

ANALYZING JAPAN'S DEMOGRAPHIC CRISIS

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ABSTRACT

In this paper, we use existing literature to attempt to diagnose Japan's demographic crisis and proceed to discuss its possible economic consequences. According to our research, the Japanese demographic crisis has its roots in the combination of high childcare costs, along with certain cultural obstacles in Japan. The obstacles include Japanese emphasis on traditional family roles, which puts a disproportionate burden on women to take care of children, and thus face a tradeoff between home and work lives, leading to them postponing conception of children. We find that the demographic crisis, combined with issues such as Japanese aversion to migration, has resulted in a severe labor crunch in Japan, particularly in the Blue-Collar sector. Potential economic consequences of the demographic crisis and its consequent labor force effects include a drastic fall in projected Real GDP, nearly 25% over 40 years according to the IMF GIMF Model.

Possible solutions to this problem include increasing migration in Japan, the introduction of Intermediate Contracts, and the promotion of "Womenomics", a program launched by former Japanese Prime Minister Shinzo Abe.

1. Introduction

A country that was once booming with population growth, Japan is now characterized fertility rate below replacement level, a situation which has persisted for over 30 years, and an almost peerless life expectancy. Its population has aged at a level that is quickly becoming unsustainable, with the World Bank estimating that Japan's old-age dependency ratio was 47 in 2019, the highest in the world.

In such a context, we aim to shed light on some of the factors that are causing Japan's ageing crisis, with a particular focus on Japan's cultural background. We begin the paper by providing some background on the problem and its context, and then proceed to discuss reasons for the

demographic crisis, and possible economic consequences. We end the paper by discussing policy solutions to this population crisis.

2. Background

According to the World Bank, the population of Japan grew consistently in the 20th century, reaching 128 million in 2000. Towards the end of the century, however, Japanese birth rates, in correspondence with death rates, started falling, and the Japanese government has since failed to significantly reverse this Malthusian-esque trend. The ageing crisis became particularly pronounced in the past 15 years, with a combination of the life expectancy reaching 84, persistently low fertility below 1.5, and the cohort of the baby boomer generation, born between 1947-49, and comprising as much as 6.1 percent of the population, reaching the retirement age around 2012 (David et al).

Before we proceed to diagnose Japan's problem, it is important to discuss Japan's cultural context. Despite enduring decades of subdued economic growth, Japan remains one of the world's largest economies. It is a developed country in all senses but stands out from the rest of the first world due to the large prevalence of traditional norms and values. The severity of Japan's demographic crisis, vis-a-vis other developed countries, seems to be linked to its unique traditional culture. For example, in Japan, there remains a strict preference for the maintenance of traditional gender roles, resulting in discrimination against women (Jack 9). In fact, according to the WEF's Gender Gap Index, which is a metric for gender equality, Japan ranks an abysmal 114th, well behind other developed countries. This discrimination feeds into women's choices, for example, labor force participation, which has implications on the fertility rate. The section below makes the impact of the cultural context clearer.

3. Reasons for the demographic crisis

The reasons behind the demographic crisis that Japan is facing can be divided into two distinct categories. The first category consists of several general factors that can be observed throughout the developed world. On the other hand, the second category consists primarily of causes that are specific to, or with a relatively greater presence in Japan.

Category 1:

In line with the Becker hypothesis (1960), the direct costs of having children have been rising in most developed countries. This involves a substitution of quality for quantity of children, i.e couples prefer to have fewer children and provide them with higher quality of resources (Retherford and Ogawa 15). Additionally, raising children requires women to devote a huge amount of time to childcare and household chores. The persistence of traditional gender division

of labor that places heavy obligations on women of Japan for household maintenance and childcare plays a role in discouraging women from having more children (Bumpass et al 221). A recently conducted survey found that Japanese women spend more than 4 times the amount men do on housework (Nippon).

Along with the rise in direct costs, women in Japan have also been facing a high opportunity cost of giving birth. Between 1960-2010, young women's employment rates have increased dramatically— from 50% in 1960 to 72% in 2010 (Tsuya 2). Taking up traditional family roles would lead to the loss of benefits accrued out of employment and reduce better opportunities for good jobs in the future (Bumpass et al 221).

Category 2:

Apart from the rise in direct and opportunity costs of having children, there also exist several Japan-specific factors that have exacerbated the demographic crisis.

Traditional beliefs of Japanese society place a heavy burden on females, as they are frequently forced to choose between pursuing a career and having a family, often resulting in women who decide to choose a career path shying away from getting married and having children. This is reflected in increasing rates of postponement of marriage and also in the proportion of people who are not married at all. Between 1970 and 2005, the proportions of never-married individuals in Japan approximately tripled at prime marriage ages (IPSS 2008, 111). Further, a large proportion of employed young men find themselves in temporary jobs or on irregular contracts, with low salaries and close to no job benefits. According to Jeff Kingston, a professor at Temple University, around 40% of the Japanese workforce is “irregular”. Crucially, 30% of irregular workers in their early 30s are married, compared to 56% of full-time corporate employees (Semuels). This provides a link between temporary employment, marriage, and fertility. A major reason behind the low marriage rates among temporary workers is their unwillingness to take on the economic commitments of marriage and parenthood due to the uncertainty that surrounds their future employment. Working in temporary jobs also reduces their attractiveness as prospective spouses, or marriage ability (Bumpass et al 219).

As childbearing is rare outside wedlock in Japan (Bumpass et al 218), this falling marriage rate negatively impacts the fertility rate.

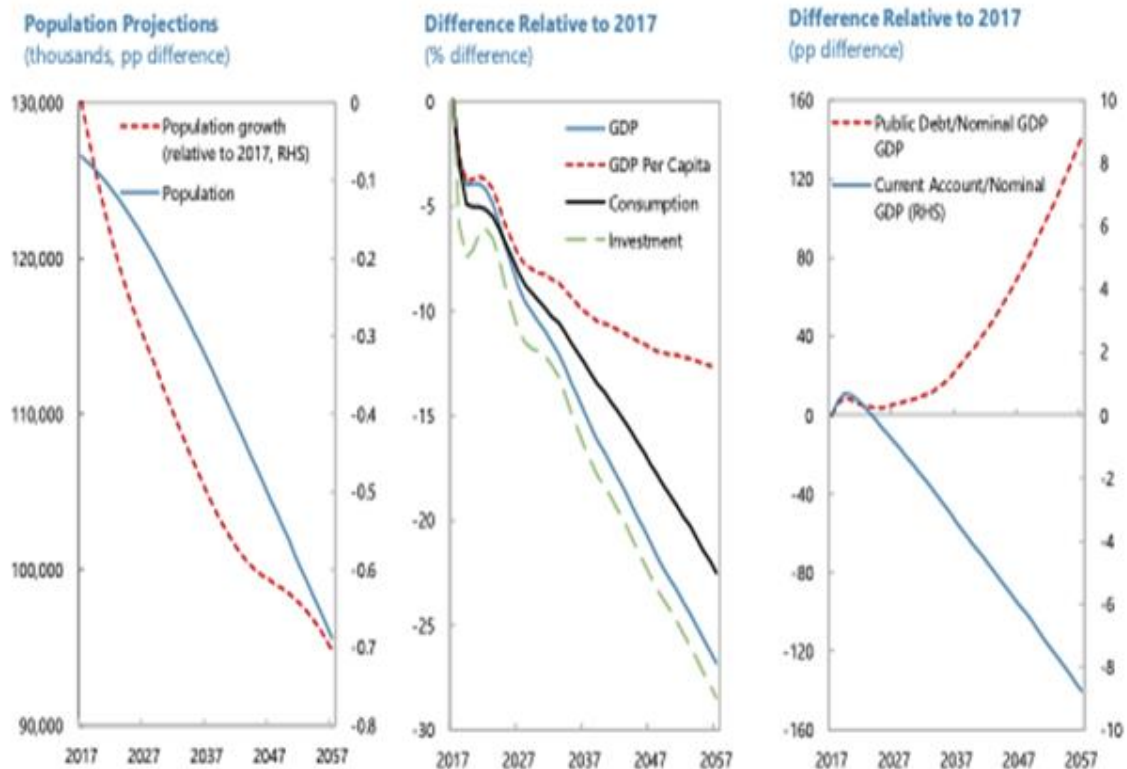
Additionally, high childcare costs, combined with the aforementioned disproportionate brunt of childcare on women due to Japanese culture, also results in some women leaving the workforce post- maternity (Jack 8). This acts as a further deterrent to conceive children.

Japanese aversion to migrants, who would have helped in fulfilling the labor demand for blue-collar jobs, is the final significant factor that is contributing to the population crisis. In fact, fewer than two percent of the people who reside in Japan are foreign because the country actively restricts immigration in order to remain a culturally homogeneous nation (Jack 14).

4. Economic Consequences

The possible consequences of the ageing crisis are dire and have already begun to plague economic growth in the country. Japan's labor market has become extremely tight, resulting in the unemployment rate sinking to a quarter-century low of 2.3% (Feb. 2019) and the job offers-to-applicants ratio reaching a record 1.6x, implying that there are 60% more jobs available, compared to Japanese seeking work (Matsui 6). Importantly, the excess labor demand exists primarily for blue-collar jobs with temporary workers, which make up a sizable portion of total labor demand, and not in "higher quality" jobs (Matsui 6).

The worst-case scenario entails that Japan's population problem may lead to a decline in the labor force by 40% over the next 40 years. The ramifications of this are catastrophic, as, if this trend is maintained, and assuming there is no change in policies, IMF's GIMF model projects a fall in Japan's real GDP by 25% over 40 years. The fundamental cause of this decline will be a reduction in labor inputs, along with an interrelated decline in capital stock as a response to this fall in labor inputs (Corugedo et al 5). Figure 1 captures this projected fall in GDP, which would reduce private savings and tax collections, and put increased pressure on social security systems for the elderly, which would increase public debt.



Sources: GIMF simulations and IMF staff's calculations.

Figure 1: IMF Global Integrated Monetary and Fiscal Model's (GIMF) baseline Predictions for the Japanese Economy

5. Conclusion

It is clear that Japan will have to find a way to strike a chord between tradition, resource constraints, and growth, as, while Japan, according to the World Bank, is still the world's third-largest economy in terms of GDP, as exhibited by the paper, cracks are beginning to show, with the ageing crisis posing a major structural obstacle to growth in Japan.

In such a context, some of the structural reforms announced by Shinzo Abe under the "Abenomics" policy platform can play an important role in stimulating growth. Using the IMF GIMF Model, the introduction of "intermediate" contracts, which offer greater protection to workers but may still be acceptable by firms as they wouldn't fully be covered under labor laws, could increase GDP by boosting labor productivity by 7% in the long run, as firms would be likely to invest more in such workers as they'd be contracted for a relatively longer time. The boost in GDP would positively impact fertility through the marriageability channel. The model

also predicts that increasing migration by one percent of the labor force would boost output growth by 0.15% over 10 years (Corugedo et al 8). The government has also pushed for “Womenomics”, which is intended to make it easier for women to return to work after maternity leave, thereby pushing the narrative that there needn’t be a tradeoff between familial responsibilities and work, countering traditional perceptions of gender roles (Lewis and Ishikuza). It is imperative that these policies are implemented well, as they are crucial to drive Japanese economic growth.

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