



Ageing in Japan

Demographic warrior

TOKYO

Shinzo Abe outlines his plans to boost the workforce and trim spending on the elderly. But will they be enough?

“THE DECLINE of the birth rate and the ageing of Japanese society is accelerating at unprecedented speed,” warns Shinzo Abe, Japan’s prime minister. Given the scale of the problem, he told *The Economist* this week, the government must push for “impactful policies” to tackle it right away. He mentions a series of reforms, intended to boost the workforce and reduce the cost of supporting the elderly. The Diet is currently debating a government proposal to admit 345,000 foreign workers over five years, for instance.

That sounds dramatic, but the demographic decline is even bigger. There are 400,000 more deaths than births each year. Life expectancy is 84 years—the highest in the world. Over 28% of the population is older than 65, compared with 21% in Germany, 15% in America and 6% in India. The country has 69,785 centenarians, a seven-fold increase on two decades ago.

The welfare state has become unaffordable. Public debt is 250% of GDP. And Japan is suffering from an acute labour shortage. There are already 1.6 jobs for every job-seeker, and the workforce is predicted to shrink from 67m last year to 58m in 2030.

One obvious solution is immigration. Only 2% of the workforce is foreign-born,

compared with 17% in America. But the government has been surreptitiously admitting more foreign workers, mostly in the guise of students and trainees. The plan before the Diet aims to attract blue-collar workers in 14 industries, including construction, shipbuilding and caring for the elderly. They will receive visas of no more than five years, at least initially, and will not be able to bring their families. All must have some proficiency in Japanese.

Mr Abe plays down the idea that he is doing anything momentous. In debates he

is at pains to stress that the new arrivals are not permanent immigrants, but guest workers. Moreover, he portrays foreign workers as a last resort, to fill gaps while the government tries to get more Japanese to work. During his six-year tenure, 2m more women have joined the workforce, lifting the female participation rate above America’s. He has increased the number of nurseries and made big companies document their efforts to promote female workers. From next year nurseries will be free. Over half of women return to work after having a child, compared with 38% in 2010. “We have tried to make a society that enables more women to be active, advanced and empowered,” he says.

Mr Abe also wants people to “remain active without retirement throughout their lives”. His government is likely to raise the retirement age for civil servants from 60 to 65, and to encourage companies to do the same. As it is, many companies have raised their retirement ages or taken to rehiring retired workers, often on a part-time basis. Fully 23% of over-65s work; they constitute a much bigger share of the workforce than in other rich countries (see chart). Mr Abe plans to bolster this trend by increasing the public pension for those who agree to start drawing it later than they are currently entitled to. In the long run, the prime minister hopes, robots and artificial intelligence will help ease the labour shortage. “I do think that we will need fewer jobs because of higher productivity.”

Getting older people to work for longer is especially beneficial to the government’s finances, since it leads both to higher tax revenue and lower spending on pensions. ▶▶

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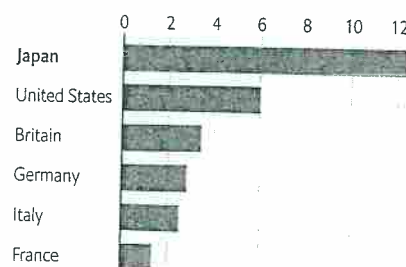
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Setting sun

Over-65s in employment, 2017
% of workforce



Sources: Eurostat; national statistics

► Mr Abe's tweaks are the latest in a series of changes intended to make the pension system more affordable. But the government is always playing catch-up, as the ageing of the population and shrinking of the workforce accelerate. It reckons social-welfare costs will rise by more than half by 2040, from ¥121trn (\$1.06trn) to ¥190trn.

Mr Abe appears to be planning sweeping changes to put the welfare state on a firmer footing. "There will be an overall social-security reform, including health and medicine, pension and others," he says. "We are trying to create a society and community where people can remain healthy and active...and find meaning in staying alive and living long."

Yet in practice Mr Abe is being cautious. Even after the retirement age increases, it will still be lower than in many other rich countries. Moreover, the current system discourages those over 65 from working more than part-time since their pension is reduced if their income from it and their salary exceeds 460,000 yen (\$4,039) a month. It is not clear whether this will change. The government has modified but not eliminated a tax quirk that discourages married women from earning more than a relatively lowly amount. By the same token, the share of medical expenses that patients must pay under the public health-care system falls as they get older, imposing a big burden on the state. There are various ways the government could reduce its health-care bill, including increasing premiums for the public insurance scheme, raising patients' co-payments for treatments and excluding some expensive procedures from the scheme.

Yet Mr Abe only hints at the need for any of this. "We are not thinking about immediately raising the co-payment for medical and health services," he says. "But there must be a careful review of the balance between the contribution and benefit." Those who take action to prevent illness, such as regular exercise, could be rewarded. "We would like to think about the incentives—what should be done to the contributions that have to be paid by the people who adopt habits to prevent diseases," he says.

This caution is excessive. Pushing back the retirement age is not as controversial in Japan as elsewhere. A government poll conducted in 2017 found that 42% of people aged 60 or more who work want to continue to do so. Although some politicians fret about foreigners bringing crime and disturbing social harmony, the majority of the population approves of Mr Abe's plans to admit more foreign workers.

Mr Abe wants Japan to be a model for other ageing societies. He has done more than his predecessors to prepare for a smaller, older population. The danger is that Japan will become an example of a country that has done too little, too late. ■