

EE463 GLOBALIZATION AND INTERNATIONAL DEVELOPMENT

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Aging Society Impact to the Industry Sector of Japan

Group : Boy Scout

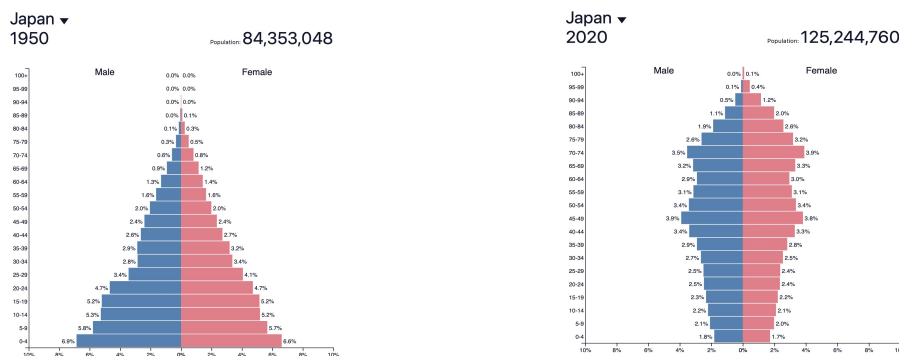
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Background

At a median age of 48 years in 2020, Japan has one of the world's fastest aging populations. This demographic transition has substantial ramifications for Japanese employment, with firms confronted with both possibilities and challenges in managing an aging workforce. Over the age of 65, more than 20% of Japan's population. Japan is experiencing a significant demographic shift, with a low birth rate contributing to an aging society. According to the World Population Prospects 2019 report by the United Nations, Japan is projected to have a median age of 53.3 years by 2100, the highest in the world. The low birth rate is a complex issue that has been the focus of much research, and several factors have been identified as contributing to the trend.

One of the key causes for Japan's low birth rate is delayed marriage owing to economic uncertainties, as well as societal pressures to prioritize work over family life. According to a National Institute of Population and Social Security Research survey, In Japan, the average marriage age for men and women is rising, and the high cost of living, employment insecurity, and the cost of raising children make it difficult for young couples to have kids. Furthermore, social attitudes toward women's roles as homemakers have shifted, with more women entering the labor field, resulting in a decline in the number of children women have as they combine their employment and family responsibilities.



When comparing the 1950 and 2020 populations, Japan had a population of roughly 84 million people in 1950, with a relatively balanced distribution of males and females. The demographic pyramid's base was broad, indicating a high concentration of children and young people, and tapered progressively upwards toward older age groups. Japan's population was estimated to be at 126 million in 2020, down from around 128 million in 2015. The pyramid has a fairly narrow base and a substantially higher proportion of older persons. As a result of the aging population, there are currently concerns about a labor shortage and a burden on the healthcare system.

Despite various problems, an aging workforce brings with it new opportunities. Older workers frequently have excellent skills, knowledge, and experience, and they can act as mentors and trainers for younger employees. They are also less prone to job-hop or seek

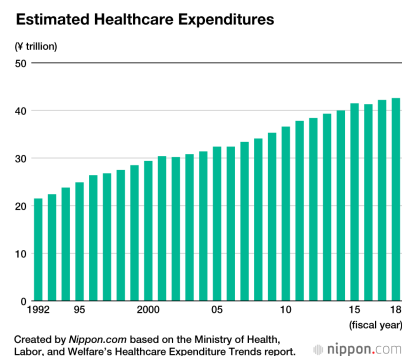
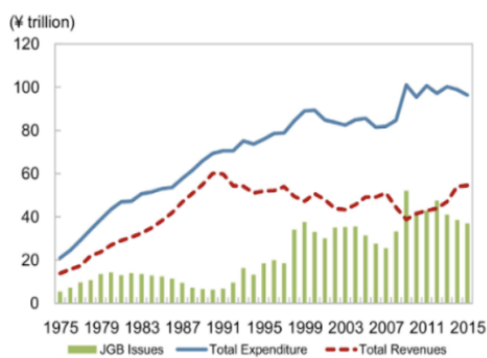
professional changes. Nonetheless, there is a rising understanding of the significance of older workers, and the government has implemented regulations to combat age discrimination and promote older workers' engagement in the workforce.

The impact toward economy

The consequences of population aging are severe and extensive. For an economy like Japan, the arrival is long overdue, as indicated by a decreasing fiscal balance, changing saving and investing patterns, and a labor supply crisis that resulted in lower productivity and slower economic development.

Due to the severity of the possible economic consequences, international communities, including the G20, have begun to pay more attention to this aging issue and have launched active discussion on policy alternatives and reactions to its implications. Both developed and emerging countries must acknowledge and assess the effects of an aging population, as well as plan and implement appropriate policy measures to reduce the negative effects on society and the economy.

We demonstrate that population aging reduces output and aggregate consumption in the long run due to the decline in total labor supply. In the economy, retirees receive pension benefits that are financed by taxes imposed on workers and issues of government bonds. Given a fixed amount of pension benefits per retiree, population aging raises the tax paid by each worker. This reduces consumption of a worker due to a negative wealth effect.



One of the primary industries that is affected by the aging population is healthcare. People are more likely to acquire chronic health problems as they get older, which necessitate ongoing medical care. As a result, there is an increasing need for medical products and services, such as prescription drugs and medical tools, as well as for physicians, nurses, and other healthcare workers .

Another industry that is affected by the aging population is the retirement industry. People may require help managing their finances and making future plans as they approach retirement. Retirement communities, financial planners, and other associated services are in demand as a result of this.

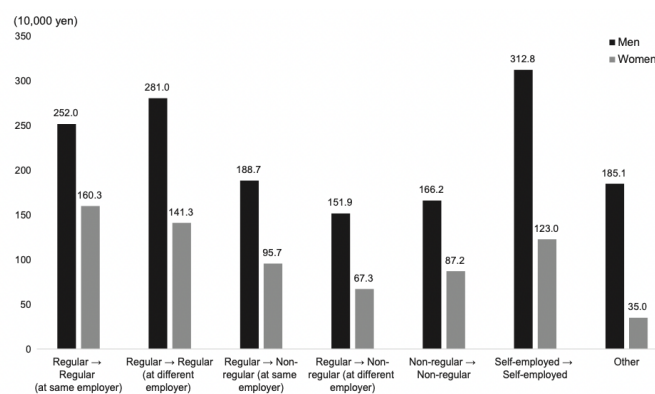
Key issue & challenge

Older workers' engagement in the workforce

With the raising of the pensionable age and the amendment of the law on Stabilization of Employment of Elderly Persons, employment and working until age 65 are now socially entrenched and advancing rapidly. In addition, the amended law of 2020, imposes that employers are obligated to try to expand employment opportunities for older workers until the age of 70.

First, the issue of enterprises' systems is to maintain employment for older persons. Japan's employment policy is based on maintaining employment, especially of regular employees, in the internal labor market (within enterprises), and this is likely to be the main focus with regard to the employment of older workers in the future. However, maintaining employment is certain to entail problems related to wages and the allocation of human resources.

Another challenge is that of developing an external labor market so as to reduce unemployment and poverty among older workers and enable smooth labor mobility. Old age is a period when occupational mobility occurs with similar frequency as it does among younger people. It is also an age group with a relatively high risk of poverty. Until now, the problem of unemployment among the older persons has not received as much attention as that of unemployment among the young. Because the gap between retirement and eligibility for pension benefits is short, and many people have sufficient pension funds, savings, and assets to live on. However, in the future, people who were forced to work in unstable employment forms during their youth or prime of life, thus were unable to accumulate sufficient savings by the time they enter old age. Because of that, the problem of unemployment of older persons will become more apparent. There is a need for social systems and policies that enable people who must continue to work for economic reasons to find work easily, regardless of their age.



Source: Moriyama (2022).

Figure 3. Estimated earned income by gender and change in employment status around age 60

Lead to decreasing of output

Most economists agree that demographic trends will stifle output growth and cap the rise in economic welfare. Although increased capital intensity, productivity gains, and higher labor participation rates should lessen the impact on per capita incomes, a declining population is linked to decreasing employment and output. Japan's demographics suggest that, compared to a baseline simulation with a steady population, real GDP will decline by a total of 20% over the next century, according to long-term simulations run by the IMF's world macroeconomic model (MULTIMOD). Between 2025 and 2075, when the demographic changes are anticipated to be most severe, the output costs of aging will amount to about half a percentage point in decreased annual GDP growth. Given the aging of the workforce, disparities in labor productivity and supply across age groups implied by Japanese age-earnings profiles, and the fall in the number of workers, GDP is predicted to fall by around 5% per capita compared to the baseline scenario.

The simulation implies that, as in earlier studies, investment and saving levels eventually drop with GDP. The decline in investment is due to a desire to reduce capital due to the economy's diminishing labor and production; yet, the rate of investment as a percentage of GDP has remained largely stable. Savings rates do not generally fall as the population ages, contrary to earlier findings. Although there are more old people, who tend to save less, the fall in the number of young individuals, who tend to consume more, and the lengthening of planning horizons due to increased lifespan all work to improve private saving rates. As a result, even as Japan's demographic changes continue, its current account surplus need not significantly fall as long as the government is able to handle the fiscal deficit.

Pension issue in Japan

In December 2006, the Japanese National Institute of Population and Social Security Research (NIPSSR) released its latest population projections. These indicated that the total population peaked at 128 million in 2004 and then began to fall steadily, decreasing to about 50 percent of the current number by 2080.

The Total Fertility Rate (TFR) was 1.26 in 2005 and there is little sign that it will stabilize or return to a higher level. The medium variant projections assume that it will record the historical low of 1.21 in 2013 and will gradually rise to 1.26 around 2050, remaining unchanged at 1.26 thereafter. The number of births in 2005 was about 1.06 million and will continue to decrease to less than 1.0 million by 2008, falling further to 0.49 million in 2050. Because it has the world's longest life expectancy," Japan is now experiencing a very rapid aging of its population. The number of the elderly (65 years and above) was 25.8 million in 2005. This will increase sharply, remaining around 36-39 million thereafter until around 2060. Consequently the proportion of the elderly will go up very rapidly from 20.2 per cent in 2005 to 30 per cent by 2023, rising further to more than 40 percent by 2052. Japan already has one of the oldest populations in the world.

In Japan, most of the social security benefits are currently distributed to the elderly. Along with the ailing domestic economy, the rapid population aging will certainly put increased stresses on the financing of social security. In terms of the Ministry of Health, Labor and Welfare published the latest estimates of the cost of social security just after the health care reform. According to these estimates, the aggregate cost of social security was 17.5 per cent of GDP in 2006 , expected to steadily increase to 19.0 per cent by 2025.

Government policies

Older workers' engagement in the workforce policy

The Japanese government has put in place rules to combat age discrimination and encourage older workers to stay in the workforce. The Act on Stability of Employment of Older People was introduced to encourage older workers to stay in their jobs. Employees who attain the required retirement age of 60 must be offered reemployment chances under the legislation. The new law also allows businesses to raise the retirement age to 65 if employees agree. In addition to the statute, the government has established programs and initiatives to promote the employment of older employees. Senior Employment Support Centers, for example, give training and job-matching services to older workers.

Furthermore, the government has introduced tax breaks for businesses that keep older workers, such as lower corporate tax rates and financial assistance for training and re-skilling older people.

Employers nevertheless confront substantial hurdles in managing an aging workforce, notwithstanding these policies. Older workers, for example, may require accommodations such as flexible working hours or specialized equipment to do their duties. Companies may also need to provide additional training to keep older employees current on new technologies and work practices. Generally, the Japanese government recognizes the value of older employees in the labor field and has taken initiatives to encourage their employment. Further work, however, is required to guarantee that older people are not discriminated against and that they are offered the opportunity to continue working if they so desire.

Lead to decreasing of output policy

A decreasing nation's output is one of the economic effects of an aging society. The labor force declines as the population ages, which can lead to a drop in the production of products and services. Furthermore, an aging population may result in an increase in healthcare bills, putting the government's finances under strain.

To address these concerns, the Japanese government has enacted a number of policies targeted at supporting economic growth in the face of an aging society. One such policy is the encouragement of technical innovation and automation in order to boost productivity. In addition, the government has adopted programs to encourage women and elderly people to work. For example, the government has implemented measures to promote work-life balance, such as flexible working arrangements, as well as incentives to assist businesses in hiring and retaining older people. Furthermore, the labor market must become more adaptable, accommodating a wider range of workers, including temporary workers.

To counter the declining workforce, the government has also implemented initiatives to encourage immigration. For example, in 2019, the government launched a new visa

program to recruit more foreign workers to Japan, notably in labor-scarce industries like construction, nursing, and agriculture.

Pension issue in Japan Policy

Japan has a pension problem as a result of its aging population. With a diminishing birth rate and a growing population of elderly persons, the worker-to-retiree ratio is decreasing, resulting in fewer people contributing to the pension system. Also, the number of retirees is growing, which means that more people are getting government pension benefits.

The Japanese government has put numerous policies in place to deal with this problem. Raising the retirement age from 60 years to 65 years is one such strategy that encourages older workers to continue working and contributing to the pension system. Another policy is to encourage elderly people to continue working in order to supplement their pension income. The government has also set up a mechanism to encourage businesses to hire elderly people and to give training to help them improve their skills and abilities.

Notwithstanding these efforts, the pension issue continues to be a major challenge for the Japanese government. The current Japanese pension system is primarily supported by the national pension system, which is a pay-as-you-go system. This means that present workers pay into the system to assist current retirees, and future workers will support them when they retire. Nevertheless, with a dropping birth rate and an aging population, there may be insufficient future workers to sustain the growing number of retirees.

To address this issue, the government has proposed a number of measures, including expanding pension system membership, decreasing pension payments, and instituting a defined contribution system. These measures seek to minimize the strain on the pension system while also ensuring its long-term viability.

Recommend on policies and legislation

To overcome the labor gap, the government should encourage immigration. Policies that make it simpler for skilled workers to get visas and work in Japan could be included. To assist immigrants in assimilating into Japanese society, the government should also invest in language instruction and cultural assimilation initiatives. And yet, they have the potential to disrupt the jobs of Japanese workers, thus the Japanese government must ensure that this does not happen. Policies that address the economic and societal factors that prevent young couples from having children are critical. The government can offer financial incentives for births and lower living costs, particularly in areas such as housing, healthcare, and education. In order for parents to manage their jobs and family duties, work-life balance rules that allow for flexible working hours and maternity leave must be established.

Conclusion

Japan's aging society has had a substantial impact on its declining industry labor force, reduced productivity, and increased government spending. Japan's aging population has resulted in a fall in labor force participation and output. Therefore, Japan's economy has seen a drop in output and growth, lowering the country's overall economic competitiveness. Additionally, in order to assist the elderly population, the government has had to boost spending on pensions and healthcare. This has resulted in a large increase in government debt, putting pressure on Japan's economy.

Furthermore, these issues are not caused solely by the aging population, but also by social tensions in the country, which have resulted in fewer people wanting to marry and getting families since they believe it is not essential to their well-being, and the tension has also resulted in a high suicidal rate among middle and adolescent people.

To address the labor shortage in the economy, the country is promoting an immigration policy in order to attract foreign workers. A strong immigration policy that attracts skilled immigrants and addresses labor shortages in important industries can assist Japan's economy and society cope with the effects of an aging population. The success of such a program, however, will be dependent on Japan's ability to solve a number of problems, including cultural and linguistic barriers, social integration, and political opposition to immigration. To overcome these obstacles, Japan will need to invest in immigration infrastructure as well as support programs that promote social cohesiveness and fulfill the needs of both immigrants and local societies. Therefore, a well-planned immigration policy can assist Japan in maintaining economic development, increasing worker participation, and maintaining its global competitiveness in the face of demographic transition.

The Japanese have enacted numerous strategies to address the aging population, including more immigration, raising the retirement age, and enhancing aged health care. These policies, in our judgment, have both advantages and disadvantages. For example, extending retirement age helps prevent workforce shrinkage and contributes to economic growth and productivity; but, aged workers may have health issues that reduce their output. Moreover, the Japanese government must improve its policies in order to solve the problem and support people in all sectors of the country in order to create a new generation of people who will be the pillars of the forthcoming generation economy, replacing the elderly in the Japanese industrial and labor markets.