
Demography, Gender and the Problems of Japan's Economy

T.J. Pempel

Jack M. Forcey Professor, Department of Political Science, University of California, Berkeley

25 March 2015

The views expressed in this document are the sole responsibility of the speaker(s) and participants, and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event, every effort has been made to provide a fair representation of their views and opinions. The published text of speeches and presentations may differ from delivery.

Introduction

This document summarizes a presentation on the interplay between the problems of Japan's economy and the demographic and gender issues facing the country. It was delivered by T.J. Pempel, Jack M. Forcey Professor at the Department of Political Science, University of California, Berkeley, on 25 March 2015 at Chatham House.

The event was chaired by John Swenson-Wright, head of the Asia Programme at Chatham House.

The presentation formed part of the discussion group series funded by the Nippon Foundation and held in partnership with the Nippon Foundation and the Great Britain Sasakawa Foundation.

The presentation was held on the record. The views expressed are those of the participants and do not represent the views of Chatham House.

T.J. Pempel

The speaker started by thanking the chair and audience for coming to Chatham House, and by going over a number of facts about Japan's socio-economic situation. The country had experienced slow or zero economic growth for a number of years after 1990. The economy accelerated in 2014, but it is too early to tell whether this change will be sustainable. Simultaneously, the country faces a number of demographic challenges. Longer lifespans, later marriages and fewer births are causing the population to shrink and age. Extrapolating from current statistics, by 2060 Japan's population will have shrunk by 30 per cent, with the elderly constituting 40 per cent of the total. In addition to these challenges, Japan ranks at the bottom of OECD countries for gender equality. This is despite Prime Minister Shinzo Abe's plans for a number of policies to improve equality, under the rubric of 'Womenomics'. Pempel's presentation aimed to outline how these challenges could be addressed in order to boost Japan's economic growth.

Growth rates have slowed dramatically over the past six decades. Whereas Japan's GDP grew by an average of 9.2 per cent in 1956–73 and 3.8 per cent during the years 1974–90, both well above OECD averages, it slowed to 1.3 per cent in 1990–2000. The simultaneous decline in the population and ageing of society mean that Japan faces a rapidly shrinking workforce. However, these factors are part of a broader demographic trend: between 1950 and 1990, the proportion of Japan's population working in agriculture or fishing fell from 50 per cent to 6 per cent. During the same period, the tertiary sector's share of the economy increased from 30 per cent to 60 per cent. By 1985, 80 per cent of Japan's workforce was employed in firms. The simultaneous decline in Japan's birth rate meant that the ratio of workers to retirees changed from 20:1 in 1950 to 3:1 in 2015. Coinciding with improved opportunities for women to earn income outside the home, and with the rising cost of educating children, these trends have exerted downward pressure on fertility rates in all developed nations. However, Japanese women have been singled out for frequent criticism by the country's elder male generations.

Taken together, these developments have steeply increased government spending in Japan. Fiscal pressures have increased, with fewer workers paying taxes to support the rising costs of providing health care and retirement benefits. In order to avoid raising taxes, Tokyo has met these demands largely by increasing public borrowing. Consequently, Japan's debt as a proportion of GDP has risen faster than the debt of any other OECD country over the past two decades; at approximately 240 per cent of its current GDP, Japan's debt is greater than that of Greece.

Against this background Prime Minister Abe launched his programme of 'Abenomics'. This programme has 'three arrows' – fiscal stimulus, quantitative and qualitative easing, and structural reform – and has earned him substantial popularity among Japan's voters. Since Prime Minister Abe came to office in 2012, the Japanese Nikkei 225 stock-market index has gone up, whereas the yen has fallen in value. Abe has reduced the government's reliance on bonds, and Japan's overall debt has started to decrease.

However, according to Pempel the third 'arrow' – namely structural reform that goes beyond macroeconomic policy – still needs to be addressed. The speaker argued that demography is not destiny. In his view, both the government and corporations are able to enact specific policies which may reverse the trends of a decreasing workforce, diminishing fertility and an ageing population. Nor would policy changes necessarily require a substantial increase in immigration (a topic that has been the object of heated debate in Japan).

Essentially, Japan has two options: either to expand the country's labour force; or to increase the output per worker, i.e. through greater productivity and efficiency. Both options would require active engagement both at the government and corporate levels. Increasing the number of women in the workforce, and introducing a system reliant more on productivity than on age, may not be a panacea but would contribute substantially to returning the country to a positive growth trajectory.

Japan is among the lowest-ranking OECD countries on the Global Gender Gap Index, coming in at 104th place (out of 142 countries), between Armenia and the Maldives. Of particular concern in this respect is a lack of political empowerment and economic participation. In January 2014 Prime Minister Abe announced his intention to address this issue through a programme of 'Womenomics' – promising, among other things, to increase the percentages of women both in top positions and in the overall workforce, as well as to increase the number of women returning to work after giving birth. However, there has been little policy progress. The political empowerment of women is an indicative example: only 8 per cent of members of the Japanese Diet are women, a smaller share than in Saudi Arabia or Somalia. And while Prime Minister Abe's late-2014 cabinet included five women, three left quickly.

Gender discrimination is not only a political problem, but also extends to the corporate world: the number of female Japanese managers and board directors remains substantially lower than in other developed countries, and women in Japan are paid approximately 18 per cent less than their male counterparts. Perhaps unsurprisingly, when asked their reasons for leaving the workforce, Japanese women cite 'push' rather than 'pull' factors – such as an unsatisfying career, an absence of child care, and pressure to care for the elderly. However, contrary to the views of certain Japanese men, gender equality in the workplace enhances fertility rates in most advanced countries. Following an initial decline in birth rates, once a country introduces adequate social policies, fertility begins to increase again – although Japan and South Korea are notable exceptions to this pattern.

The speaker then turned to Japanese corporations, which he argued are far less efficient and productive than their reputation suggests. At \$36 per person per hour, Japanese employees' productivity offers the lowest return on labour among the G7 countries, and is well below the OECD average. Much of this problem is a consequence of the fact that a core (and ageing) workforce is essentially guaranteed employment. This creates a bias against hiring full-time younger workers. There exists a long tradition in Japanese companies of hiring employees immediately after completion of tertiary education, and of retaining them until retirement. However, as a consequence of the economic difficulties of the past decade, companies are increasingly relying on existing staff, and hiring part-time workers to fill in the gaps. These part-timers are disproportionately young, and are typically denied the social security and other benefits afforded to core workers. Statistics show not only that Japan features a comparatively high

pay gap between generations, but also that the young are increasingly impoverished. In short, the long period during which Japan's economy was among the most egalitarian in the world – comparable to Scandinavian countries today – has come to an end. Pempel expressed his view that it will be very tough to change corporate culture, a point underlined by the fact that in 2013 some 600 of the largest 1,400 Japanese companies still chose directors from among their own employees, thus perpetuating corporate traditions and policies. While the country used to be the world's leading economy in consumer technology, today it doesn't have many products to compete globally with those of Samsung or Apple – a problem that the speaker attributed to a lack of young workers bringing creativity into Japanese corporations.

There have been many reforms in Japanese companies, but by and large they continue to resist gender equality. In addition, obstacles to the liberalization of labour laws make it difficult for young Japanese to find full-time employment.

Pempel concluded that Prime Minister Abe has made important policy progress at the macroeconomic level. He has announced a number of potentially positive steps towards gender equality and labour law reform. However, unless these are actively translated into policy and accompanied by a change in corporate culture, Abenomics is unlikely to succeed.

Question 1: It has been suggested that one of the principle reasons for Japan's low birth rate is the social constraint on children born outside marriage. Would you subscribe to this view?

More so than in Europe or the US, in Japan an increasing number of women appear uninterested in long-term relationships or marriage. More significant, however, is the fact that the average age of marriage is rising. Paired with the social stigma attached to having children outside marriage, this development may well have a significant impact on Japan's birth rate.

Question 2: What do you think is going on in the Japanese mind that is more important than the arguments for gender equality?

Gender images and respect for the elderly are deeply embedded in Japanese attitudes, making it difficult – perhaps more difficult than in other countries – for women to be taken seriously. Simultaneously, ideas from younger Japanese are often rejected on the grounds that they are too young to understand certain issues. These cultural attitudes will be difficult to overcome.

Question 3: Abe has certainly put a lot of emphasis on 'Womenomics'. Where is the political pay-off? Is there calculation behind this, and is there any evidence that it is working?

'Womenomics' may marginally benefit Prime Minister Abe, but it is unlikely to yield substantial increases in support for either him or the Liberal Democratic Party (LDP) in the short term. However, should the programme yield substantive results – leading, for example, to an increase in women returning to work after having children, and to faster economic growth – then both Prime Minister Abe and the LDP could see a significant rise in popularity. This would perhaps translate into women voting more consistently for the LDP.

Question 4: You talked about two solutions for dealing with Japan's economic problems: Improving efficiency and increasing the labour force. What about the third argument, namely that Japan may simply need to adjust to lower rates of economic growth? It seems that parts of Japan's younger generations are advocating a less ambitious approach. Have any political actors been making this argument, and, if so, how has the prime minister responded?

A lot of people appear to be adjusting to slower economic growth. Critics assert that Japan is risking becoming less significant on the international stage, but there exists a growing number of Japanese for whom this doesn't pose a problem, provided the country is able to maintain its high standard of living. However, Japan remains heavily indebted. Thus, to maintain its standard of living, Japan will require a minimum annual GDP growth rate of 2 per cent, which in turn will require it to increase its productivity and to make goods that appeal to foreign buyers. The real challenge for Japan may be to change from export-led to consumer-led economic growth, and for its corporations to be more sensitive to consumers' needs.

Question 5: How could immigration affect the Japanese workforce?

Japan for years has been very hesitant towards immigration, with a long tradition of citizenship by blood rather than by residence. To date Japanese policy-makers remain resistant to the concept of Japan as an immigrant society. Apart from short-term labour, there is little basis for foreigners working in Japan. However, the Abe administration has hinted that it may be open to temporary immigration by skilled workers.

Question 6: Which segments of the economy are more or less productive?

Japanese workers remain among the most productive in the world in nearly any industry involving tools and robotics, including car manufacturing. However, the services industry remains inefficient. Again, this may be related to the culture of lifelong employment. Senior employees are often retained despite the availability of younger, potentially more productive staff. This is a problem the Japanese economy is yet to overcome.

Question 7: Following the recent elections in Japan's lower house, Prime Minister Abe is much more secure in his position, and would be able theoretically to confront some of the vested interests blocking much-needed reforms. Is the prime minister's rhetoric of 'structural reforms' intended to take on these groups? Does the LDP's new strength make it easier to tackle these groups; or, on the contrary, does it make it easier for MPs to dig their heels in?

Prime Minister Abe has been most aggressive in tackling vested interests in agriculture. However, agriculture plays a comparatively small role in the Japanese economy. Nurses have been much more vocal and successful in resisting reform. The Abe administration has spent much of its political capital on addressing issues of nationalism and historical memory. Such policies are risky, but the prime minister feels drawn to them, sometimes at the expense of expending political capital in the service of necessary economic policies.

Question 8: To what extent are Japanese corporations prepared for greater female engagement in the workplace?

The attitude of many (often male) decision-makers in Japanese corporations is that there is little incentive to train women, since they are likely to drop out of employment due to pregnancy. An alternative perspective may be that Japanese corporations, having trained female employees in the first place, ought to welcome them back to the office and provide additional training if needed. Another approach may be to change the culture wherein employees are expected to stay in the office for as many hours as their superiors. If Japanese corporations could cut expectations of massive, and often wasteful, overtime, this would significantly facilitate employment for mothers. Eventually, corporations might even find that women would work longer hours whenever necessary – in contrast to the situation in many US cities, where female employees have safety concerns about going home late at night, Japan continues to provide its citizens with an extraordinarily safe environment.

