

SPECIAL FORUM REPORT 015

Aging Society as an Opportunity

Reexamining Japan in Global Context Forum, Tokyo, Japan, May 17, 2019

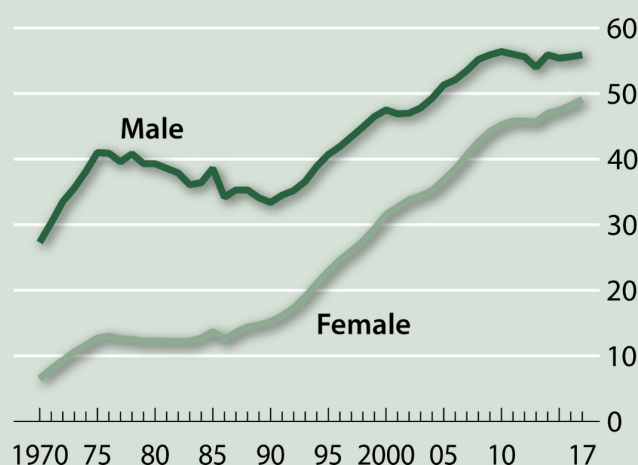
Japan is aging more dramatically than most other countries in the world. It has one of the world's highest life expectancies and the proportion of the people in the senior age range is large and increasing rapidly. At the same time, Japan's birth rate has been low since the late twentieth century with the result that the country's population has been decreasing since the late 2000s. Many people fear that it will become difficult to sustain a functioning society if this trend continues, as seniors are often considered less productive than people of working age. Not surprisingly, dealing with the challenges of an aging society has become one of the most important topics of conversation in Japan today. In this symposium, Professors Masayuki Tadokoro and David Welch invited four speakers to discuss this topic.

In the keynote speech, Mr. Bill Emmott concentrated on the issue of promoting happiness in the context of an aging society. Mr. Emmott argued that social inequality, which became more pronounced during the Heisei era, is one of the most important issues that needed to be addressed. As Japan's gross domestic product and standard of living growth rates slowed, following the bursting of the bubble economy, companies have become more reluctant to hire people through full-time contracts because of onerous wage rates, benefit costs, and training expenses. The result was an increase in irregular workers hired through short-term contracts at fixed pay rates, no benefits, and no opportunities to upgrade their skills. This has led to an increase in the number of workers that must endure insecure living conditions and the associated stress. Mr. Emmott suggested that this is also discouraging many people from having a family, as it is difficult to raise children without long-term financial stability. This, in turn, aggravates the problem of an aging society.

On a more positive note, Mr. Emmott observed that there has been a huge increase in the proportion of female high-school graduates choosing to go on to full, four-year university courses rather than the two-year junior colleges that were

University entrants

Japan, as % of 18-year-olds



Source: MEXT

typical in the past. Thus the gender gap in tertiary education has narrowed considerably since the 1980s. Japan remains unusual among developed countries in having fewer female undergraduates than males, but at nearly 50 percent of 18-year-olds the number has nevertheless risen dramatically.

Unfortunately, the surge of women into higher education has not translated into much in the way of gender equality in subsequent careers. Relatively few women occupy leadership positions in Japan, whether in politics, the private sector, or indeed universities. But Mr. Emmott cautioned that we must also recall that in Japan hierarchies are generally ordered by age and seniority, so the low level of women in leadership positions today reflects the huge gender gap in education during the 1980s—the decade when today's leaders were coming of age. It does not necessarily foretell the future.

Meanwhile, Japan's female labour force participation rate has also risen substantially, overtaking that of the United



States a couple of years ago. It is now also higher than in the Euro area as a whole, though lower than in some individual European countries such as Britain and Germany. The entry of women into work, often part-time and non-regular, has occurred in parallel with a rise in the number of retired people who re-enter work. About 20 percent of Japanese over the age of 65 are in work, compared with just 4 percent in Italy, for example. The OECD reports that in surveys, more than 70 percent of seniors say they would like to work beyond retirement age.

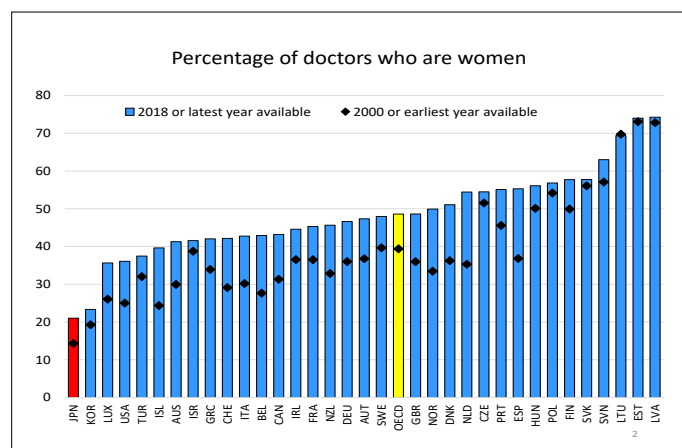
The result has been that, despite a slow decline in the overall population, the number of people in employment has actually risen quite sharply over the past five years.

Japan, in short, is a society in which more people feel financially insecure than before, despite very low levels of unemployment, thanks to the dual labour market. Social cohesion remains high, by comparison with the USA or many European countries, but the rate of marriage and of family formation has declined—albeit from a high level. It is also a society in which human capital is the only natural resource, but also one in which productivity growth has fallen to among the rich world's slowest rates.

Mr. Emmott went on to suggest that this set of trends, forces, and ailments combine to define an agenda for the fate of Japan, for happiness, and for the topic of the symposium: Japan as an aging society. A country with an aging population, entrenched gender imbalance, high levels of stress in the workplace, eroding human capital, and longer periods of retirement needs a move to a more flexible set of working and social relationships. Mr. Emmott noted with approval that in 2018 the Japanese government introduced a so-called 'work-style reform law' intended to deal with two common problems in the workplace: high levels of stress [karoshi], linked also to long hours of unpaid overtime; and the inequality of treatment and of rights between full-time and part-time workers.

Mr. Emmott acknowledged that organizations and cultures are conservative. How much change can we expect, and how rapidly? Looking ahead, Mr. Emmott said that he expected Japan will, first and foremost, have a far more female future. Less certain is an associated move towards an organizational culture able to combine flexibility and security. As a result both of necessity among employers and new demands from the rising supply of skilled women, the female presence is certain to rise at all levels of organizations. The new generation of female leaders are already there, in their thirties and forties, and over the next decade more and more will emerge.

Mr. Emmott said that change is happening, but from a low base. He pointed to the example of doctors. In many European countries, medicine is a field in which women have made rapid advances towards equality. In many countries, the majority of doctors are women. The highest proportions of female doctors are in the Baltic states, Central Europe,

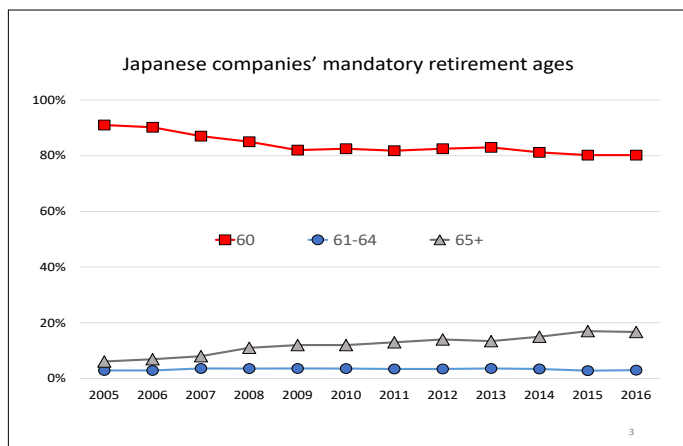


and some Scandinavian countries. But Japan has by far the lowest proportion of female doctors in the OECD, at only 20 percent. The view that doctors should be men, and that women are less worthy of being trained to be doctors because of the risk that they may leave to have children, is deeply entrenched. It is an issue both of prejudice and of the rigidity of social norms and systems.

Mr. Emmott noted that social and cultural attitudes towards science, both in the family and in school, are also proving slower to change in Japan than in other developed countries. Many more girls are going to four-year university courses, but there is a huge gap in certain fields of study, especially STEM subjects (science, technology, engineering, and math). This translates into continued obstacles in universities. Leadership roles are disproportionately held by graduates of Tokyo university and other top national universities. There the female share of undergrads is much lower than in the top private universities, such as Keio.

Mr. Emmott went on to say that there is now, at least, an increasing number of role models to inspire women who have ambitions about getting to the top in their given field. One of those, Ambassador Mari Miyoshi—the current Japanese ambassador to Ireland—offers a small example of the process of change. When she graduated from Tokyo university in 1980 she became the only female recruit to the diplomatic track of the Foreign Ministry, out of a total of 28. In the 2016 intake, 10 of the 28 were women. In that organization, as in thousands of others, women are moving through the pipeline of age and seniority in greater numbers than ever before. Young ambition and talent can rise in exceptional cases, especially in a new-economy business such as Rakuten. Not all organizations are traditional and rigid. The overall picture, however, indicates quite slow change in employment structures, whether to accommodate more women or to deal with a society in which centenarians are common.

Finally, Mr. Emmott discussed the question of retirement. The existence of mandatory retirement at 60, which made seniority wage systems and lifetime employment possible back when life expectancies were shorter and people's health declined earlier than is the case today, is now stranding po-

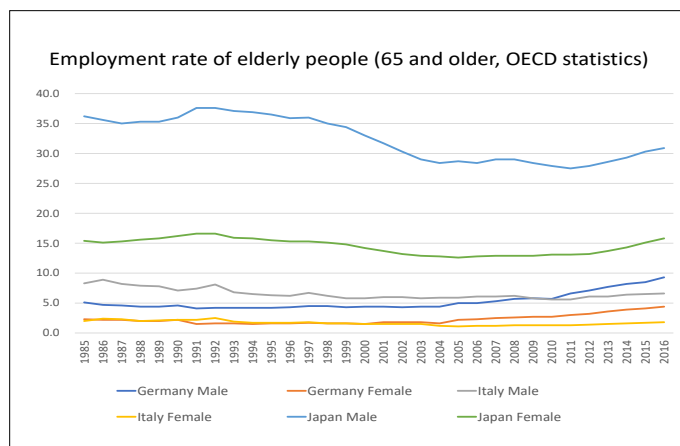
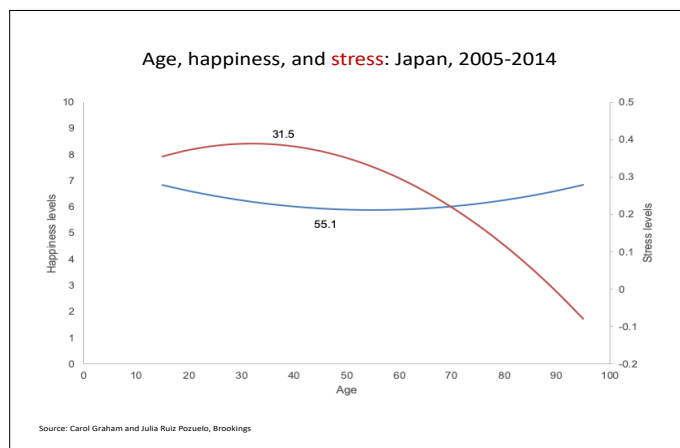
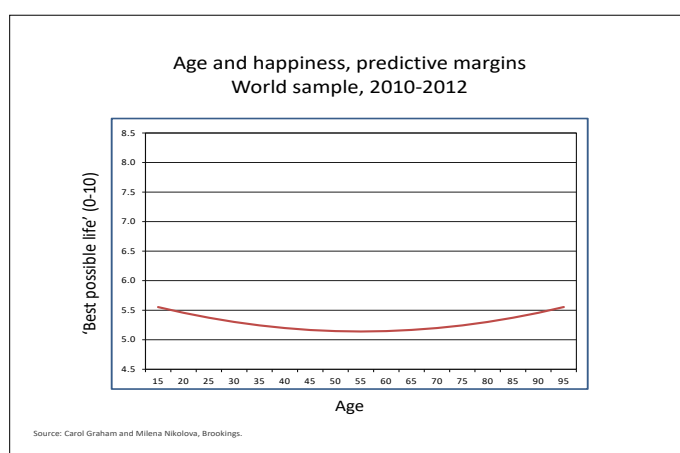
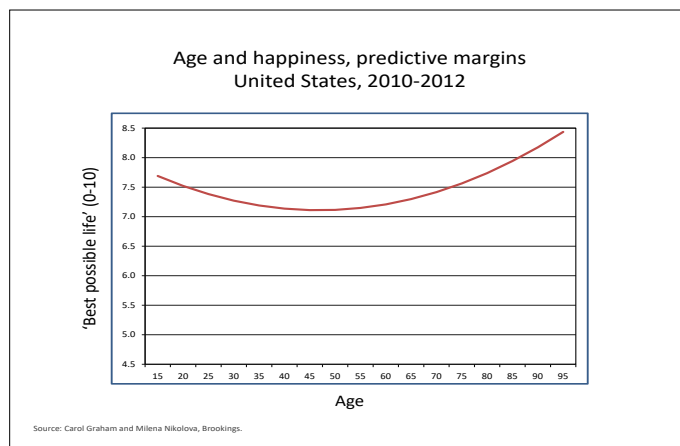


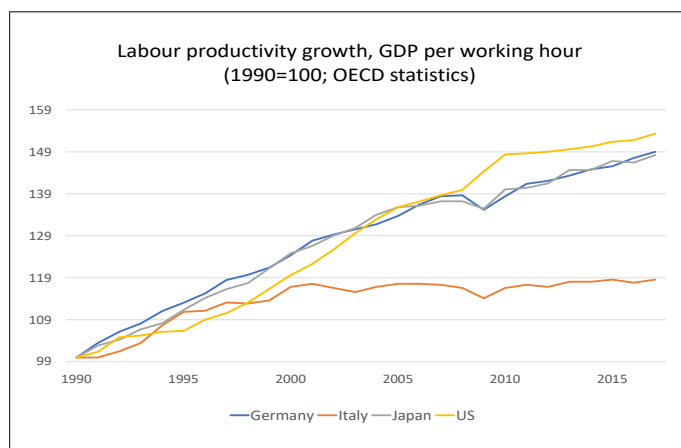
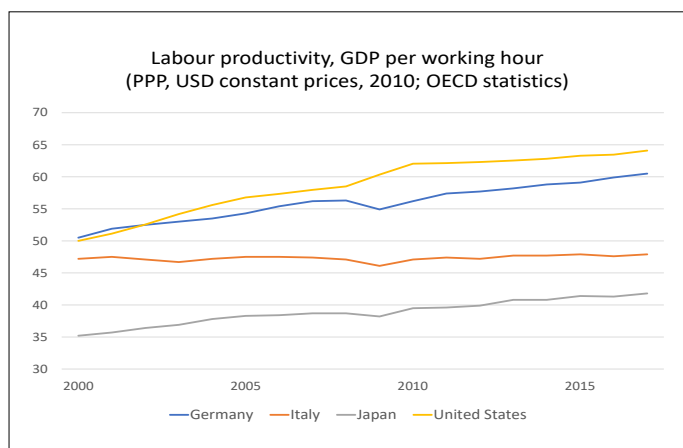
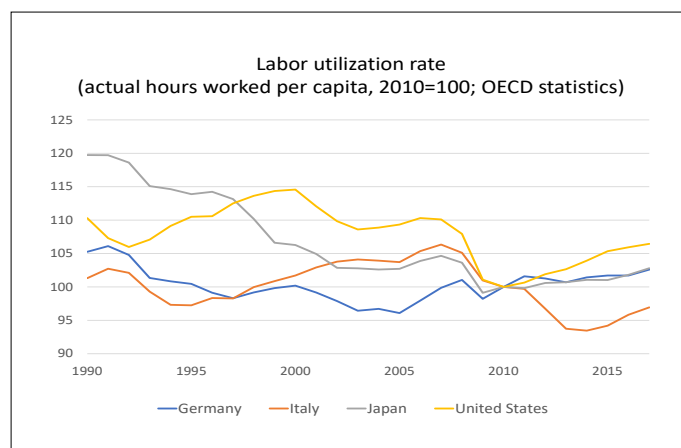
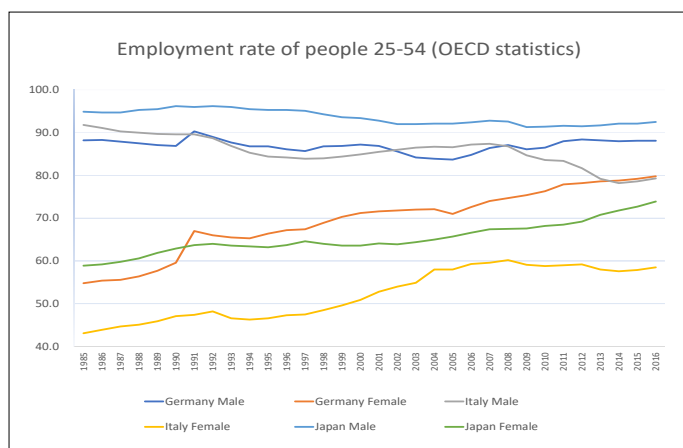
tentially productive workers and placing great strain on pension and social welfare systems. Japan needs to rethink senior employment to make much better use of productive human capital. Among other things, this would address an important need for older people: a sense of purpose and belonging. Engagement in a community is a vital part of good health, especially good mental health. For lifetime employees, which means men, the company has traditionally been that community. Japan needs to pioneer a more flexible model of work that is more female, more diverse, less sharply divided between work and family, and with continued engagement well into old age.



The remaining speakers picked up on the issues that Mr. Emmott raised. Mr. Jonathan Rauch discussed at length the 'happiness curve' as it is popularly understood and as surveys indicate. Contrary to popular belief, which holds that people are happiest in their middle years, surveys indicate that people tend to be happiest in their senior years. This is true also for Japan. One possible reason for this is the alleviation of workplace stress. But he noted also that the improvement of medical technology has made people in their 60s much healthier than in the past and agreed with Mr. Emmott that many retirees were fully capable of making a meaningful and valuable contribution to society as members of the workforce, easing Japan's labour shortage and boosting engagement and satisfaction among the elderly.

Dr. Margarita Estévez-Abe primarily discussed the problem of tackling gender inequality in Japanese society. Just as with the issue of social participation among seniors, addressing of gender inequality is important not only for improving the 'happiness' of Japanese society but maintaining an adequate workforce. Dr. Estévez-Abe acknowledged the trend of increasing female participation in higher education, but agreed with Mr. Emmott that women were not being allowed to contribute their full potential to the workforce, let alone achieving gender parity. The employment rate of women with higher education has remained relatively low, and there also is a tendency for Japanese women to quit their jobs



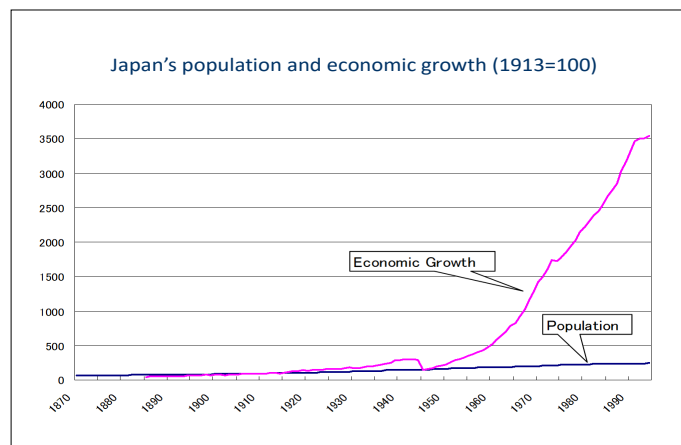
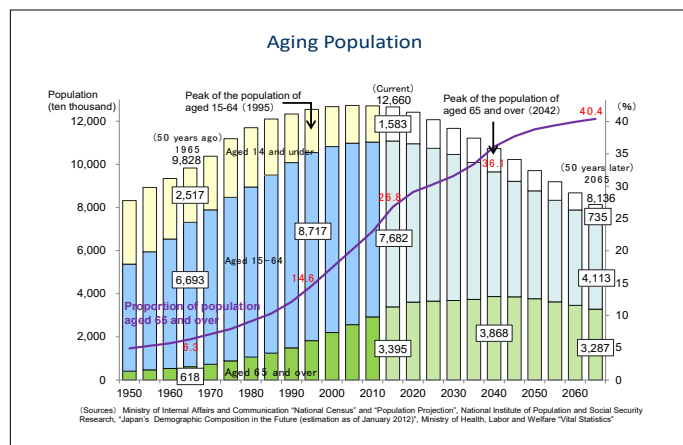


when they bear a child, thus depriving them an opportunity to develop professional skills. Dr. Estévez-Abe suggested that the government should adopt policies to encourage women with higher education to pursue more ambitious and more rewarding career opportunities.

Dr. Estévez-Abe also discussed the problem of making maximum use of human capital, arguing that Japan should make determined efforts to provide an environment in which a larger number of people—including women, foreigners, and seniors—can access higher education, develop professional skills, and acquire experience. In her view, labour automation is something to be encouraged, so as to minimize the number of people wasting their talents in unskilled jobs.

Professor Hiroshi Yoshikawa first addressed the issue of economic inequality, then the problem of maintaining economic productivity with an aging population. He argued that a strong social welfare system is essential for addressing inequality, particularly in times of economic instability, and chastised the Japanese government for not taking steps to address this. Whereas the European Union obliges its member states to set their value-added tax rate at 15 percent, Japan's is only 8 percent. Professor Yoshikawa stressed that this is not enough to sustain Japan's social welfare system, especially when the number of people in the senior age group who must depend on state pensions will rise.

Professor Yoshikawa then discussed the challenge of eco-



conomic growth and productivity in an aging society. Professor Yoshikawa was optimistic. The key is innovation. By developing and deploying new technologies, reorganizing work, and realizing latent efficiencies, it is entirely possible for an aging and shrinking population to maintain positive economic growth by increasing labour productivity.

A discussion among the four panelists followed their initial remarks. Mr. Emmott began by engaging with one of the points raised by Professor Yoshikawa: that Japan's social welfare system is inadequately financed because Japanese people are not paying enough tax. Mr. Emmott suggested that Japanese wages were too low to sustain higher tax rates, a problem aggravated by the increase in non-regular work. People are simply not making enough to pay higher taxes. The same post-bubble trends in compensation explain suppressed consumption, which of course results in deflation and lower tax receipts. Professor Yoshikawa responded that the Japanese economy cannot escape deflation because the Bank of Japan has failed to adopt the necessary remedies. It has instead chosen to increase the money supply. Dr. Estévez-Abe emphasized the importance of labour automation and the reduction of the number of unskilled, low-wage workers for dealing with this issue.

The other panelists, as well as Professors Tadokoro and Welch, joined the conversation at this point, extensively discussing government financing and why it is difficult to increase government revenue. The conclusion was that the Japanese people are simply notoriously averse to an increase in consumption taxes, despite its long-run utility for promoting 'happiness.' The topic is simply politically toxic.

Dr. Estévez-Abe also commented that gender inequality is an important cause of the decline of 'happiness' in Japanese society. She argued that the social stereotype that men should work and that women should stay at home is not only depriving women of social mobility but also making the lives of men miserable. Men must work long hours, and thus cannot muster the time or energy to engage with private life. They can neither develop hobbies nor spend adequate time with their families. As a result, they end up having nothing to do, weak bonds with their families, and no roots in their neighbourhoods when they retire from work.



After the panel discussion, Professor Tadokoro took questions and comments from the floor.

The first commenter suggests that while the government did not raise the VAT throughout much of the Heisei era, social welfare costs continued to rise and have become a major burden for public finances. The government adopted policies to suppress interest rates, so that private could invest more

in social welfare, but it has proven impossible to force them to do so. As a result, the government must shoulder this responsibility.

The second commenter pointed out that the panel appeared to assume that economic growth would lead to an increase in 'happiness.' He questioned whether a society can be really regarded as being 'happy' if everyone must work hard to leverage their human capital for the sake of economic growth.

The third commenter pointed out that a significant generational inequality exists within Japan today. Many people who were looking for jobs during the economic recession of the late 1990s and early 2000s are still suffering from poverty and economic insecurity. Some people argue that this generation should not be the one to should bear the burden of taxation and social welfare fees; instead, it should be borne by older people who enjoyed stable employment during their careers and as a result had enough savings to weather the worst effects of the recession. This commenter asked the panelists whether pensions to this generation should be reduced to alleviate the suffering of those whose financial situation is more precarious.

Dr. Estévez-Abe responded to the first commenter, agreeing that social welfare costs rose dramatically during the Heisei era and have become quite burdensome on public finances. But this is largely because the Liberal Democratic Party found increased social welfare expenditures to be politically advantageous. One of the downsides of having a single party in power for an extended period of time is that there are no checks on fiscal irresponsibility.

Mr. Rauch responded to the second commenter, suggesting that while increased economic productivity is a good thing, all other things being equal, there is greater satisfaction to be had through a strong sense of belonging to society and a feeling that one has control over one's life. Professor Yoshikawa also responded to this point, indicating that economic growth should be regarded as a means to accomplish 'happiness,' not an end in itself. Society should not pursue growth at the expense of 'happiness.' But living a 'happy' life requires a degree of material well-being.

Professor Yoshikawa also responded to the third comment, pointing out that there is ample evidence that the average lifetime income of the younger generations is far higher than that of the older ones. Dr. Estévez-Abe added that the root cause of the poverty of the people who had to endure the worst effects of the Heisei recession is not because they had to pay for the social welfare of the older generations. They are suffering because the Ministry of Finance and governing Liberal Democratic Party failed to implement policies that would enable them to earn an adequate income.

This report was prepared with the assistance of Dr. Yu Suzuki, former Torii Fellow and currently a Cooperative Research Fellow of the Research Center for Advanced Science and Technology, University of Tokyo.



Professor Masayuki Tadokoro



Professor David Welch



Mr. Bill Emmott



Mr. Jonathan Rauch



Professor Margarita Estévez-Abe



Professor Hiroshi Yoshikawa

Reexamining Japan in Global Context

Aging Society as an Opportunity

Friday, May 17, 2019, International House of Japan, Tokyo

Project Directors

- Professor Masayuki TADOKORO, *Keio University*
- Professor David WELCH, *Balsillie School of International Affairs*

Keynote Speaker

- Mr. Bill EMMOTT, *Dublin*

Panelists

- Mr. Jonathan RAUCH, *The Brookings Institution*
- Professor Margarita ESTEVEZ-ABE, *Maxwell School of Citizenship and Public Affairs*
- Professor Hirokshi YOSHIKAWA, *University of Tokyo and Rissho University*



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