60-64	56.3	71.3	65.3	
65-	23.4	21.4	22.5	14.1
men				
total (15-)	76.9	71.4	72.1	70.5
15-19	18.5	20	20.6	19.6
20-24	72.8	75.8	76.4	77.2
25-29	95.6	96.3	96.6	99.4
30-34	97.5	97.6	98	99.7
35-39	97.7	97.9	98.1	98.5
40-44	97.7	97.9	98.1	98.7
45-49	97.5	97.6	97.9	98.6
50-54	97.1	96.8	97.9	98.6
55-59	94.7	93.3	94.8	95.7
60-64	74.1	82.4	83.4	95.4
65-	32.5	31	31.9	21.3
women				
total (15-)	49.6	47.7	45.9	50.6
15-19	16.8	15.4	17	18.6
20-24	72.4	72.2	73.6	77
25-29	69.7	73.4	71.6	
30-34	56.7	65	58.4	83.7
35-39	61.5	67.3	64.5	
40-44	69.5	75	72.1	83.2
45-49	71.8	76.5	74.4	89.7
50-54	67.9	73.4	70.8	68.4
55-59	58.7	66.5	62.6	44.2
60-64	39.7	60.7	47.9	23.7
65-	14.9	14.4	15.6	8.8

#### source of data

- (1) Statistics Bureau Management and Coordination Agency, Government of Japan,  
Annual Report on the Labour Force Survey 1999
- (2) Study group of Labour Policy June 1999
- (3) White paper on Labour 2000, Ministry of Labour
- (4) Japan Center for Economic Research , A New Start for Japan's Economy 2000

Government projections reported by the Study Group on Labor Policy in June 1999 estimate that, by 2025, the labor participation rate of men will decline to 71.4% (compared to the present 76.9%) and that of women will decline to 47.7 % (compared to the present 49.6%). A private think-tank (Japan Center for Economic Research) estimates a further decline in the male participation rate to 70.5%. On the other hand, they estimate that the female participation rate will increase above the present rate to 50.6%. Both institutions used the population projections of the National Institute of Population and Social Security Research presented in January 1997; therefore, the different results were due to the different socio-economic conditions they projected for 2025. The economic growth rate and the supply and demand conditions of Japan's labor market were predicted differently. The government projection is based on conditions of average future annual economic growth of 2% and an unemployment rate of 4.2% by 2025, whereas the private think-tank projection set the annual economic growth rate as 1.7% and the unemployment rate as 5.3%. Also, the image of Japan's future industrial structure and goals of social measures for dealing with a society that is aging and declining in fertility are not the same in the two projections. The assumption that IT (Information Technology) and globalization will play major roles in Japan's future industrial structural change was shared by both projections. But the image of goals regarding elderly (aged 60 to 65) participation in the labor force and women's participation in the labor force during their child-rearing years are different. The government projections are somewhat optimistic about the extension of retirement age to 65. On the other hand, the private think-tank's projections are more optimistic regarding women's participation in the labor force during child-rearing periods. On the whole, both projections show that, in the future, overall labor participation rates will decrease but the lifetime female labor participation rate will increase.

### *1. Macro-economic Impacts of Aging and Declining Fertility Rates*

The impact of the declining labor participation rate is a major concern amongst Japanese people. Both government organizations and private groups have expressed concern about possible negative effects to Japan's future economic growth and a loss of vitality in Japanese society. However, concerns have abated in the past few years due to the fact that the so-called "IT revolution" is taking place in Japanese industry and productivity has improved dramatically. The Ministry of Labor presented their rather optimistic views of the future in the White Paper on Labor 2000, published in June 2000. They refer to a study among OECD countries which has found that people make efforts to improve labor-saving technology in order to cope with declines in the growth rate of labor participation. The report states: "In recent years, IT has become a powerful measure for future economic development in Japanese society and it is being actively promoted by various organizations both in the public and private sectors. We expect that further active investments in IT markets will contribute greatly to technological developments." The paper then presented optimistic projections for Japan's economic growth rate by quoting a report from the Industrial Structure Council: "Approximately 2% annual economic growth is quite a realistic goal if people keep investing in research and development of IT under the projection of declining in labor participation and slowing down the rate of increase in accumulation of capital compared with increasing rate of GDP." The

previously mentioned private think-tank also presented their long-term economic forecast that the annual increase of net GDP between 2015 and 2025 will be approximately 1.8%. But concerns remain about the impact of an aging society on Japan's future. Various socio-economic measures are being proposed and implemented under the slogan of "A Vigorous Aging Society in the 21<sup>st</sup> Century."

### *1. Japan's Labor Policy Concerning Aging and Declining Fertility Rates*

Even if the optimistic views presented above become true, shortage of labor will remain a major concern. An imbalance between labor supply and labor demand, called "labor market mismatching," will most likely occur in the future. For instance, imbalanced labor supply and demand amongst first, second and third industries negatively affect the labor market for new graduates. And we all know the fact that the present low fertility rate will cause the population to begin decreasing in 2008.

#### *a. Foreign Immigrant Workers*

In the late 1980s, the labor shortage in the manufacturing industry became an apparent problem for Japanese society. An amendment to Japanese immigration law in 1990 allowed immigrant workers of Japanese descent from South America to work in Japan. In the 1990s, a new on-the-job training scheme for foreign workers was implemented and a number of workers from Asia began working in Japan. The introduction of foreign immigrant workers has been hotly debated in Japan. Various interest groups, such as enterprises and trade unions, hold different opinions, and, since the war, the Japanese government has had rather strict regulations concerning foreign immigrant workers.

The debate on foreign immigrant workers became extremely active in 1999 when opposing proposals were presented by two governmental organizations. First, the Economic Strategy Council, an advisory group to then-Prime Minister Obuchi, submitted a report entitled "Strategies for Reviving the Japanese Economy" in February 1999, where they proposed the introduction of foreign immigrant workers. The report stated, "Furthermore, a necessary legal framework will be positively discussed to accommodate foreign workers, including extension of permit of stay for skilled trainees. Third, considering measures taken in other countries to cope with the declining number of births and increases in foreign immigrants and the nationality laws need to be reviewed."<sup>1</sup>

An advisory group for the Ministry of Labor also submitted a report, entitled "Projection of Supply and Demand in Japan's Labor Force." This report also emphasized the importance of investigating the accommodation of foreign immigrant workers in specialized and technical fields, but cautioned against the introduction of unskilled foreign workers. Their position against the introduction of foreign workers is as follows: "It is not an agreeable or appropriate measure to introduce immigrant workers as a solution to the labor shortage in a society that is aging and declining in fertility. We must be aware of its massive socio-economic effects."<sup>2</sup>

We must understand the background of such debate. 1999 was the year before long-term care insurance was implemented in Japan. A number of new businesses were making preparations to offer care services, and people were concerned about a possible

shortage of care workers. However, when the long-term care insurance scheme was introduced in April 2000, a shortage of care workers did not occur due to an overestimation in demands for care services. Today, the debate on foreign immigrant workers continues to be discussed vigorously. However, there is a national consensus on the exclusion of low-skilled labor. The government has been promoting certified skilled workers in the long-term care field. Care workers are not considered to be unskilled. It may be too early to discuss the possibility of introducing foreign workers into the welfare field due to the fact that communication ability in Japanese and training are essential.

*b. Employment of the Elderly*

Up until very recently, Japan maintained one of the lowest unemployment rates among OECD countries. People were generally not very interested in unemployment issues. However, the employment and unemployment of the elderly have been always been important issues, even in those days, because they are closely related to the issue of public pension reform.

In 1985, major public pension reforms were implemented, which established the present two-tiered public pension structure.<sup>3</sup> Since that time, pension administrative officials and scholars have discussed extending the pensionable age from 60 to 65, based on financial forecasts for public pension schemes in an aging society. A law for stabilizing and promoting elderly employment opportunities was approved in the Diet almost unanimously in 1986. In June 1990, the law was amended to include security and promotion of employment opportunities for those in their early 60s. In 1994, a gradual raising of the pensionable age for the first tier to 65 was approved in the Diet, and in April 2000, the most recent pension reform act was approved, which raised the second tier of pensionable age to 65 between 2013 and 2025. (The relationship between public pension schemes and labor policy will be discussed in B1 in the following section.)

The high labor force participation rate among Japanese elderly is well known (see **Figure 2: Labor participation rate of elderly (65 years old and over) 1998**). In 1998, the labor participation rate among Japanese elderly age 65 and over was 35.9%, far higher than that of other OECD countries. The labor participation rate is usually affected by industrial structures--if there is a relatively high rate of self-employment, then the elderly labor participation rate tends to be high. However, this is not the case in Japan. The level of retirement age is another factor that raises the elderly labor participation rate. In 1999, over 99% of companies who facilitate retirement set the retirement age at 60 (see **Figure 3: Mandatory retirement age transitions of private companies in Japan**). Therefore, retirement age does not affect the aged over 65. The high rate of labor participation by the elderly is not a recent phenomenon in Japan. It was once very high, but has been gradually declining (see **Figure 4: Trends in labor participation rate among Japanese elderly**).

A study involving Japan and four other countries illustrated the relatively enthusiastic attitude of Japanese elderly toward working. The study asked elderly individuals aged 60 and over who were currently engaged in paid employment, "Do you want to continue paid employment in the future?" 89.4 % of Japanese respondents answered yes, compared with 90% of U.S. respondents, 82.8% of Thai respondents, 79.9% of Korean respondents, and 69.4% of German respondents. These results do not

indicate that Japanese elderly are particularly enthusiastic to work compared with other nationalities. The following question to the same group concerned the reasons for working. The largest number of people of every nationality answered "Because of the income," However, in the U.S. and Germany, most people chose as their second reason "Because I enjoy working," but in Japan and Korea, people choose "Because working is good for my health" as the second reason.

It is not easy to analyze the reason for the high labor participation rate among Japanese elderly. Various empirical studies have indicated the strong correlation between income level and labor participation (see **Figure 5: Elderly people in labor force (according to bracket of pension benefits)**). The group of elderly individuals between the ages of 65 and 69 are the most likely pension beneficiaries. Among men, those receiving smaller pension benefits have a higher tendency to work. Another study proves the correlation between health and labor participation.<sup>4</sup> I conducted such a study with a colleague and found that health conditions are a strong determining factor in employment (Kimura and Katsumata 2000).

Figure 2 Labor participation rate of elderly (65 years old and over) 1998

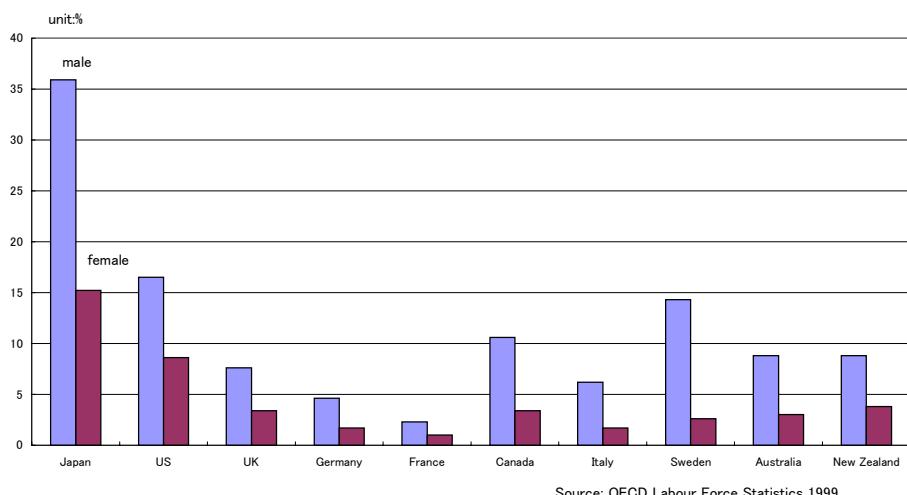
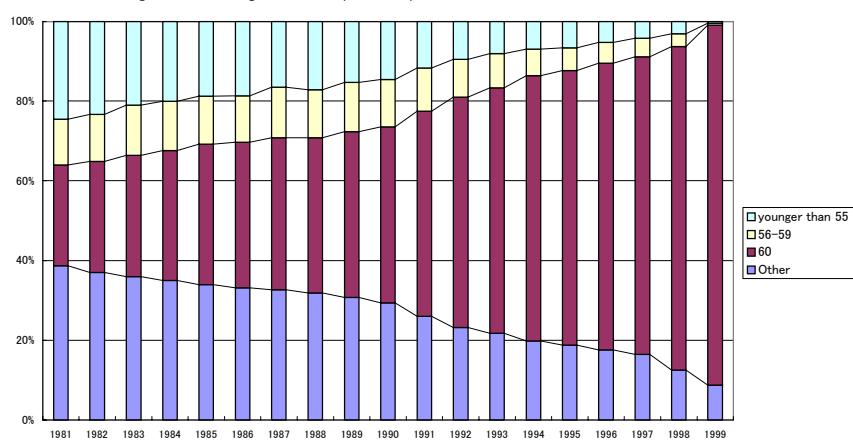
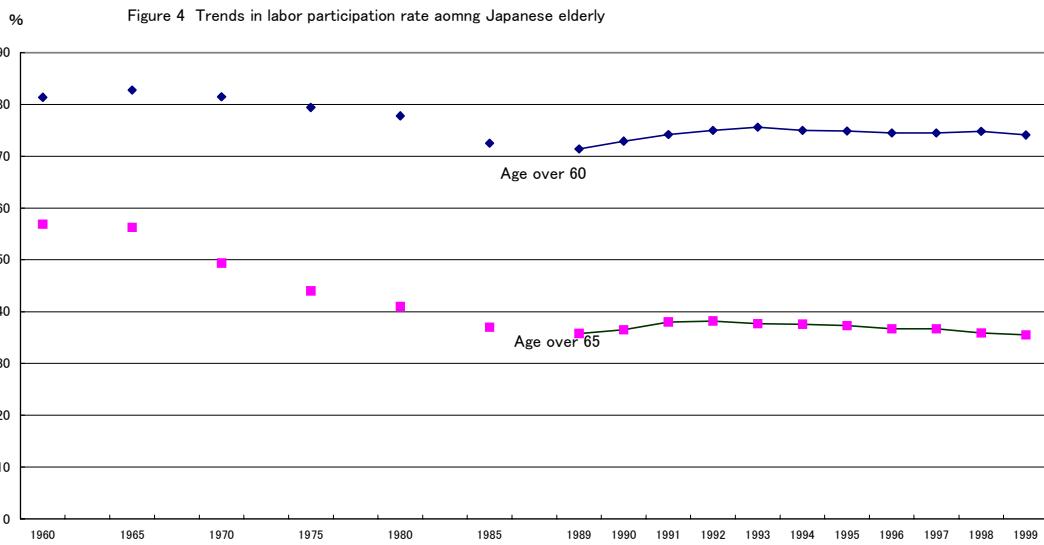
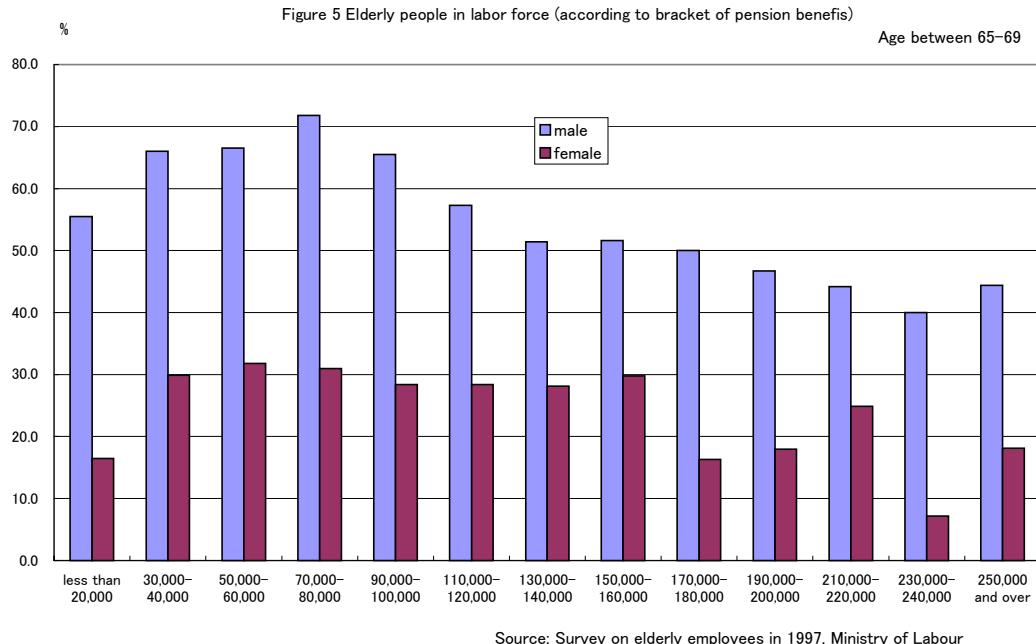


Figure 3 Retirement age transitions of private companies





Sources : Annual Report on the Labour Force Survey,  
Statistics Bureau Management and Coordination Agency, Government of Japan



Source; Survey on elderly employees in 1997, Ministry of Labour

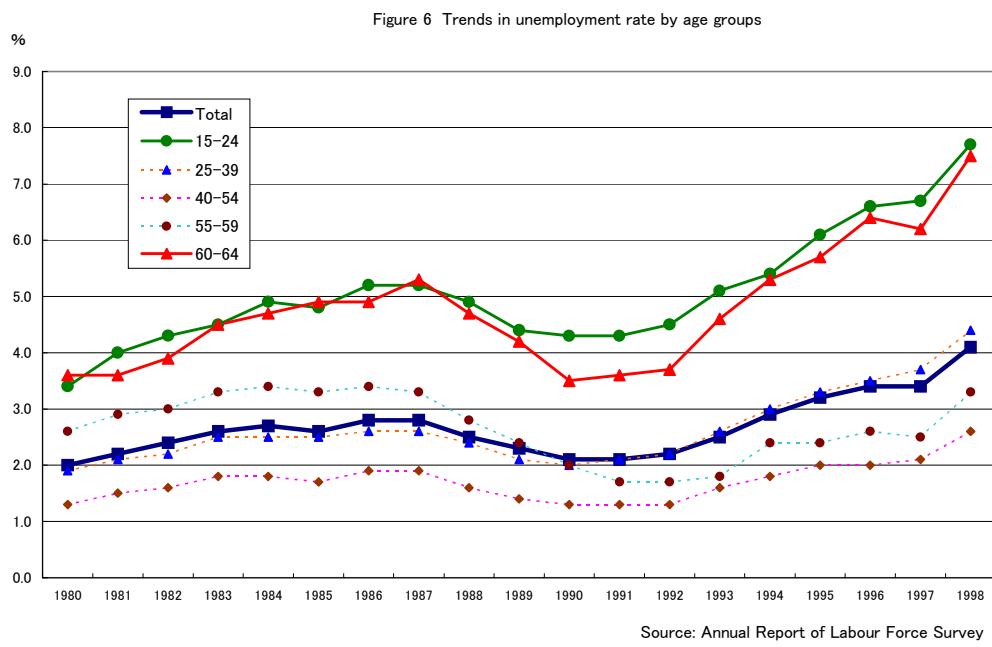
### c. Employment of Young People

The high unemployment rate among the younger generation is an important issue among OECD countries, but it was not given serious consideration in Japan until very recently. However, this fact does not necessarily indicate a lower rate of unemployment among Japanese youth. Rather, the unemployment rate of Japanese young people is relatively high, almost as high as that of the elderly (see **Figure 6: Trends in unemployment rate by age group**). On the contrary, it is due to the fact that the high unemployment rate among elderly receives more attention, not because people are

disinterested in the high youth unemployment rate but because elderly unemployment issues are discussed in the context of public pension schemes. In 1999, the average unemployment rate was 4.7%, which is the highest annual unemployment rate since the war. Among age groups, the highest unemployment rate was 15.1% for males between the ages of 15 and 19, followed by 10.2% for those between the ages of 60 and 64.

The White Paper on Labor 2000 devoted one chapter to discussing youth unemployment and new trends in youth employment such as the so-called "furita" in Japanese. Generally speaking, "furita" are young people who neither go on to higher education nor become full-time employees. They are most likely to work as part-time employees under short or temporary employment contracts. According to the estimates by the Ministry of Labor, approximately 1,510,000 people (610,000 male, 910,000 female) between the ages of 15 and 34 were considered "furita" in 1997, approximately 4.3% of the total population of the same age group.

It is thought that, in the near future, the labor force in the younger generation will shrink, but one must bear in mind that some young people choose to be "furita" and do not enter the regular employment system. Therefore, the concept and definition of unemployment among youth must be reconsidered. "Furita" tend to change jobs frequently. They can afford to do so because they are often living with their parents, enjoying the single life without paying their own living expenses. A Japanese sociologist has coined the term "Parasite Singles" to refer to these young people who depend on their parents economically. This can be considered one of the consequences of lower fertility and fewer children.



#### 4. Future Perspectives on the Benefits and Burdens for Social Security in Japan

As part of the "Vigorous Aging Society in the 21st Century", the Japanese government announced that the national burden (taxes and social security contributions)

should be kept to less than 50% of National Income<sup>5</sup>. It is believed that big government is harmful to society and that public spending should be kept to a certain level. Public spending includes not only social security benefits and social services for Japanese citizens but also capital investments as well as national defense expenditures, etc. Therefore, the Ministry of Health and Welfare also estimated a probable level for the benefits and burdens of social security in the future.(see **Table 2: Future perspectives on the benefits and burdens for social security**).

The number in brackets in *Table 2*, "Long-term care included in the upper column" indicates that certain costs for elderly care are taken from present medical care and social welfare expenditures. Although this table was made before long-term care insurance was implemented, the amount was estimated because long-term care insurance was proposed to reduce medical expenditures for the elderly. (This is described in more detail in B.2 of the following section.)

This table lists three possible conditions for future economic growth. According to case B which is most often used for official discussions, the level of benefits and burdens of social security will be 33.5% in 2025. This means that the size of social security benefits and burdens will nearly doubled compared to 1995 levels.

**Table II Future Perspectives on the Benefits and Burdens for Social Security**  
(compared to national income (NI))

A : Growth of nominal national income : 3.5% for FY2000 and before, 3.0% for FY2001 and beyond  
B : Growth of nominal national income : 1.75% for FY2000 and before, 2.0% for FY2001 and beyond  
C : Growth of nominal national income : 1.75% for FY2000 and before, 1.5% for FY2001 and beyond

	FY1995		FY2025					
	¥ trillion	% Compared to NI	A Compared to NI		B Compared to NI		C Compared to NI	
			¥ trillion	% Compared to NI	¥ trillion	% Compared to NI	¥ trillion	% Compared to NI
Social security benefits								
(Pension)	65	17	274	29 1/2	230	33 1/2	216	35 1/2
(Medical care)	34	9	142	15 1/2	109	16	98	16
(Welfare)	24	6	90	10	90	13	90	15
(Long-term care included in the upper column)	7	2	41	4 1/2	31	4 1/2	27	4 1/2
(-)	(-)	(-)	(21)	(2 1/2)	(16)	(2 1/2)	(14)	(2 1/2)
Burdens related to social security	70	18 1/2	272	29 1/2	230	33 1/2	216	35 1/2

Source : National Institute of Population and Social Security Research, "Population Projection for Japan (estimated Jan. 1997)."  
(Estimated based on medium estimates by MHW as of September 1997)

Note : Estimates in case of long-term care insurance introduced

## B. Structural Reform and New Measures for Social Security

### 1. Japanese Social Security Measures to Support Retiring Elderly -from employment to public pension-

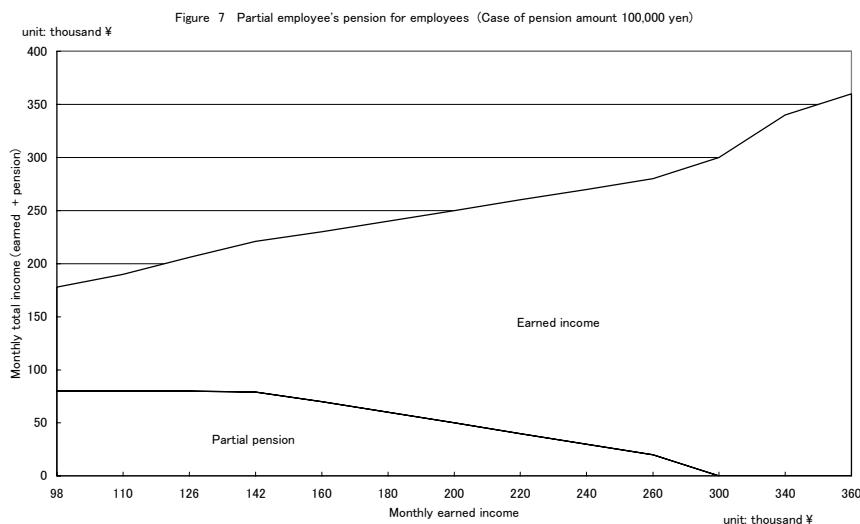
#### a. Employment Policy

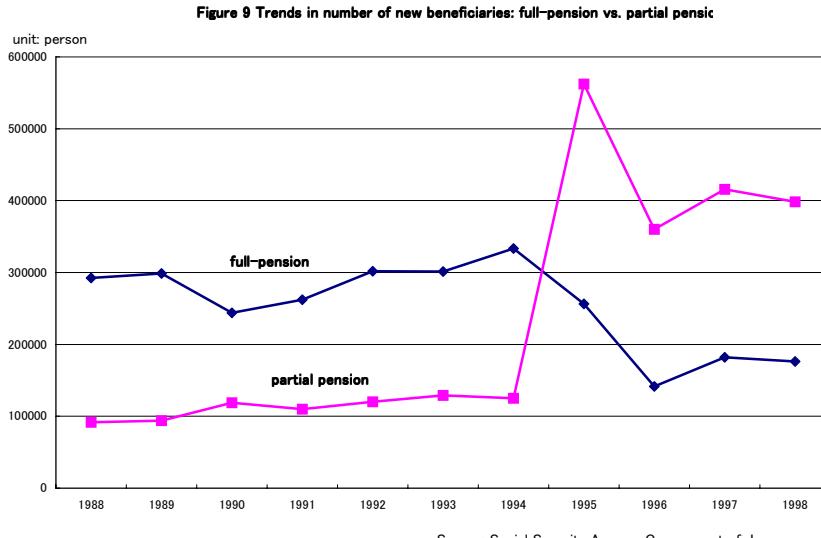
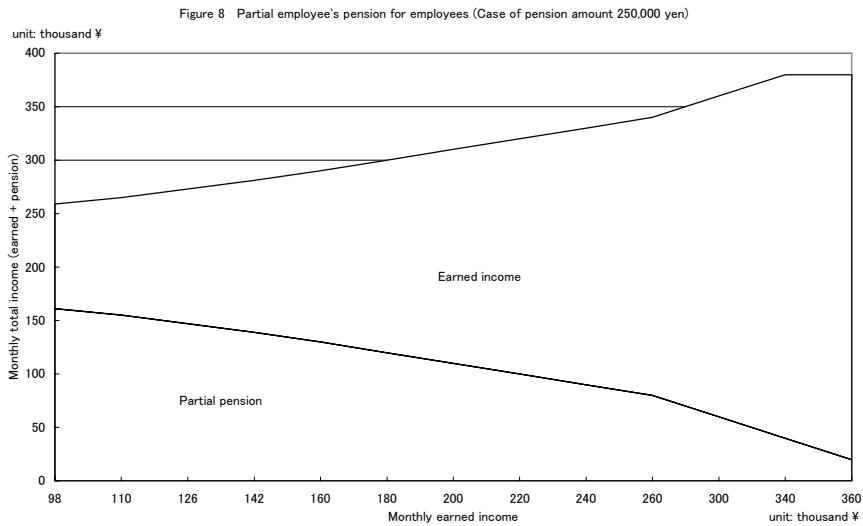
In 1994, the pensionable age for the first tier was raised. At the same time, various employment measures were implemented in order to promote elderly participation in the labor force. First, the Ministry of Labor determined that all companies should raise the retirement age to 60, compared to the situation in 1990 where only 64.1% of Japanese companies set their retirement age at 60. Additionally, various subsidies were introduced for the promotion of elderly participation in the work force. In 1990, the subsidy for employers who implemented a continuous employment scheme, as well as a grant for employers who hire elderly workers over the age of 60, was initiated. In 1996, in order to promote continued employment of those between the ages of 60 and 65, a subsidy was introduced that provides 25% of the wages earned by people over 60 years old to elderly people under the age of 65 who are continuing to work but whose wage has dropped

considerably since turning 60. In February 2000, the employment insurance scheme was amended and the definition of elderly was extended to the age groups between 45 and 55. These benefits can be more efficiently provided to elderly job seekers for a longer period of time.

### *b. Income Security (Public Pension)*

In 1994, partial pension benefits for elderly employees aged 60 to 65 were reformed. Before the reform, the partial pension scheme was criticized for its lack of promotion of the employment of elderly workers. This new measure was called the “American system” and encourages elderly pensioners to re-join the labor market. According to the pension reform act, in 2000, elderly pensioners can earn a monthly income of up to 220,000 yen, and only incur deductions of 20% from their pension benefits. However, all partial pension benefits are cut if monthly income exceeds 370,000 yen. **Figures 7 and 8** describe the manner in which partial pension benefits are deducted according to one's earnings. (**Figure 7: Partial pension for employees assuming a pension amount of 100,000 yen**) is an example of a person who receives partial pension benefits of 100,000 yen and (**Figure 8: Partial pension for employees assuming a pension amount of 250,000 yen**) is an example of person who receives partial pension benefits of 250,000 yen. Takada (1994) expressed reservations about this reform, indicating the fact that only highly-paid skilled workers benefit from the new pension scheme. It may be true that unskilled, low-paid workers are less likely to get the opportunity to earn relatively high wages. The average amount of pension benefits per capita between retired pensioners with regular full pension and pensioners with partial pension changed between 1995 and 1996. The monthly average benefit received by a male retired full pensioner was 206,800 yen in 1994 and that of a partial pensioner was 184,667 yen. Then, in 1995, the full pensioner's amount was reduced to 197,049 and the partial pensioner's amount was increased to 206,391. The numbers of partial pension beneficiaries increased substantially between 1995 and 1996 (see **Figure 9: Trends in number of new beneficiaries: full-pension vs. partial pension**).





Source: Social Security Agency, Government of Japan

## 2. Introducing Long-term Care Insurance and Improving Efficiency in the Japanese Health Care System

Social expenditures for the elderly increased much faster than those for the rest of the population. Up until 1980, the rate of increase in medical care expenditures was higher than the rate of increase of pension and other sectors. This is due to the fact that medical expenditures for the elderly boomed after 1973. The year 1973 was an epoch-making year for medical expenditures due to the fact that, in 1973, co-payment of medical care insurance for the elderly was abolished and it began to be subsidized by the national budget. Subsequently, demand for elderly medical services increased rapidly and, during the next ten years, the national medical insurance scheme accumulated substantial debts. In 1978, a cross-subsidized system called Health and Medical Services for the Elderly was introduced. This system functions on the principal of equality of burden sharing of

medical care costs for the elderly among full Japanese nationals. After introduction of this system, the employees' medical insurance systems including Society Managed Health Care had its burden significantly enlarged. In the following years, a series of reform measures to slow the expansion of medical care expenditures for elderly were initiated. For example, elderly patients no longer receive co-payment waivers; however, they still pay a reduced fixed amount. Also a new method of lump sum payment for hospitals and clinics was introduced in order to improve efficiency in health care facilities.

Before long-term care insurance was introduced, a number of elderly people were hospitalized not because they required medical treatment but because their conditions demanded an assisted-living residential facility. The average length of hospitalization for elderly Japanese is much higher than that of other countries. We call this phenomenon "hospitalization for social reasons." Other reasons for the high hospitalization rate of elderly persons is the shortage of social welfare facilities and home-help services for the elderly, as well as the fact that the cost-sharing system for social welfare services places a high burden on middle-income elderly individuals, who therefore choose to stay in hospitals due to their substantially lower cost. No cooperation or adjustments were made between medical care facilities and elderly care facilities.

The long-term care insurance scheme requires elderly individuals to share the cost and make contributions. This is very different from other social insurance schemes. Even pensioners must contribute to long-term care insurance. Those who are receiving welfare assistance can have the welfare system make contributions on their behalf.

### *3. Structural Reform in Social Security*

Former Prime Minister Obuchi organized an advisory committee for social security in 2000, which concluded that the present system of social security must be reformed. The majority of social security schemes were implemented after the war, and have become out-dated and impractical. The aging and declining fertility Japanese society requires new schemes to correspond to the present family structures and social conditions. Therefore, this committee meets once a month to discuss the issues and goals of reform. In addition, various political parties are preparing effective strategies by organizing their own study groups for social security reform. In April 2001, the new Ministry of Health, Welfare and Labor will begin its administrative duties. The reorganization of the central government should have a positive impact on the present status of social security reform.

## **C. Conclusion and Remarks**

Actual reform of the Japanese social security system will take place in the near future. A series of reports will be published by various committees in the next few years, and a scholar in one of committees has proposed that the reform measures be free from demographic changes. I wonder if this is a pragmatic attitude. Every nation has their own unique process of social development. I have no idea what he meant about measures "free from demographic changes," but we must learn from our previous new schemes, which did not carefully consider the impact of demography. I believe that we should invent new measures while paying close attention to demographic changes.

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## **ENDNOTES**

<sup>1</sup> Strategies for Reviving the Japanese Economy is available in English at the official web site for the Prime Minister's Office at:

<http://kantei.go.jp/foreign/senryaku/990317report.html>

<sup>2</sup> The Study Team on Labor Policy, an advisory group for the Ministry of Labor, submitted their report in May 1999.

<sup>3</sup> Further detailed information on Japanese public pension schemes is available at the web site of the National Institute of Population and Social Security Research at

<http://www.ipss.go.jp/>

<sup>4</sup> According to the Ministry of Labor's "Survey on Elderly Employees" in 1997, 83.7% of males aged 60 years old in the work force consider themselves in good health, whereas only 68.3% of males aged 60 years old not in the work force consider themselves in good health.

<sup>5</sup> Historically, the Japanese government has used the term "National Income" rather than GDP. National income used in government data is calculated by the following formula:  
Net National Product minus indirect tax plus subsidies.