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Portrait of a Shrinking Society—Diversifying Values and a More Mature View of Prosperity

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Japan's population will soon start to decline. Whereas the twentieth century witnessed a population increase, the twenty-first century will see a decline. Unlike the population in the twentieth century, which could be represented by a pyramid, that of the twenty-first century is shaped like an inverted pyramid. This change in the configuration of Japan's population suggests that we Japanese may be forced to radically alter our lifestyles.

As these great changes unfold, what should the Japanese government and people do in the future in order to continue to live in prosperity? It is necessary to consider two aspects of prosperity—economic prosperity and the notion of a rich lifestyle, which is not entirely quantifiable in economic terms.

1 Boosting Economic Prosperity

(1) Taking responsibility as a generation

Is the pursuit of economic prosperity impossible in a society whose population is declining? This does not seem to be the case at all. From a macro-economic perspective, the shrinking labor supply and contracting Japanese markets seemingly make a decline in the economic growth rate inevitable. However, this does not necessarily signal a decline in the economic growth rate for the individual. The fact that the global economy (of which Japan is an integral part) is expanding means that Japan too should experience growth. If, despite the shrinking labor supply, overall productivity is increased, Japan's economic growth should continue, enabling people to enjoy continued economic prosperity. Whether or not this will be possible depends more on the capabilities and talents of the various age groups that comprise Japanese society rather than on the issue of a declining population.

Thus, the pursuit of economic prosperity requires efforts on two fronts from the present generation—the one that is currently working and nurturing the next generation. First, we must fulfill our obligation as a generation, and not allow debt to balloon out of control, which would impose an excessive burden on future generations. If the population continues to shrink and society continues to age rapidly, social security costs (pensions, medical care, nursing, etc.) will automatically rise, and this will inevitably impose a huge financial burden on future generations. If this burden becomes too great and bankrupts the public finances, it is bound to have a profound effect on the economy itself, in the form of a rise in long-term interest rates, depreciation of the yen, and inflation. In light of these expectations, fiscal spending cannot be allowed to continue at current levels, with the government, private citizens, and business all clinging to their own interests. As plans are made to drastically revise expenditure and streamline the bureaucracy, it seems vital that the public be weaned off its over-dependent attitude and that the private sector be entrusted with whatever functions it can undertake, which will stimulate the economy, make the current

generation as self-reliant as possible, and avoid leaving behind a burden of debt that would sap the will to work of future generations.

In order to sustain growth in Japan, it will be particularly vital to turn the primary balance to surplus in the early part of the decade starting in 2010, and to maintain financial discipline in the medium term thereafter. In order to achieve a fiscal surplus, two policy measures should be implemented as soon as possible. First, sharper cuts must be made with a view to reducing annual expenditure. As a matter of priority, the annual expenditure framework must be drastically revised by increasing efficiency and promoting outsourcing to the private sector. This includes drastically reducing public works, abolishing quasi-public organizations, privatizing government functions, and introducing competitive bidding. At the same time a fundamental review of social security expenditure (the largest item of future expenditure) probably needs to be carried out. Second, a management cycle consisting of the following steps needs to be established: prepare estimate, settle accounts, assess policy, and compile budget. All government departments must make use of the policy assessment process to compile smaller budgets and voluntarily make deep cuts in specific operations, rather than simply setting numerical targets.

Stronger risk management for overall government debt is also extremely important. The amount of outstanding Japanese government bonds is now at its highest level since World War II and the debt-to-GDP ratio exceeds 100%. Unless the ratio of outstanding debt to nominal GDP is reduced, extremely serious problems will arise. Aside from the national debt, the Japanese people are shouldering an enormous level of public debt, which currently includes local government grant debt, government-guaranteed bonds, and a vast quantity of municipal bonds, as well as longer-term pension liabilities. In the future, there will have to be a special accounting of these debts, which accrue to the entire nation, as well as a general accounting. Local governments and public corporations, such as special corporations and independent administrative institutions, must fully disclose information regarding all public debt that they hold, establish frameworks for comprehensive risk management, and be fully accountable.

(2) Harnessing the power of the individual

The second front will involve harnessing the power of each individual to build a society in which everyone participates and that can make use of this individual power. From a macro-economic perspective, a decline in the population will cause the overall labor supply to contract, as mentioned previously. From an international perspective, however, Japan's manpower resources are endowed with enormous potential. For example, Japan's precision craftsmanship and anime and other software products are held in high regard around the world.

It follows that Japan must improve its productivity across the board by further boosting the potential capabilities of the individual, increasing labor productivity, and continuing to raise the bar of excellence in the field of technological innovation, where creativity abounds. The key to achieving these aims would seem to be to develop a richer curriculum throughout the educational system (right from the elementary level up to university and graduate school) and thereby create an educational environment that develops individual prowess.

Unstinting private efforts will also be vital in enabling Japan to make use of its valuable labor resources and establish a framework that continues to yield technology with added value. Private companies both big and small, operating under sound corporate governance and increasing their profits by focusing on innovative ideas to satisfy consumer requirements, are indispensable to the construction of a wealthy

society for the future. In the process the increased added value will be channeled back into investment in personnel and technical development, and this is bound to create a virtuous cycle in which productivity is increased even more. It will also be important to establish employment systems and structures that can make good use of the power of the individual.

Global markets will continue to expand, and seniors will become a highly discerning demand segment. To support these innovative companies, the government must maintain a suitable business environment, for example by providing competitive conditions and maintaining financial markets. In particular, the government should create an environment in which energetic efforts are made to revive companies in danger of failing and that facilitates the movement of management resources such as personnel, goods, and risk money.

The nature of our lives 30 years from now will depend to a great extent on developments in science and technology and on innovations by companies. For example, 30 years ago no one foresaw how popular mobile telephones would become, or that they would come equipped with various software applications and would not only provide a means of communication but would also provide conveniences such as account settlement through electronic payments. For this reason too, Japan should harness the competitiveness of the entire nation as developments in science and technology lead to economic growth and make people's lives easier. The most important tasks for achieving this goal would seem to be to develop highly skilled human resources (since in the twenty-first century the quality of personnel is more important than their numbers) and to create a society that can make the best use of their talents.

2 Prosperity in Terms of a Full Life

The second subject that is worthy of discussion is prosperity in terms of a full life. Prosperity in life is not simply a matter of financial prosperity. During the period of high economic growth, the pursuit of economic prosperity was the primary goal, and in this Japan was successful. As a result, however, the Japanese seem to be groping even harder for the next level of prosperity. The following famous dictum is attributed to Kuan Chung (Guan Zhong), prime minister during the Chunqiu period in China:

When the granaries are full, people will understand social codes and moderation; when their food and clothing are adequate, they will understand honor and disgrace.

In other words, until the rice granaries are full, people will not concern themselves with propriety and morality, or learn to distinguish right from wrong. Only when people have enough food and clothing to lead a settled life will they develop a sense of honor and disgrace. This expression is the derivation of the Japanese proverb "Fine manners need a full stomach," implying that those who have attained a certain standard of material prosperity will then wish to achieve spiritual comfort. As people's values become more diverse, the sense of what constitutes prosperity also varies more from person to person. Thus, unless the very structure of society is changed to accommodate this diversity, friction between society and the individual will increase. People have different notions of what is important: "to enjoy working for its own sake," "to be of service to people within the community," "to pursue my intellectual curiosity," "to spend quality time with my family," "to enjoy raising the children," or "to devote substantial time to my hobbies." A society must be created that enables people who harbor these individual notions of spiritual prosperity to live the lifestyles they desire while working and contributing to society.

Japanese society still retains the company-centered structure that prevailed in the period of high economic growth, and this seems to have generated various problems. Amid the prosperity of Japan, where it is easy to make a living, growing numbers of young people suffer from an inability to identify their purpose in life. Among them is a burgeoning group known as NEETs (people who are Not in Employment, Education, or Training). During the period of high economic growth, many women threw themselves headlong into the corporate culture, which was spawning corporate warriors. However, there is now concern that it is hard to combine work with child-rearing and family life. In addition, the baby-boomers—who have been battling away as corporate warriors—feel unsure of themselves in a rapidly aging society and worry about what they ought to do after retirement. At least part of the reason for the continuing problem of the declining birthrate would seem to reside in the fact that the social structure remains unchanged since the period of high economic growth. What efforts must people make then, to achieve a rewarding life?

(1) Balance between work and lifestyle for senior citizens

In a shrinking society it will probably be important to make use of women and senior citizens who possess the will to work in the pursuit of economic prosperity. At the same time, an environment must be maintained in which age, gender, time, and place are immaterial, and in which a balance can be struck between family, work, the local community, and other factors.

It is predicted that by 2030 the average Japanese will live a healthy life until the age of 80. Given this extended period of good health, there is now much debate over how seniors will make use of their precious time after retirement. In the future, senior citizens will comprise the majority of the population. Seasoned consumers (not only of the basic necessities of life)—as they become health conscious and avidly branch out into areas such as renewed study, leisure, and entertainment—will stimulate an endless stream of innovative ideas from companies and fuel the pursuit of economic prosperity. Furthermore, many of these seniors possess marvelous skills, such as practiced craftsmanship and traditional techniques that ought to be passed on to future generations. These people (whether working within companies or independently) could make an enormous contribution to society by passing on these superb skills and traditions, and it will probably be necessary to allow these seniors to work in a flexible fashion. The government is also relaxing restrictions on various civic activities on which it has hitherto maintained a monopoly. This will allow the burgeoning ranks of seniors to lead varied lives in which they are able to play a significant role in the public life of the community through activities newly devolved to NPOs.

Likewise, “Japan’s 21st Century Vision,” which was released this year by the Council on Economic and Fiscal Policy, also emphasizes the need to build a society in which the seniors of tomorrow, with their newly acquired free time, can lead active lives and put this precious time to good use. In such a society it would be meaningless to categorize people as “aged.” We ought to regard the aging of society not as an increase in the number of aged people who need assistance and support, but rather as an increase in the number of seniors actively engaged in society, whose very lives represent a huge contribution to the economy and society. To this end it is essential that various modifications be made to the social environment (for example, a more even-handed social security system needs to be established) and that companies and local governments change their way of thinking.

(2) Balance between work and lifestyle for women

Japan should also create an environment that makes it easy for women to continue working after having children, if they so desire. At the same time must be made it easier for women giving birth to take a temporary leave of absence and then return to work.

A key issue over the next 30 years will be whether Japan can arrest the decline in the birth rate and make use of woman who want to work, so as to achieve both economic and spiritual prosperity. This will require efforts on several fronts. At the practical level, infrastructure such as nursery schools and daycare facilities must be established and the financial burden of raising children must be minimized. In addition to this, on a conceptual level the country must engage in a fundamental shift in thinking and build a society that does not make child-rearing such a burden.

The job of raising children is pleasurable and fun, and also represents the important task of turning out the next generation of youngsters and working people. Working life is founded on family life. Companies need to fully recognize the importance of this fact and act accordingly. It is essential that they institute more flexible employment contracts that allow discretionary working conditions (such as part-time employment for regular employees and flexible working hours). In the future, they must also expand initiatives that grant mothers and fathers equal time off for child care, and establish a working environment that enables people to concentrate on family life.

With the growing ranks of the very old requiring ever more nursing and care, and in light of the belief that people must balance their working and family lives, these measures are absolutely vital. It is also essential that society create a framework to support child-rearing and education in the home at the local level, too. To create this framework, men and women need to join forces at home and share the domestic chores, care for the children, and raise the next generation. Hence, the notion of a balance between work and life for men as well needs to be more firmly established.

(3) Creating a society in which everyone participates

As Japan has grown to become Nippon Inc., the things that the Japanese look for in a company have greatly altered. During the period of high economic growth, employees relied on their companies for everything—the homes in which they lived, pensions, and recreational facilities. They worked as company warriors in return and in the process made Japan an economic powerhouse. Nowadays, however, workers no longer invest their entire lives in a single company, and it is not unusual for people to switch companies. “Japan’s 21st Century Vision” includes the phrase “two job changes and four education periods in a lifetime.” People now seem to have a range of attitudes towards working for a company—for example, some people are looking only to make a living while others are looking to satisfy their intellectual curiosity. The values of the individual are diversifying; it is vital that companies embrace this change and communicate their belief that this approach constitutes an extremely important contribution to society, which itself will serve to create a virtuous cycle in which the companies’ worth will also rise.

In this shrinking society, the breadwinners—seniors, women, foreign workers—are becoming increasingly diverse. For Japan, the key to pursuing both economic and spiritual prosperity will surely be the extent to which, by embracing this diversity, they can build a society in which all participate. There are many changes that must be made in order to achieve this, but probably the things most in need of change are the company-centered system (a hangover from the era of high growth), the existing government dominance over public functions, and the mindset of the people.