

Center on Japanese Economy and Business  
Columbia Business School  
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# The Challenges Facing Young People in Japan

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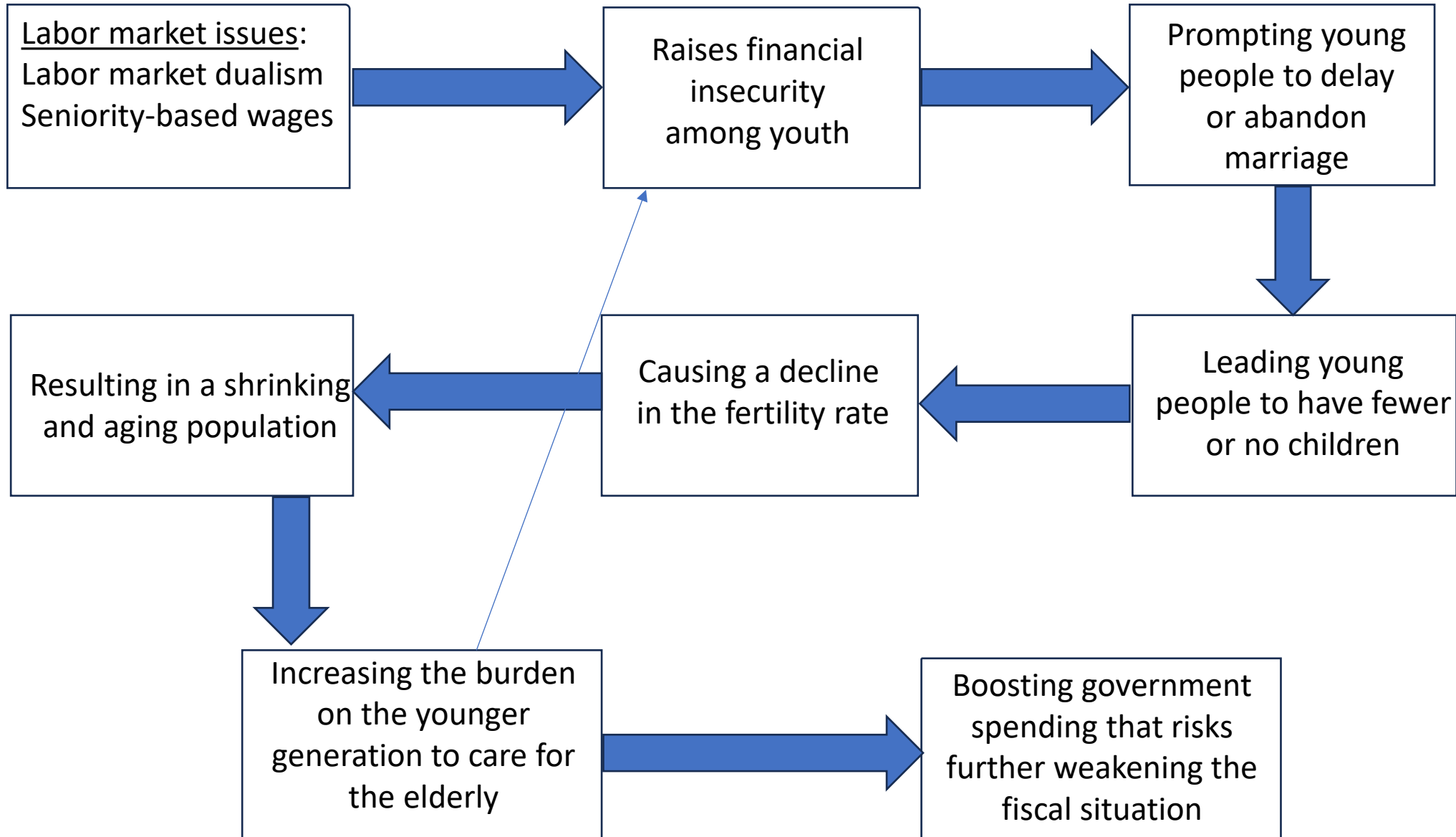
Adjunct Professor, Johns Hopkins University

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Former Senior Counselor - East Asia and Head of Japan/Korea Desk,  
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# Main points of presentation

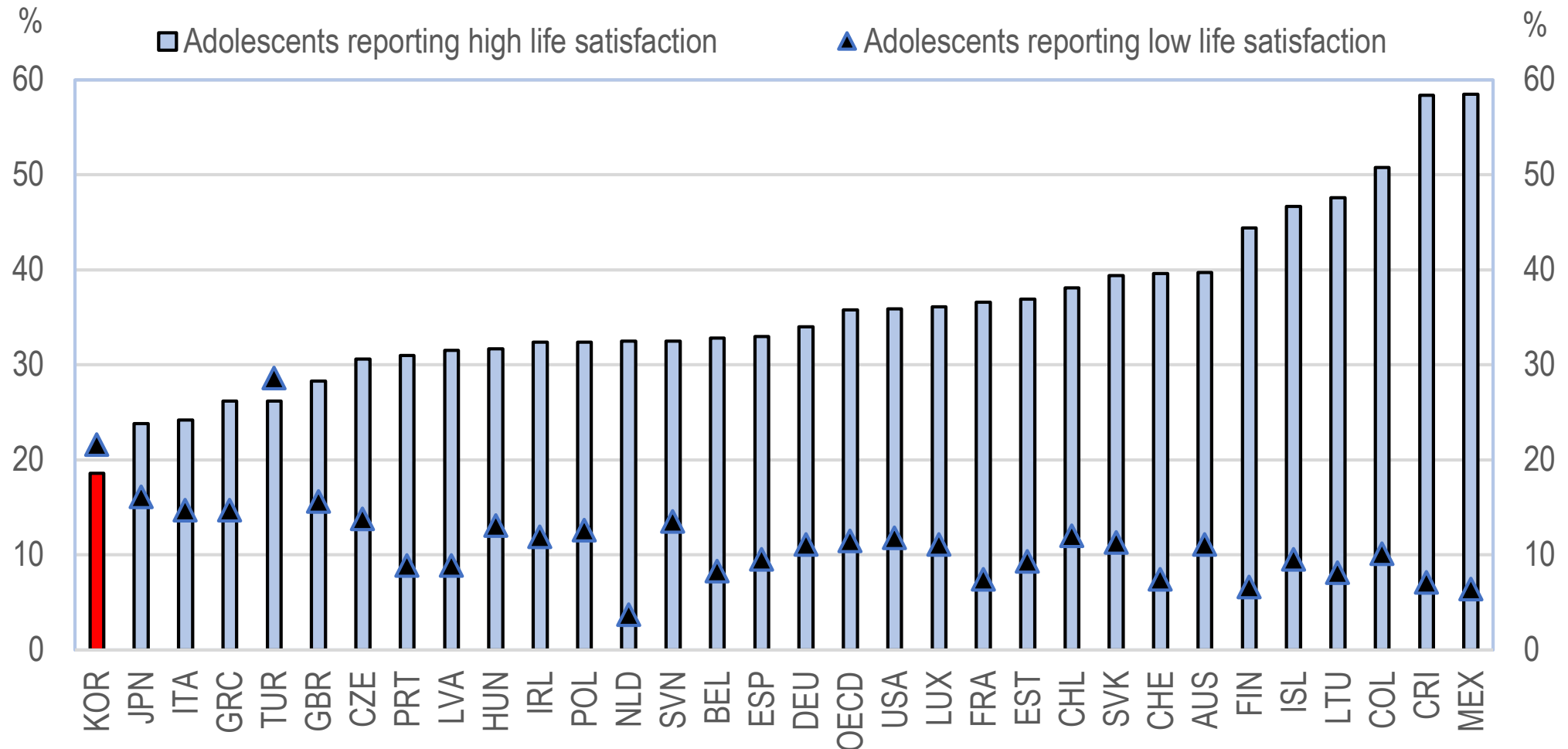
- ❑ Despite high levels of well-being and an exceptionally long life expectancy in Japan, many surveys suggest a significant degree of pessimism among young Japanese. For example, the 2024 White Paper on Children's Policy reported that only 23% of youth believe that Japan "has a bright future".
- ❑ The economic uncertainties and financial insecurity of young people in Japan, where per capita income has been falling behind other advanced economies, underpins the lack of confidence. The financial insecurity stems in part from low wages for young people in Japan's seniority-based wage system and the prevalence of low-paid non-regular employment, especially for women.
- ❑ The weak financial status of young people is a factor that undermines family creation and leads to Japan's exceptionally low fertility rate, which has become a top government concern. A lack of adequate income is cited by young people as the primary cause for delaying or abandoning marriage and children.
- ❑ The resulting demographic headwind is boosting the already high ratio of elderly to the working-age population, creating further burdens on the younger generation to support the older generation and reduce the high poverty rate among the elderly.
- ❑ The upward pressure on elderly-related spending may exacerbate the fiscal situation in Japan, which faces a gross government debt-to-GDP ratio of 242%.



# Outline of presentation

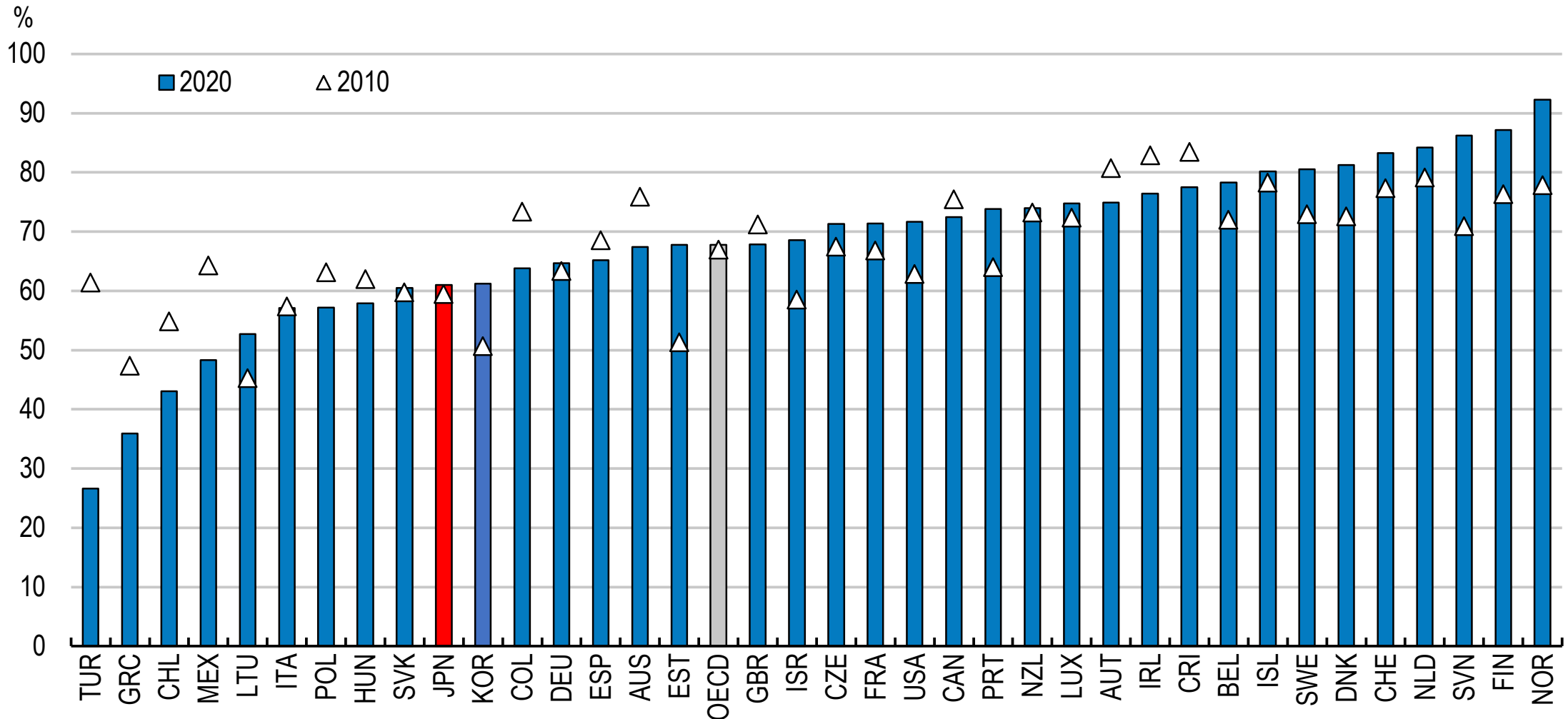
1. Signs of pessimism among Japanese youth
2. Labor market practices contribute to the financial challenges facing Japanese youth
3. Financial insecurity among young people reinforces the downward trend on the fertility rate
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# Life satisfaction for 15-year-olds in Japan is the second lowest among OECD countries



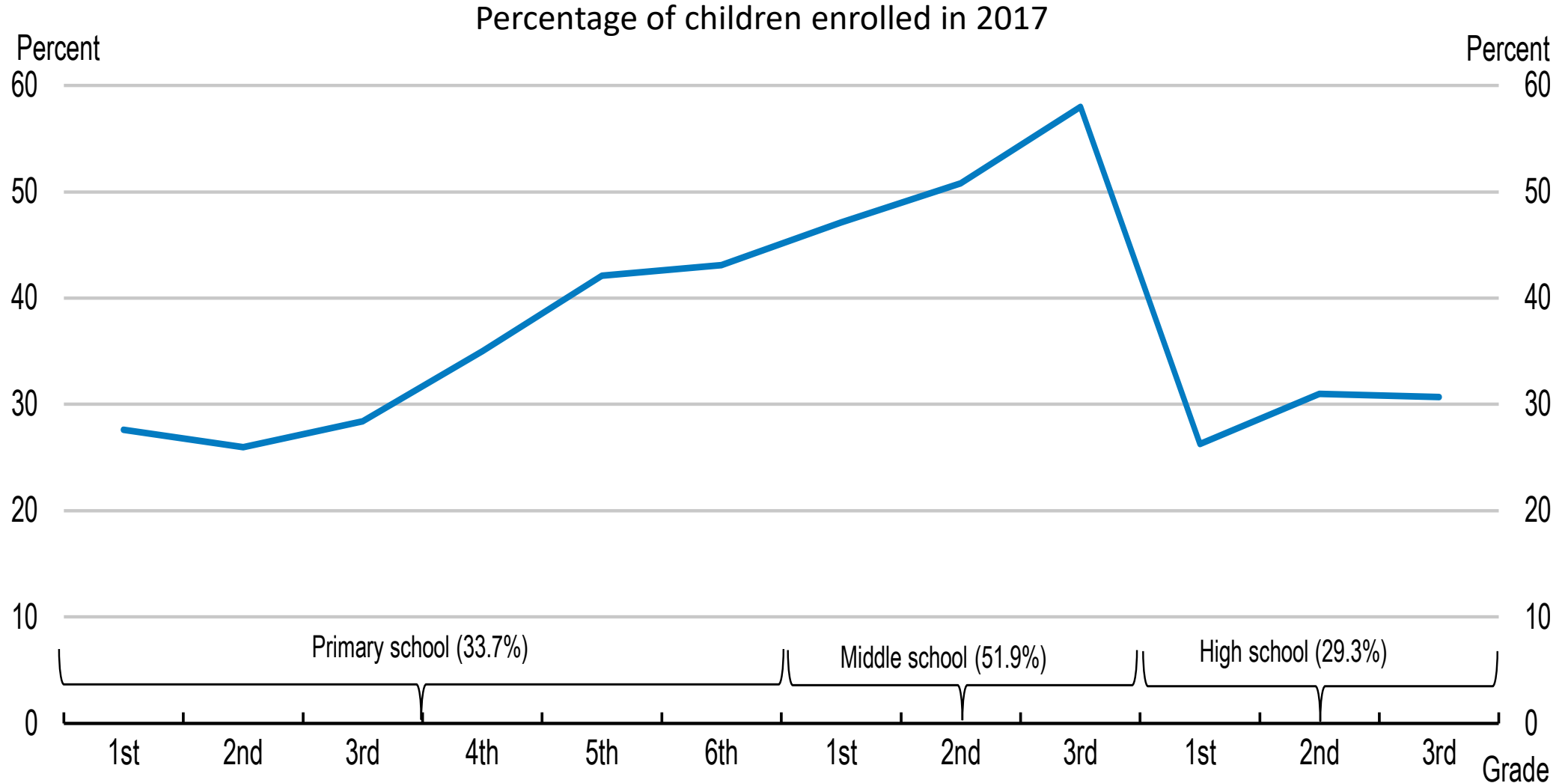
Source: R. Jones (2022), "Policies to increase youth employment in Korea", 2022 OECD Economic Survey of Korea, OECD Publishing, Paris.

# The share of Japanese parents who are satisfied with the current school system is low...

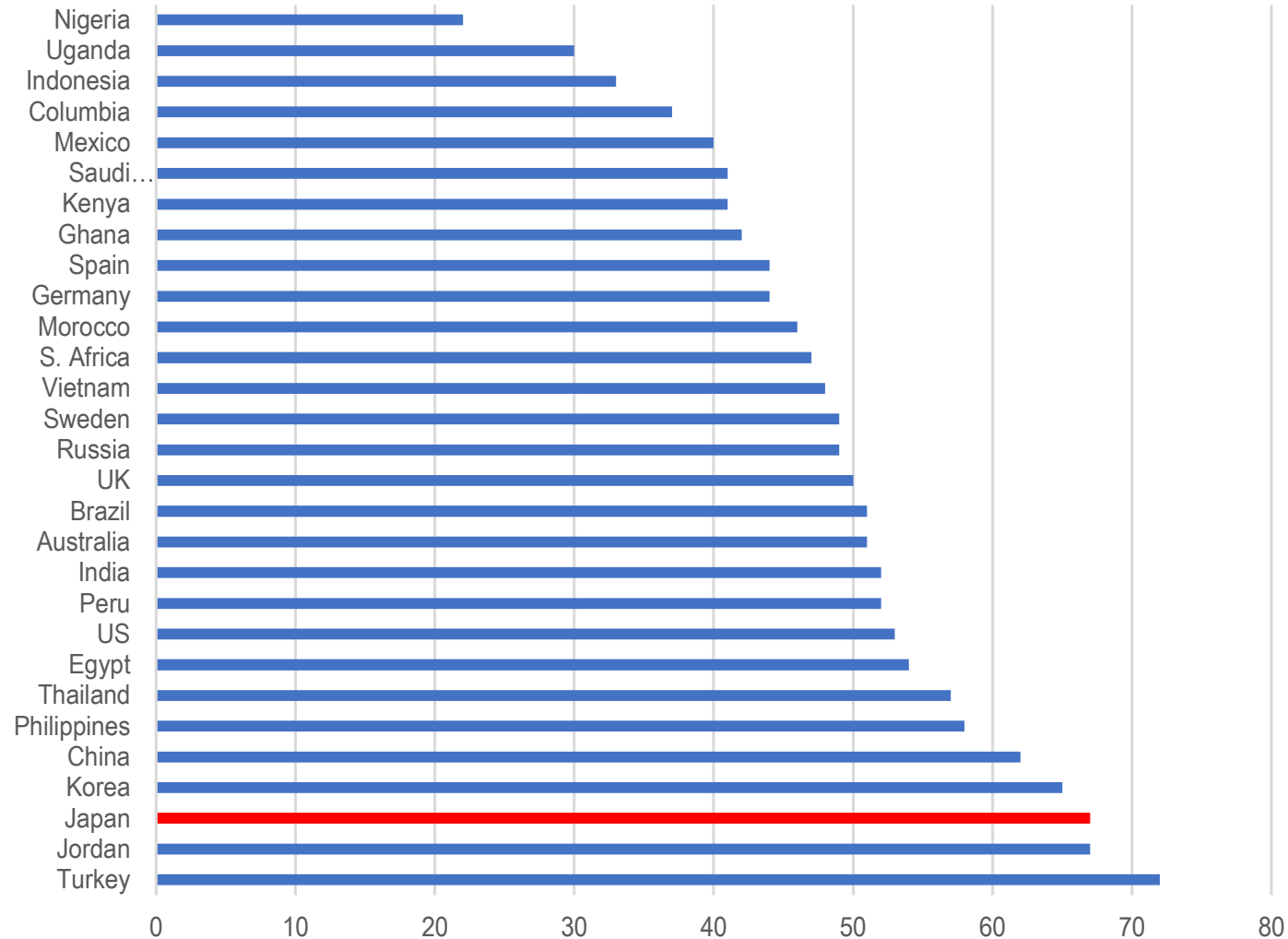


Source: OECD, 2024 OECD Economic Survey of Korea, OECD Publishing, Paris.

# ...prompting many to enrol their children in after-school tutoring institutions (*juku*)



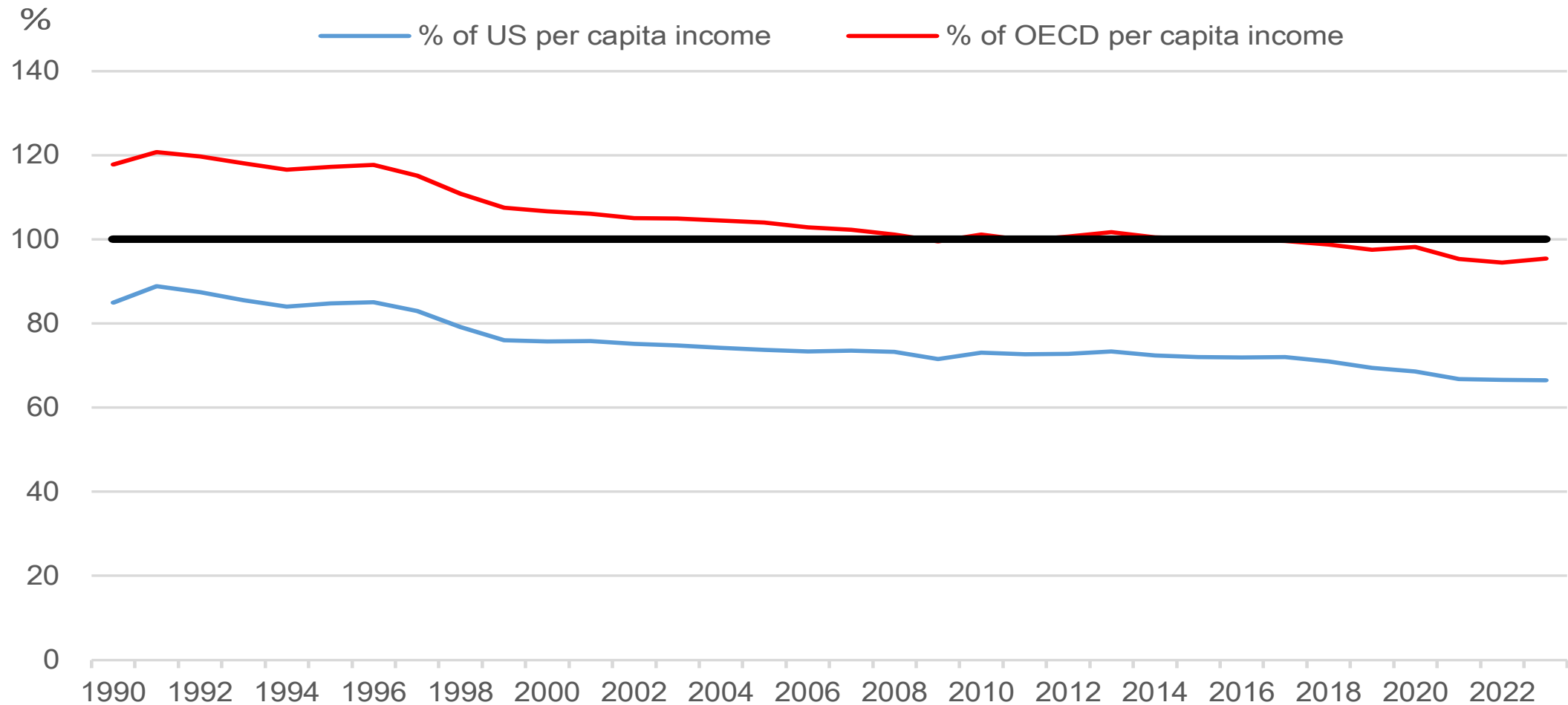
# Juku and the education system contribute to the share of Japanese youth who say that their “life is too stressful”



Source: International Youth Foundation, *2017 Global Youth Wellbeing Index*.



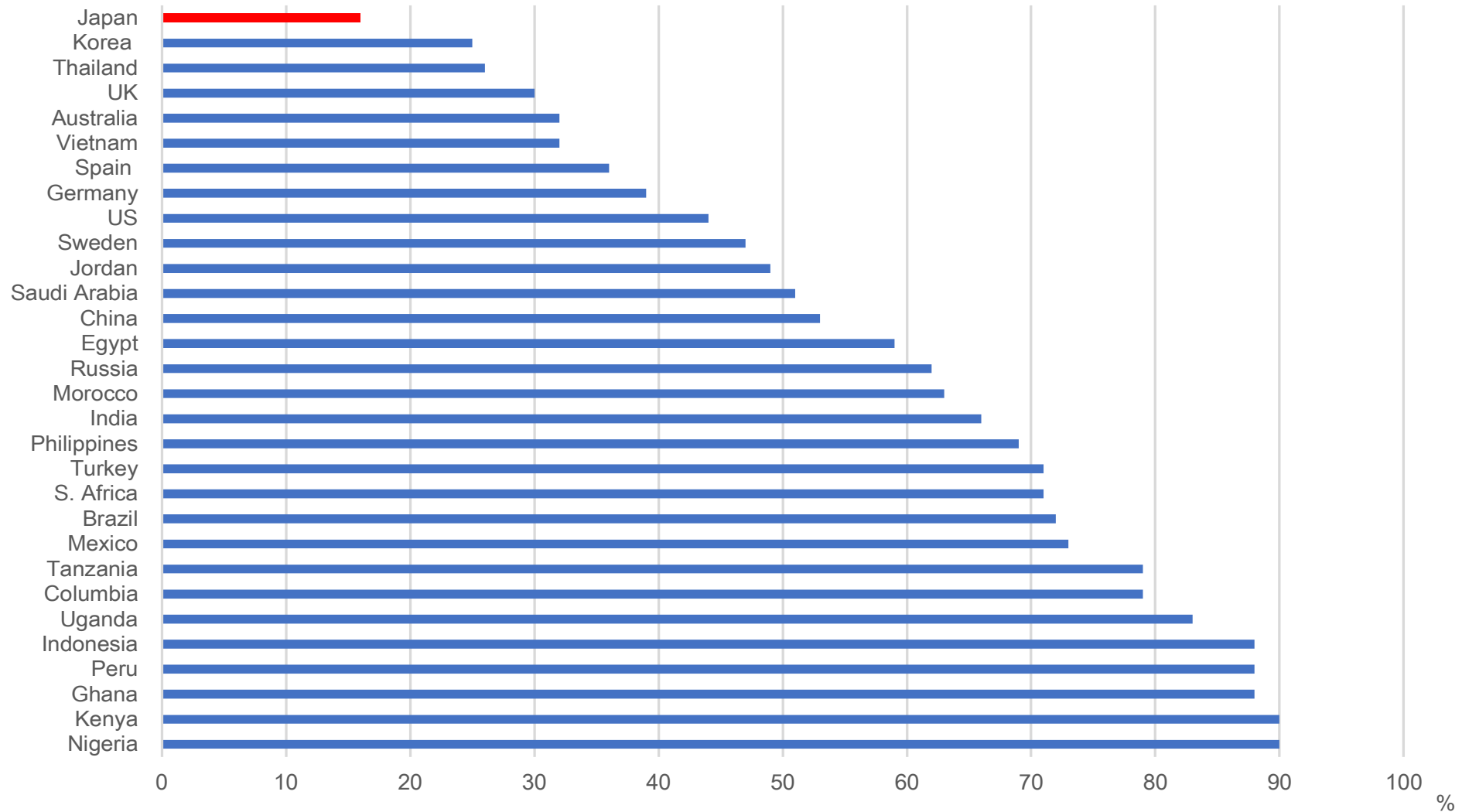
# Japan's per capita income has fallen relative to the US and the OECD area



Note: Annual GDP per capita in volume, constant PPPs (reference year 2015).

Source: OECD Explorer, [OECD Data Explorer • Annual GDP and consumption per capita, US \\$, volume, constant PPPs, reference year 2015](#), accessed 18 November 2024.

# The share of Japanese youth who expect their income to exceed that of their parents is low



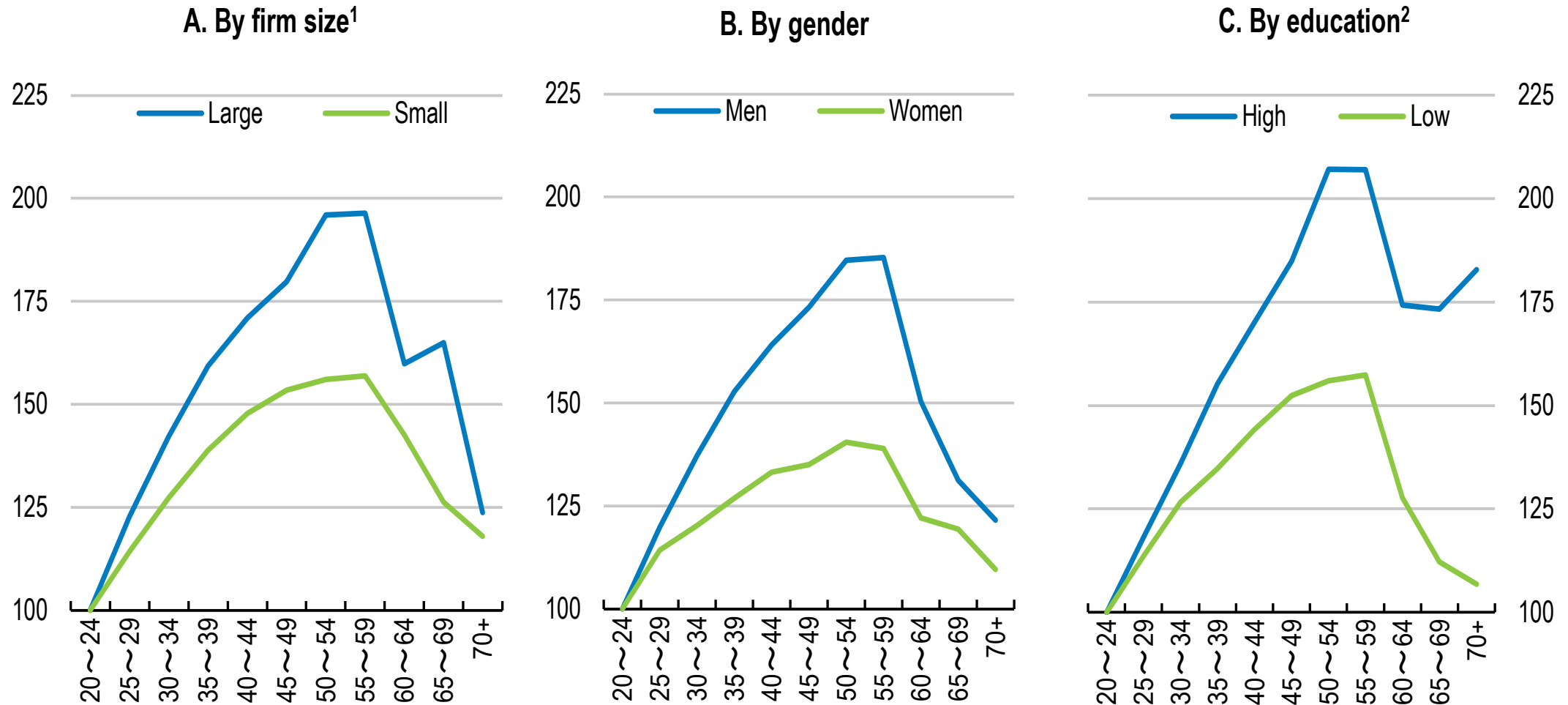
Source: International Youth Foundation, *2017 Global Youth Wellbeing Index*.

# Outline of presentation

1. Signs of pessimism among Japanese youth
2. **Labor market practices contribute to the financial challenges facing Japanese youth:** Former PM Kishida set a goal of raising young people's income by: i) creating a "job-based pay system"; and ii) allowing non-regular workers to become regular workers.
3. Financial insecurity among young people reinforces the downward trend on the fertility rate
4. The rising proportion of the elderly in Japan's population poses a growing burden on the younger generation
5. Rising spending for the elderly population in context of exceptionally high government debt may pose risks to Japan's fiscal sustainability
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# Japan's seniority-based wage system underpays young people

The wage profile for regular employees, 20-24 age group = 100 in 2021

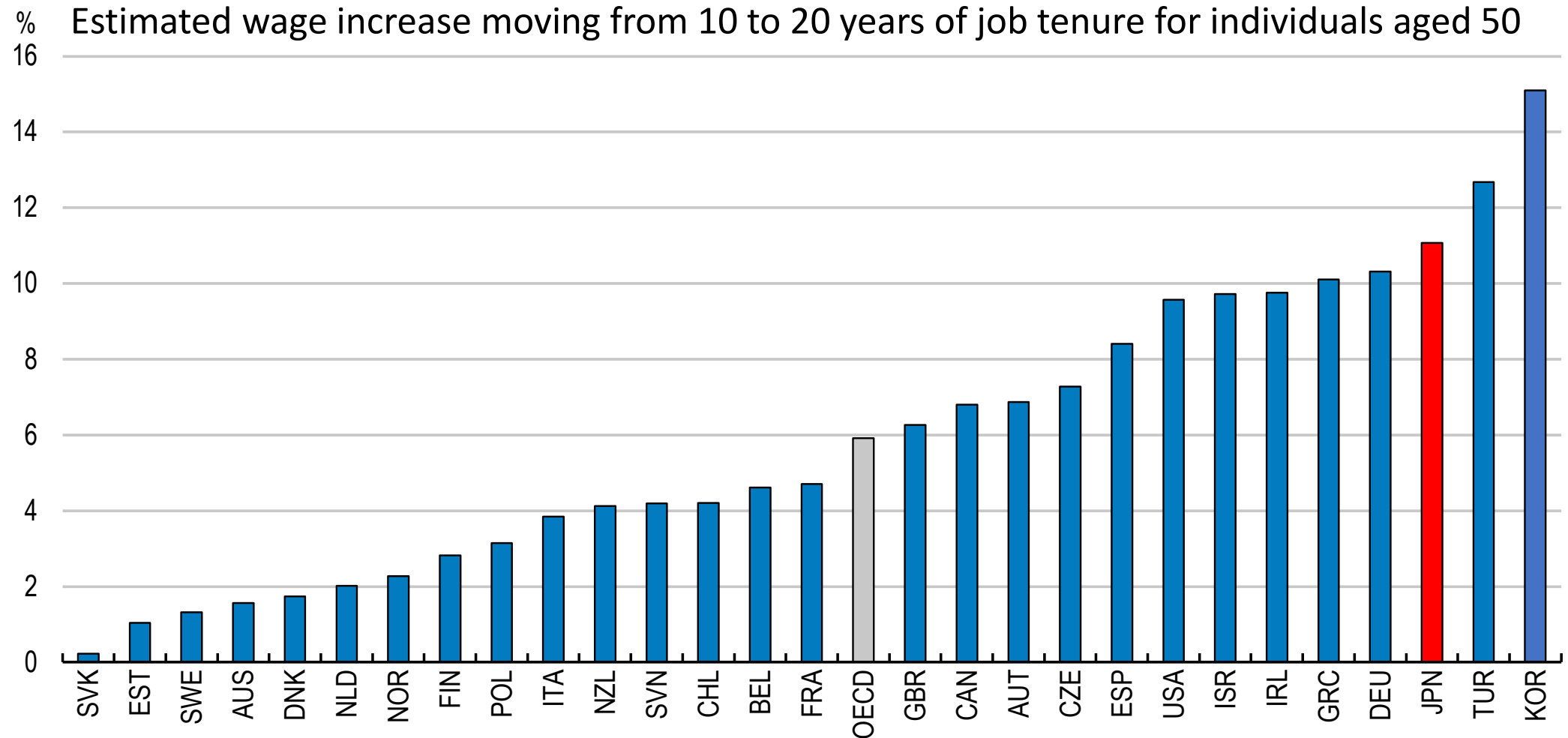


1. Large firms are those with more than 1 000 employees and small firms are those with between 10 and 99.

2. High refers to university graduates and low refers to high school graduates.

Source: Ministry of Health, Labor and Welfare, *Basic Survey on Wage Structure 2021*.

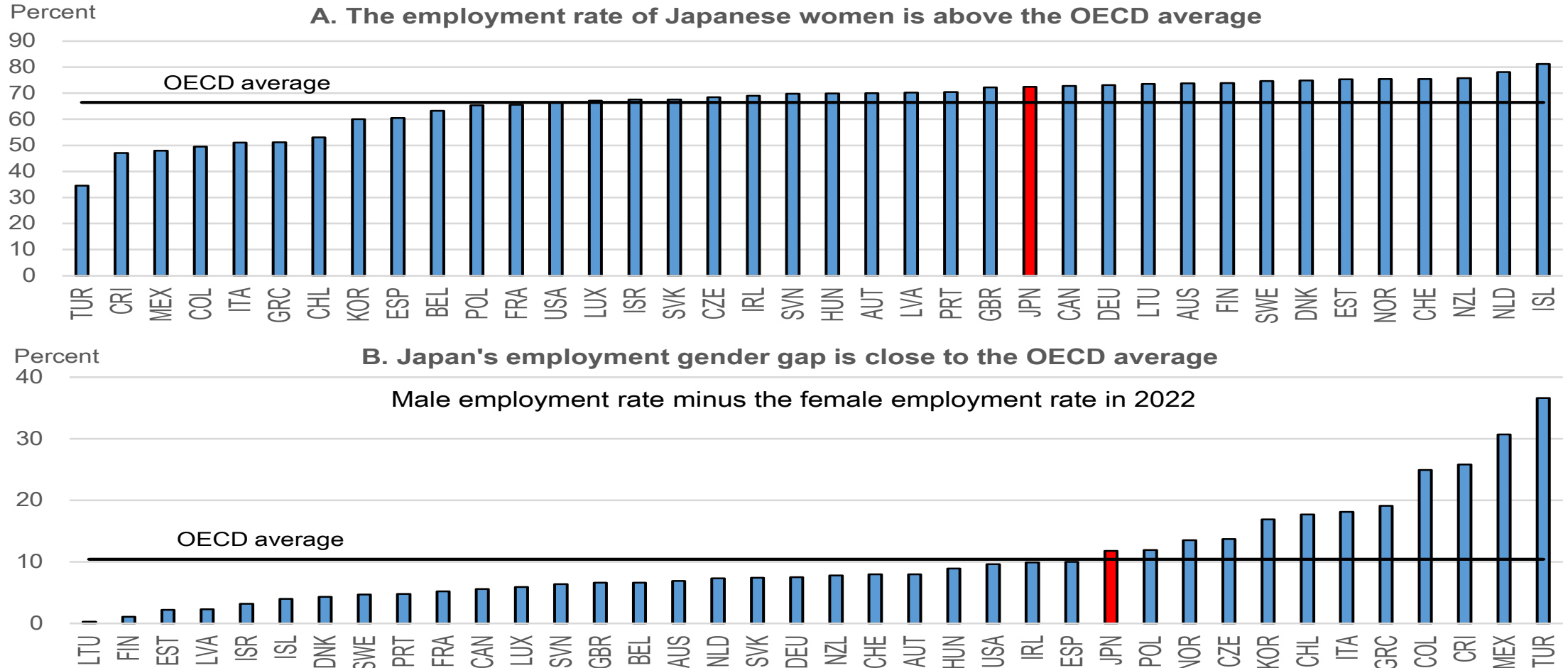
# The impact of seniority on wages in Japan is relatively strong compared to other OECD countries



Note: Estimates were obtained from a cross-sectional regression of wages on tenure, squared tenure and controls for: gender, experience, years of education, literacy and numeracy skills, occupation, skill use at work, and educational status of the parents.

Source: OECD, 2024 OECD Economic Survey of Korea, OECD Publishing, Paris.

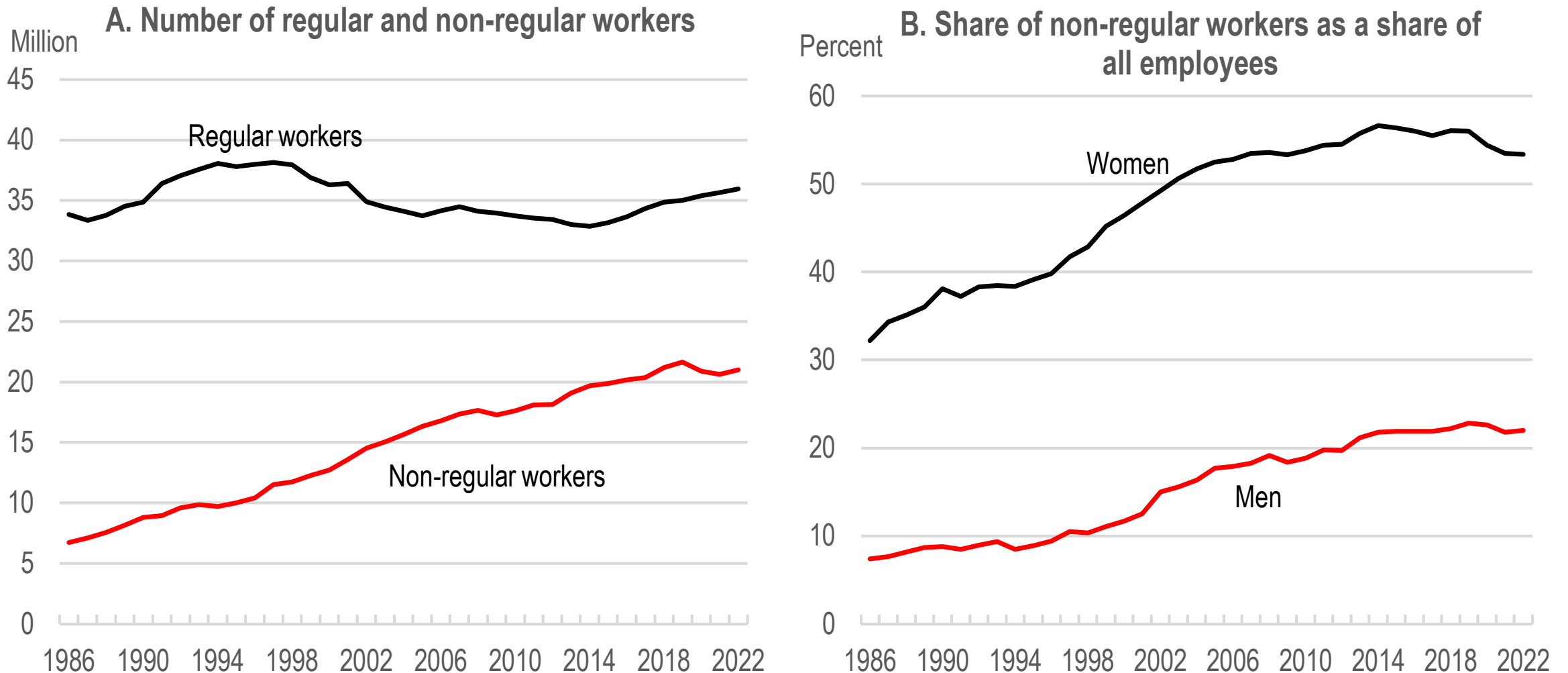
# The female employment rate and employment gender gap are close to the OECD average



Note: Panel A – Percentage of 15-64 population in 2022; Panel B – Male employment rate minus the female employment rate in 2022.

Source: OECD, Labor Force Statistics database.

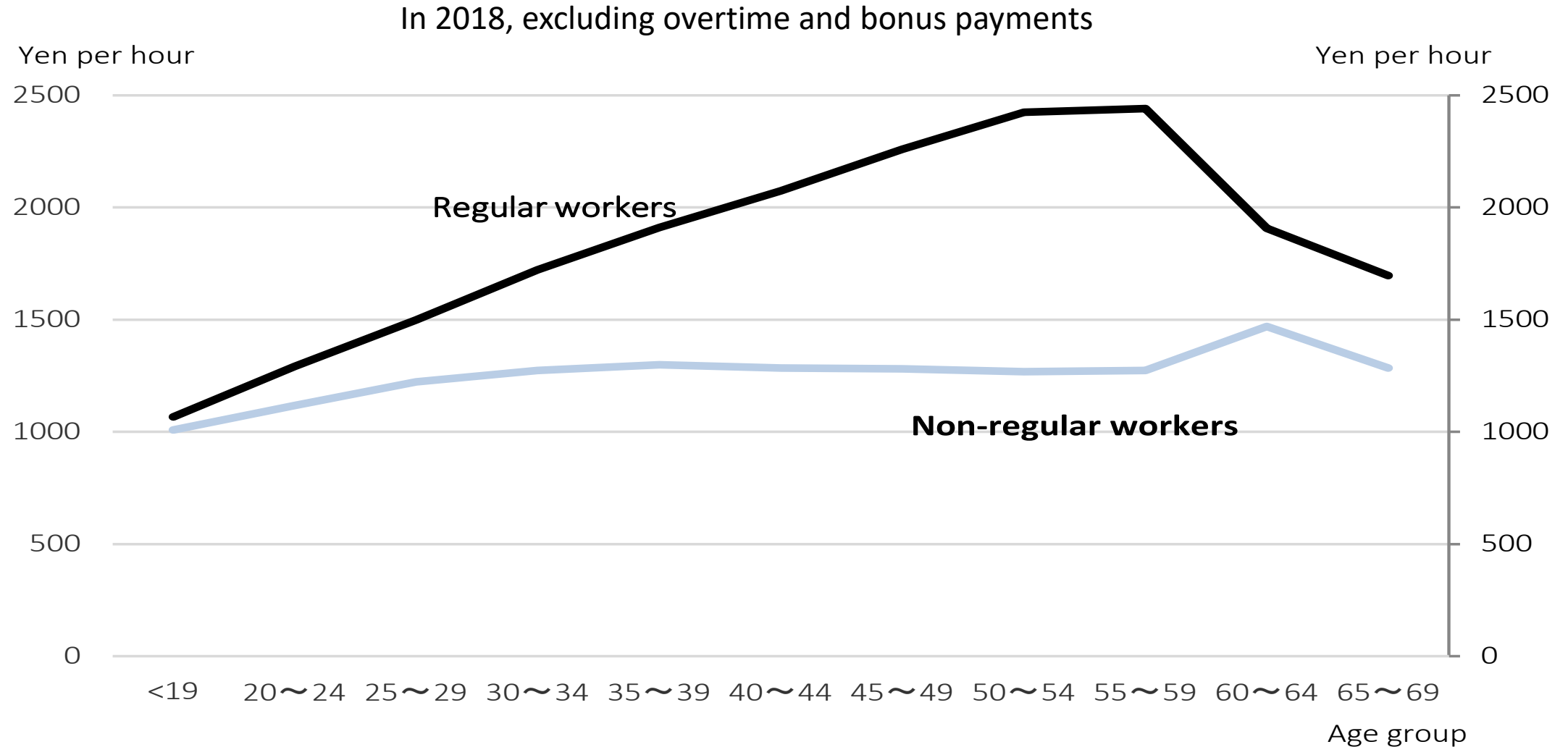
# Labor market dualism has increased rapidly during the last 40 years particularly for women



Note: Non-regular workers include temporary, part-time, dispatched and atypical employees.

Source: Ministry of Internal Affairs and Communications, *Labor Force Survey, Basic Tabulation*.

# Labor market dualism – the segmentation between regular and non-regular work – leads to high wage inequality

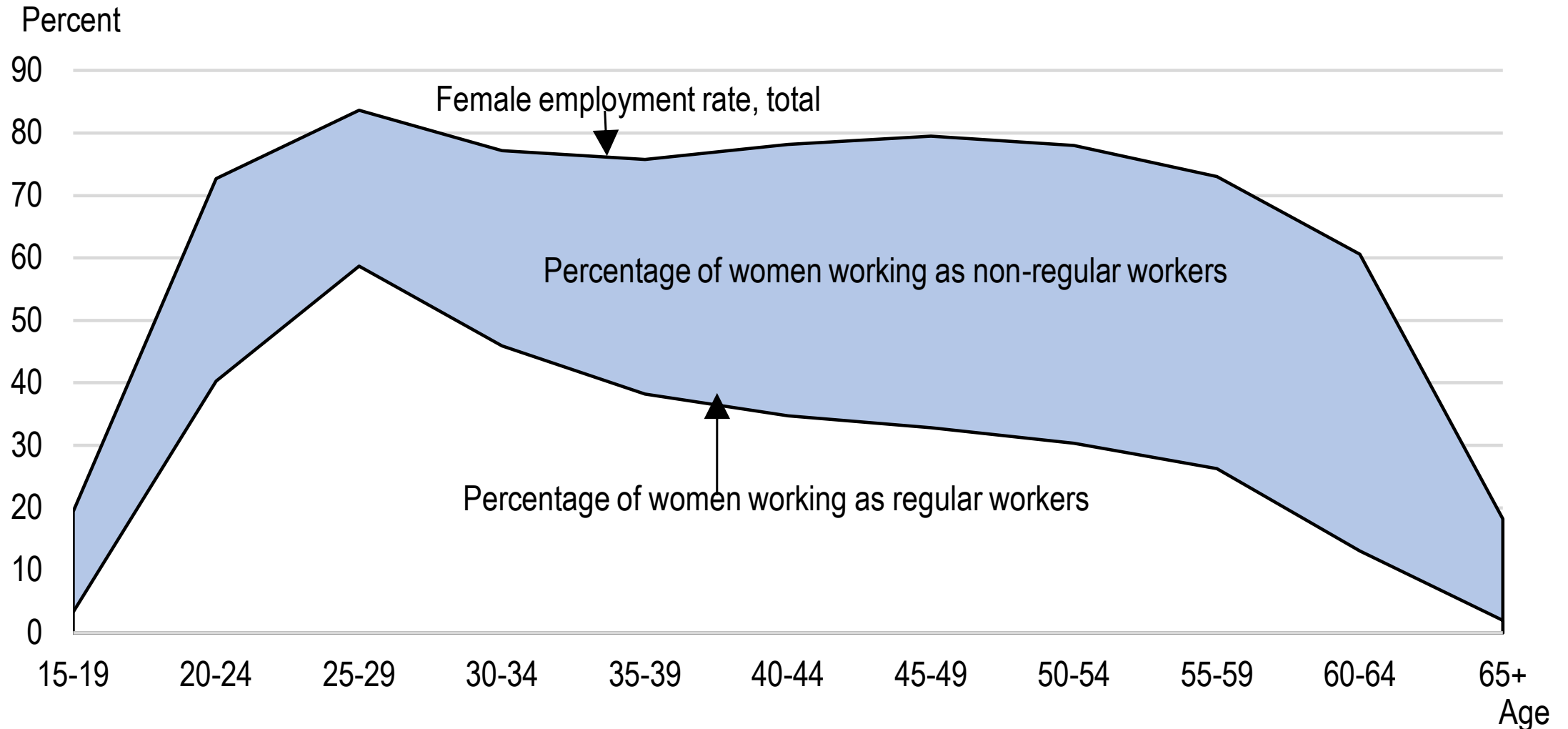


Note: Scheduled cash earnings divided by actual number of scheduled hours worked. Non-regular workers include temporary, part-time, dispatched and atypical employees

Source: R. Jones (2022), *The Japanese Economy: Strategies to Cope with a Shrinking and Ageing Population*, London: Routledge Press.

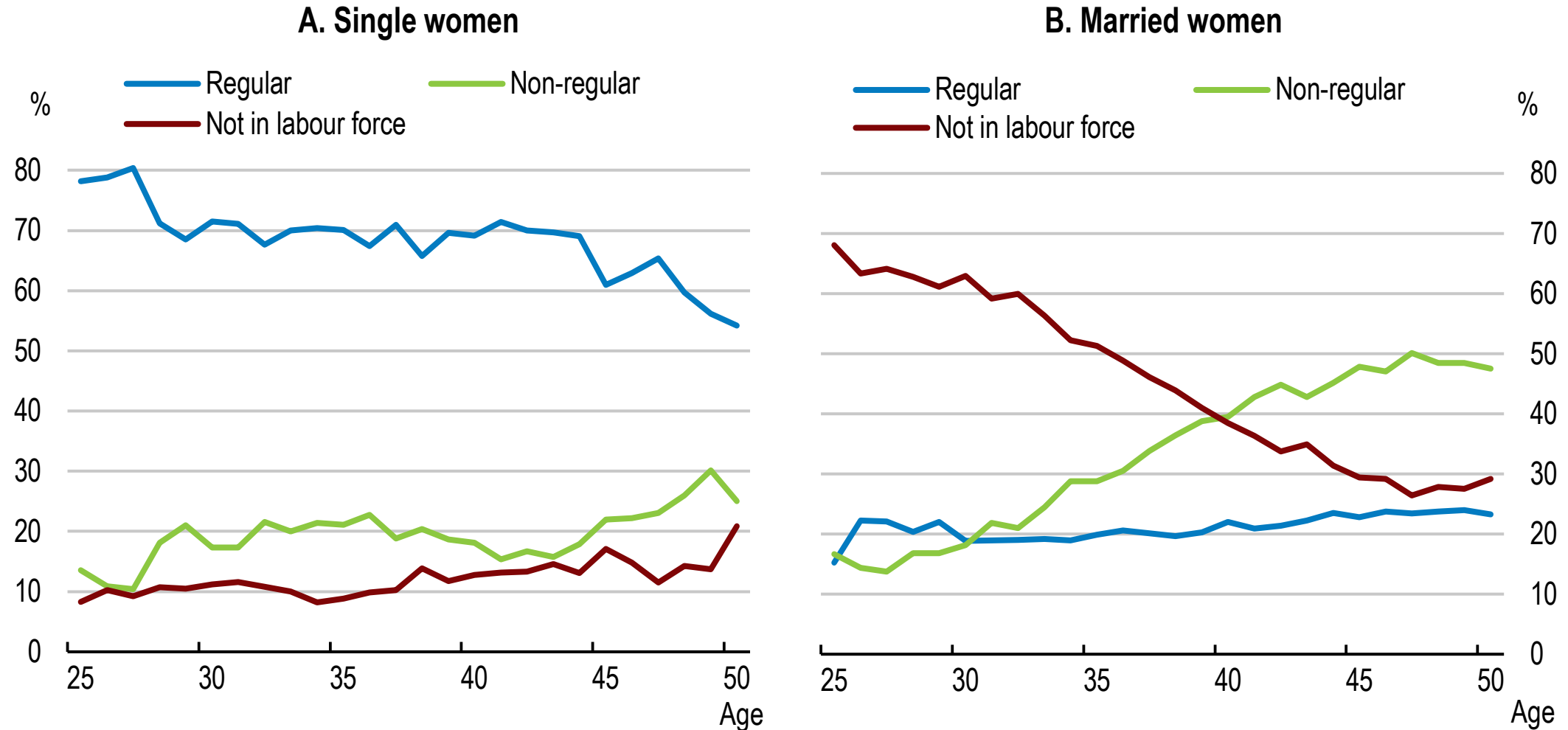


# The share of female employees who are regular workers declines steadily from age 30



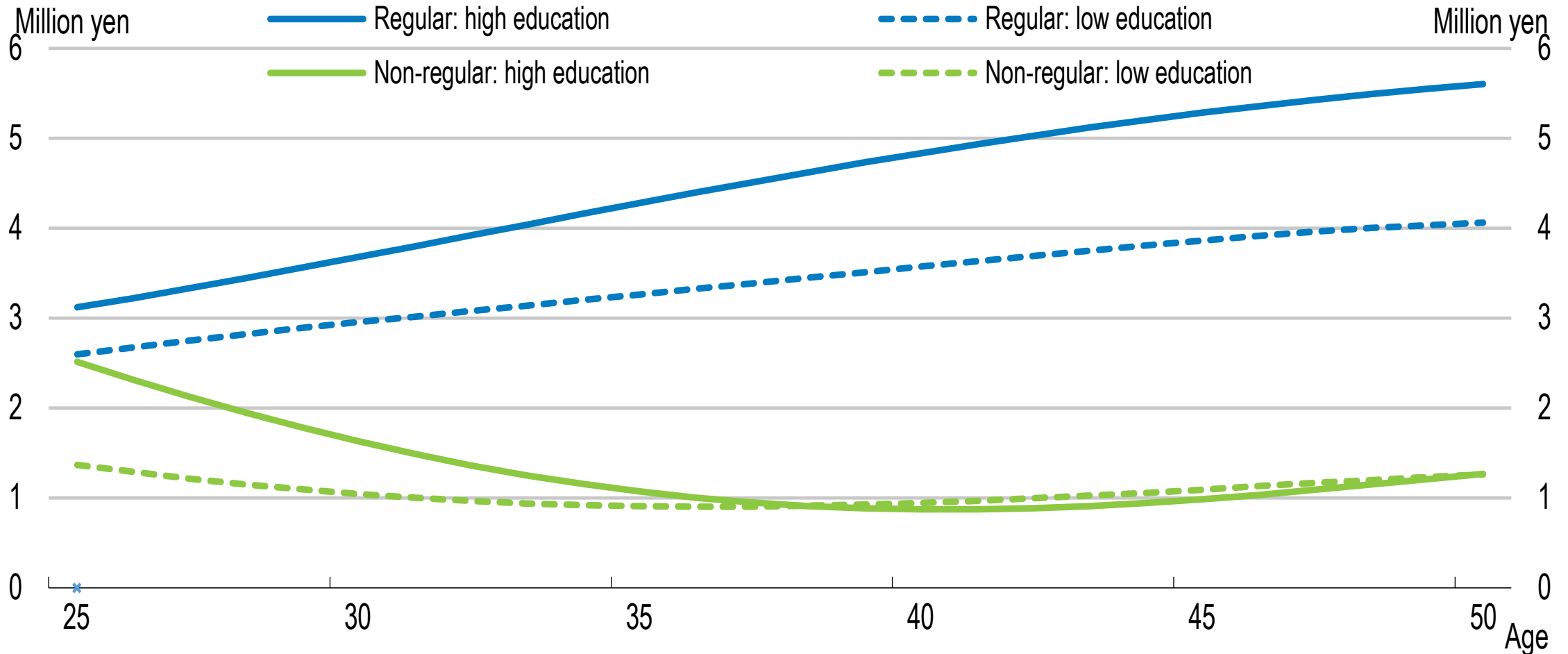
Source: Ministry of Internal Affairs and Communications, Labor Force Survey, Basic Tabulation.

# Many women face a choice of being single and a regular worker or married and a non-regular worker



Source: Kitao, S. and M. Mikoshiba (2022), "Why women work the way they do in Japan: Role of fiscal policies", *RIETI Discussion Paper Series*, No. 22-E-016, Tokyo.

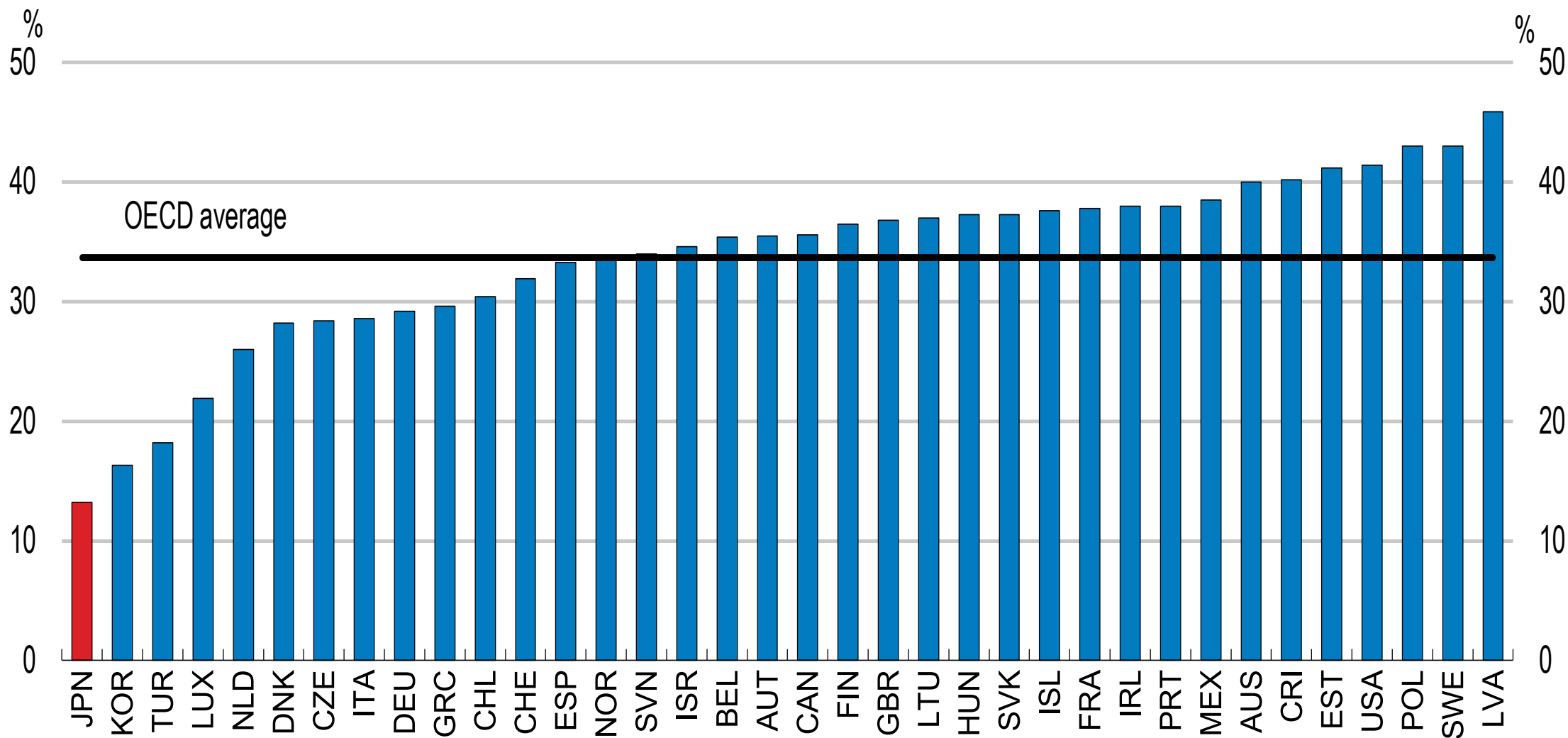
# For women who are non-regular workers, higher education has little impact on earnings



Note: High education refers to women with a college degree and above. Low education refers to women with less than a college degree.

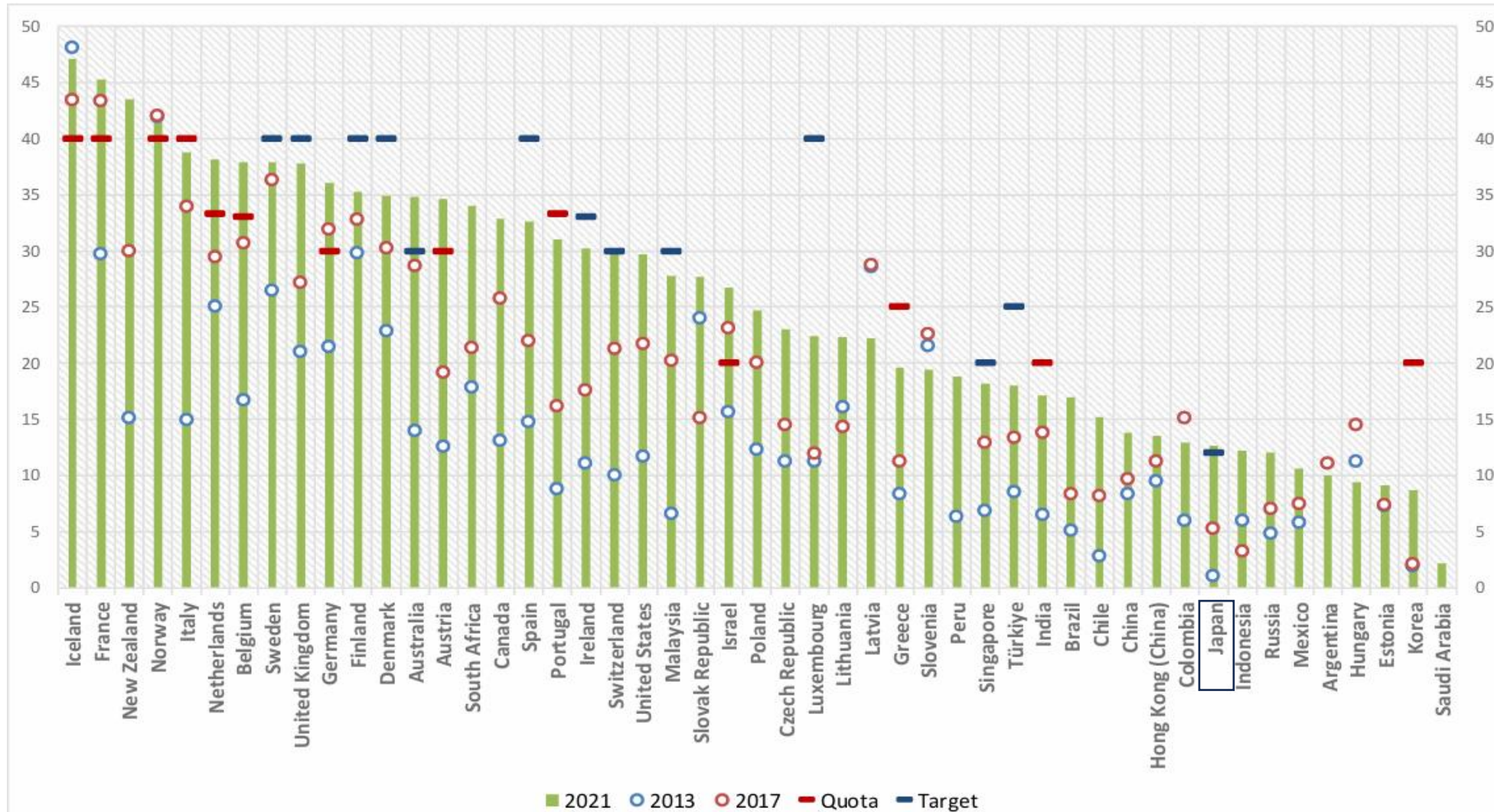
Source: Kitao, S. and M. Mikoshiba (2022), “Why women work the way they do in Japan: Role of fiscal policies”, RIETI Discussion Paper Series, No. 22-E-016, Tokyo.

# The share of Japanese women in management is the lowest in the OECD



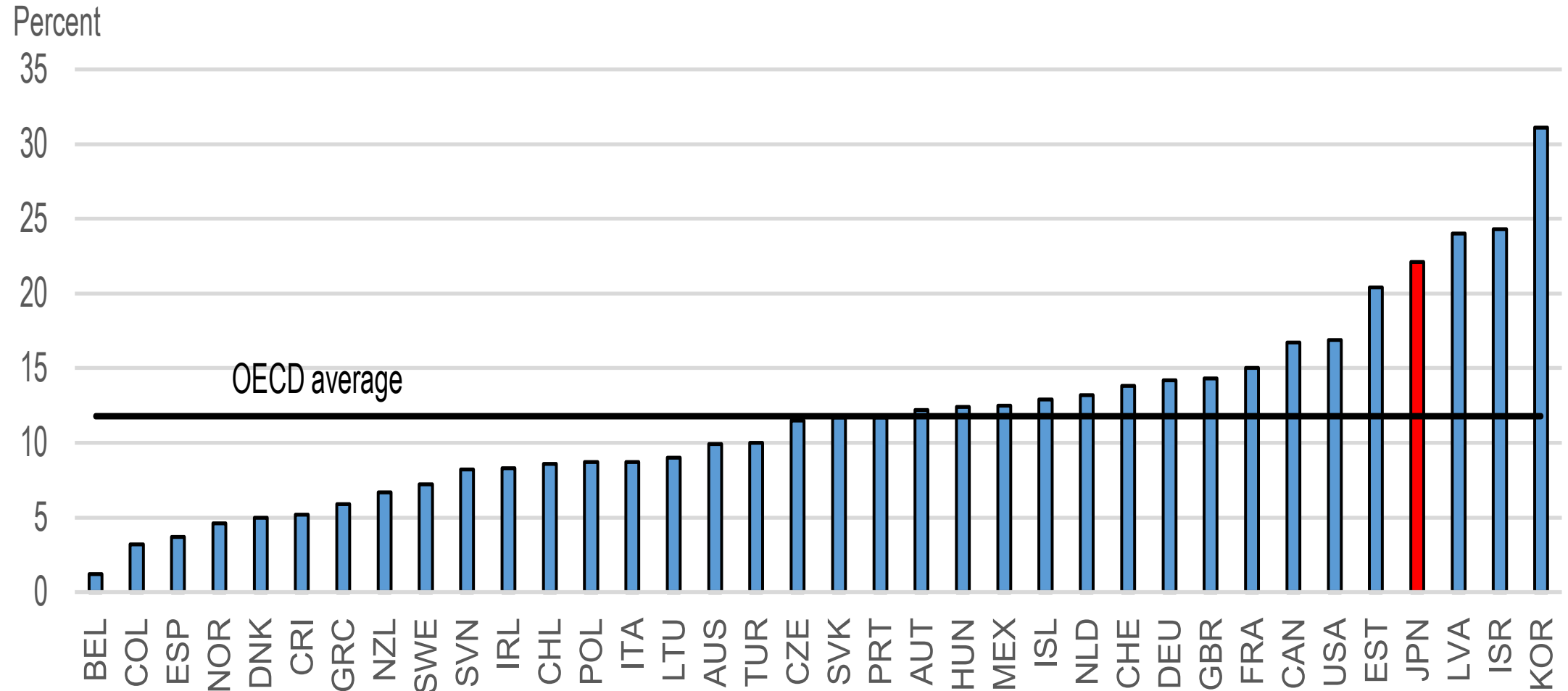
Source: OECD, Gender database.

# The share of women on the boards of listed companies is well below Japan's new target of 30% by 2030



Source: E. Denis. (2022), "Enhancing gender diversity on boards and in senior management of listed companies", *OECD Corporate Governance Working Papers*, No. 28, OECD Publishing, Paris.

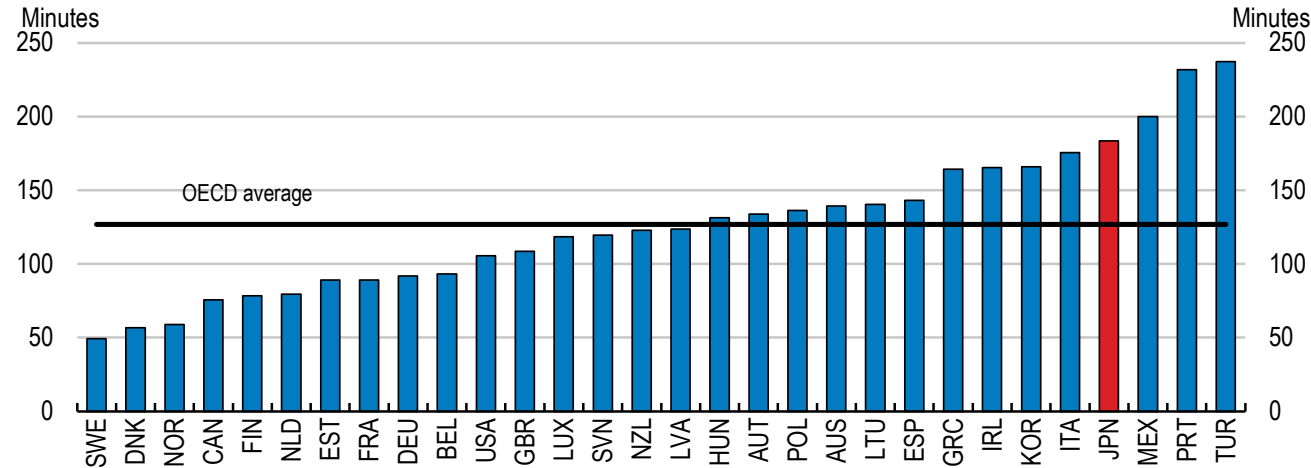
# The gender wage gap in Japan is among the highest in the OECD (in 2021)



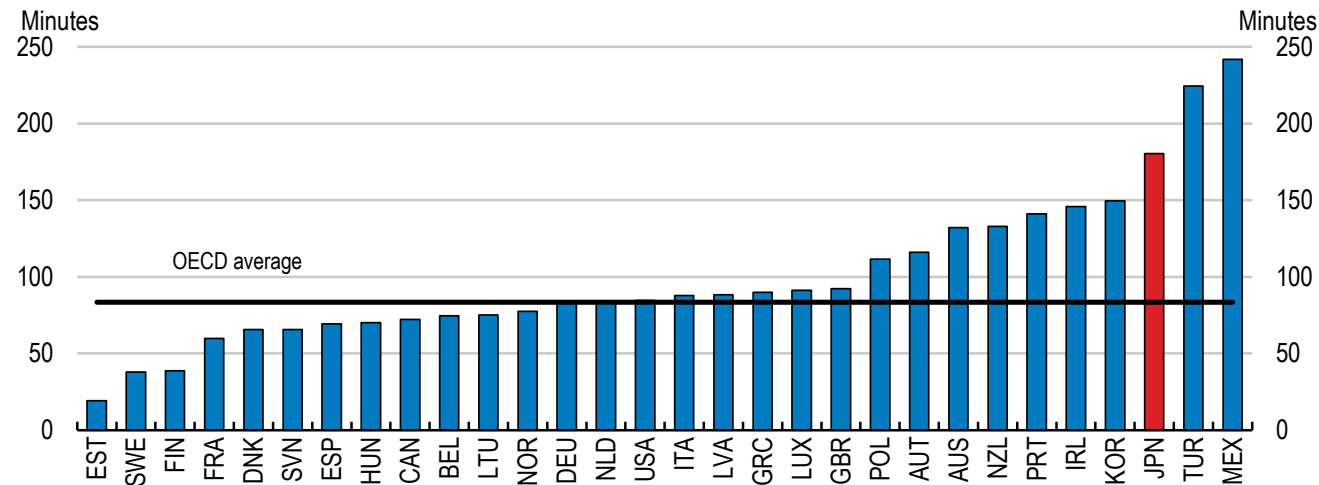
Source: OECD, Labor Force Statistics database.

# Japanese women spend more time in unpaid work while men concentrated in paid work

A. Japanese women spend much more time than men in unpaid work



B. Japanese men spend much more time than women in paid work



Source: OECD, *Employment: Time Spent in Paid and Unpaid Work by Sex*.

# Labor market solutions: break down dualism by addressing the factors that encourage companies to hire non-regular workers

In 2017, former Prime Minister Abe stated: “the term non-regular work will be swept from this country”.

- A government survey asked firms why they hire non-regular workers: a) **39%** of firms cited the need to reduce labor costs (in addition to lower wage costs firms pay less in social insurance premiums, given the lower coverage of non-regular workers); b) **33%** of firms cited the need for a more flexible workforce to adapt to changing workloads and overcome the lack of employment flexibility for regular workers.
- According to the Global Competitiveness Index, Japan ranks in the lower third of OECD countries in its flexibility for hiring and firing workers.
- The Labor Law states that any dismissal of workers that “lacks objective, reasonable grounds and is not considered to be appropriate in general societal terms, [shall] be treated as an abuse of power and be invalid.” Judicial precedents have established the criteria to determine whether employment adjustment in corporate downsizings is an abuse of power by the company.
- The law allows the legal system considerable discretion. Consequently, according to JETRO, it is “exceedingly difficult to judge the validity of dismissal,” as these criteria leave considerable room for interpretation.
- A comprehensive strategy is necessary to break down labor market dualism by increasing the coverage of social insurance and improving training programs for non-regular workers and reducing employment protection for regular workers, in part by increasing its transparency.
- The fundamental goal should be to shift from protecting jobs to protecting workers, the so-called “flexicurity” epitomized by Denmark.

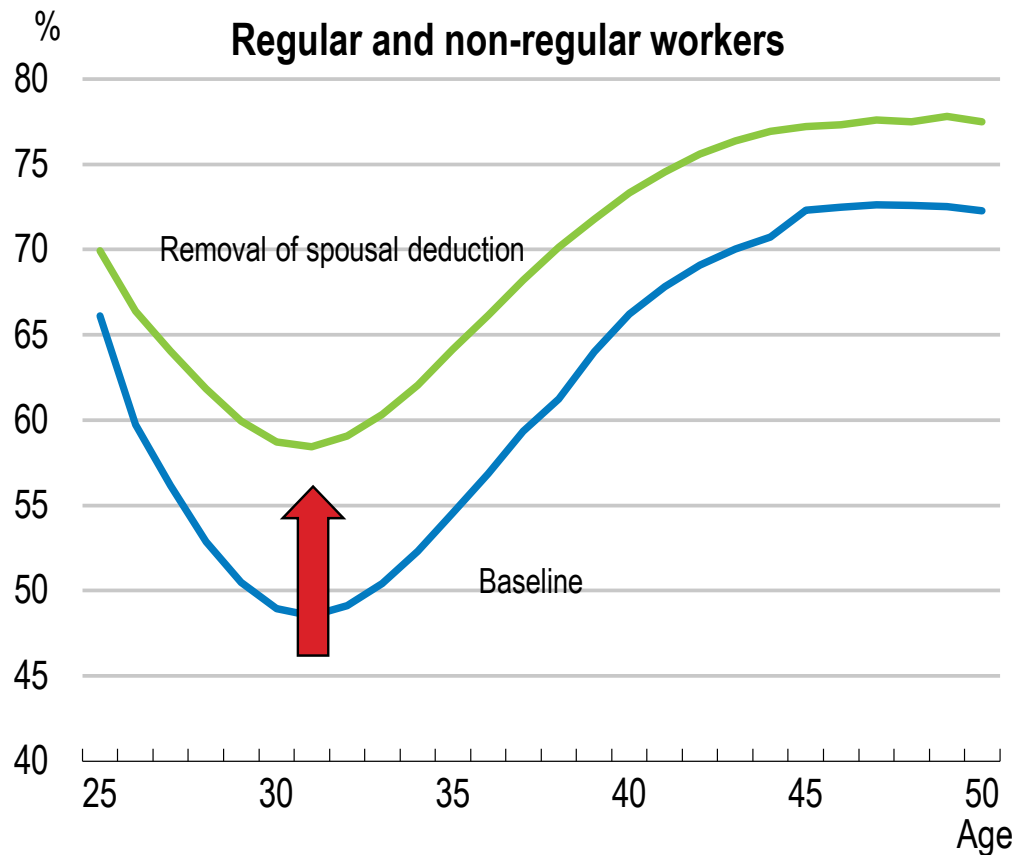


# Another priority is to phase out social insurance and tax arrangements that discourage female employment

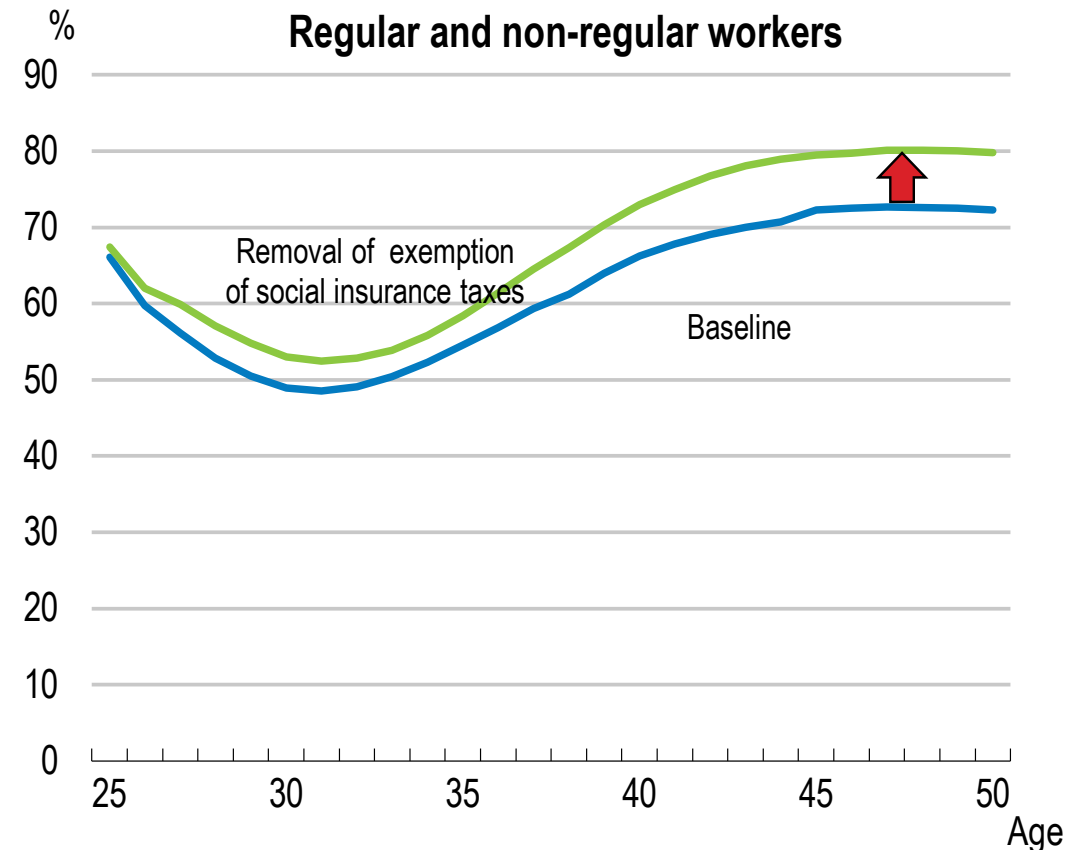
- The spousal tax deduction: In 1961, Japan introduced tax deductions for the main earner if the second earner had an income below a certain threshold. In 2018, the earnings threshold for the second earner for the spousal tax deduction was raised to set at JPY 1.55 million (USD 10,000).
- Exemption from social insurance: Workers with a spouse belonging to employees' insurance can earn up to JPY 1.06 million (USD 6,838) before they lose their exemption from social insurance payments and have to pay their own contributions. If their spouse is not covered by employee insurance, they can earn up to JPY 1.3 million.
- Studies show that these provisions discourage employment and hours worked by second earners in a household, who are typically women.

# Tax and social insurance reform is likely to boost female labor force participation

## I. Removal of the spousal deduction



## II. Removal of exemption from social insurance



# Impact of eliminating the tax deduction for spouses and their exemption from social insurance contributions

Female participation rates under alternative policy scenarios (for the 25-64 age group)

	Baseline	Elimination of the spousal deduction	Elimination of the exemption from social insurance contributions	Combined impact	Change from baseline
<b>Employed</b>	<b>64.6</b>	<b>71.2</b>	<b>71.2</b>	<b>77.1</b>	<b>12.5</b>
Regular worker	28.6	26.6	35.6	40.2	11.6
Non-regular worker	37.8	44.5	35.6	36.9	-0.9
Not in labor force	35.4	28.9	34.1	22.9	-12.5
By marital status					
Single: employed	86.9	89.2	87.5	89.9	3.0
Regular worker	57.4	57.6	58.7	59.1	1.7
Non-regular worker	29.5	31.5	28.8	30.7	1.2
Single: not in labor force	13.1	10.8	12.5	10.1	-3.0
<b>Married: employed</b>	<b>59.9</b>	<b>67.2</b>	<b>67.7</b>	<b>74.4</b>	<b>14.5</b>
Regular worker	20.4	20.0	30.7	36.2	15.8
Non-regular worker	39.5	47.2	37.1	38.2	-1.3
Married: not in labor force	40.1	32.8	32.3	25.6	-14.5

Note: The combined impact includes a small effect of eliminating the survivor's pension.

Source: Kitao, S. and M. Mikoshiba (2022), “Why women work the way they do in Japan: Role of fiscal policies”, *RIETI Discussion Paper Series*, No. 22-E-016, Tokyo.

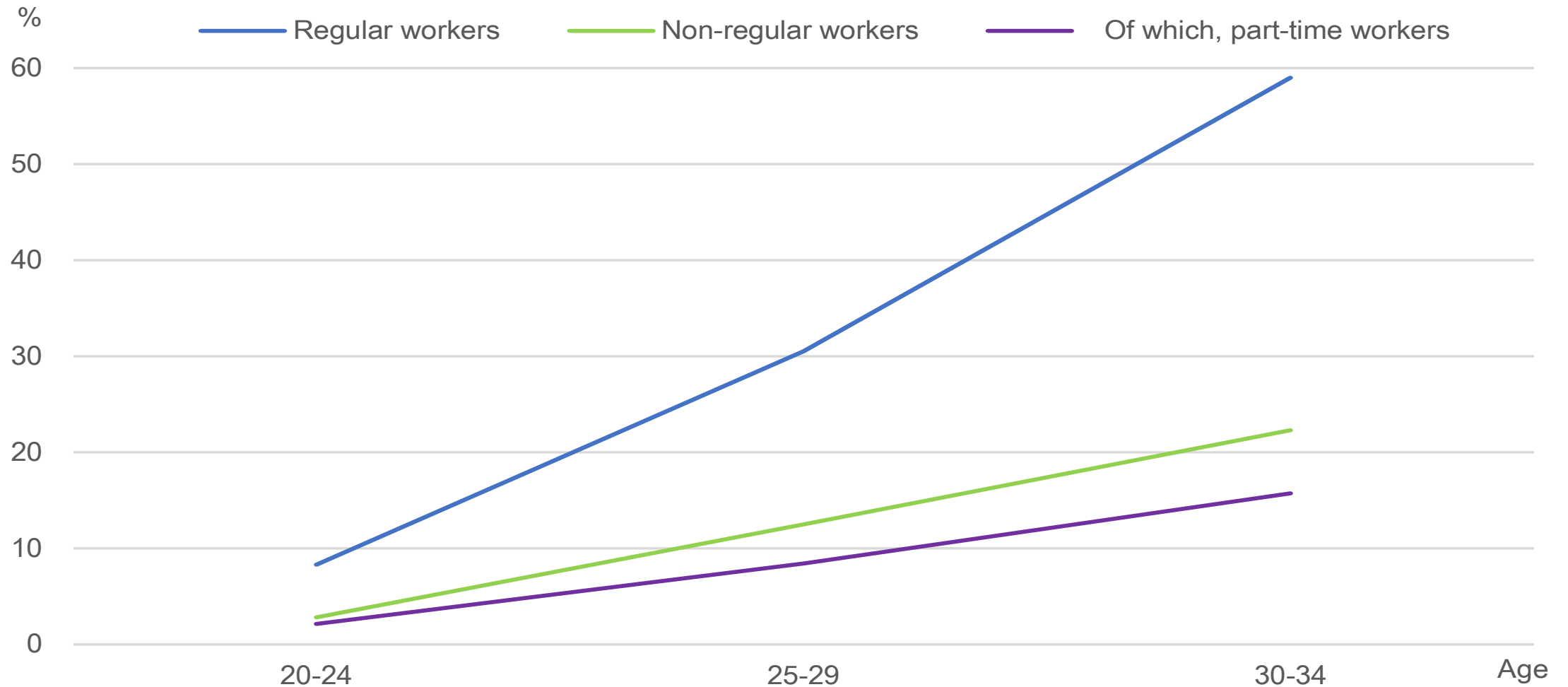
# Outline of presentation

1. Signs of pessimism among Japanese youth
2. Labor market practices contribute to the financial challenges facing Japanese youth
3. **Financial insecurity among young people reinforces the downward trend on the fertility rate**, leading to the government's pledge to "create a children-first economic society and reverse the birth rate decline"
4. The rising proportion of the elderly in Japan's population poses a growing burden on the younger generation
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# The financial insecurity of young people discourages family formation

- Given that 98% of births in Japan are to married couples, policies that remove obstacles to marriage, particularly at a younger age, would tend to boost the fertility rate.
- As in other countries, life goals other than family and children, such as career advancement, wealth and self-realization, have gained importance.
- Nevertheless, in a 2021 survey of single persons between the ages of 18 and 34 by the National Institute of Population and Social Security Research, more than 80% of both men and women said that they planned to get married eventually, and that their desired number of children was 1.8 on average.
- In a 2019 government survey that asked single young people, “What conditions are necessary for you to consider marriage?”, the most common response, at 42%, was “being financially comfortable”. Another 10% cited the challenge of finding suitable housing.

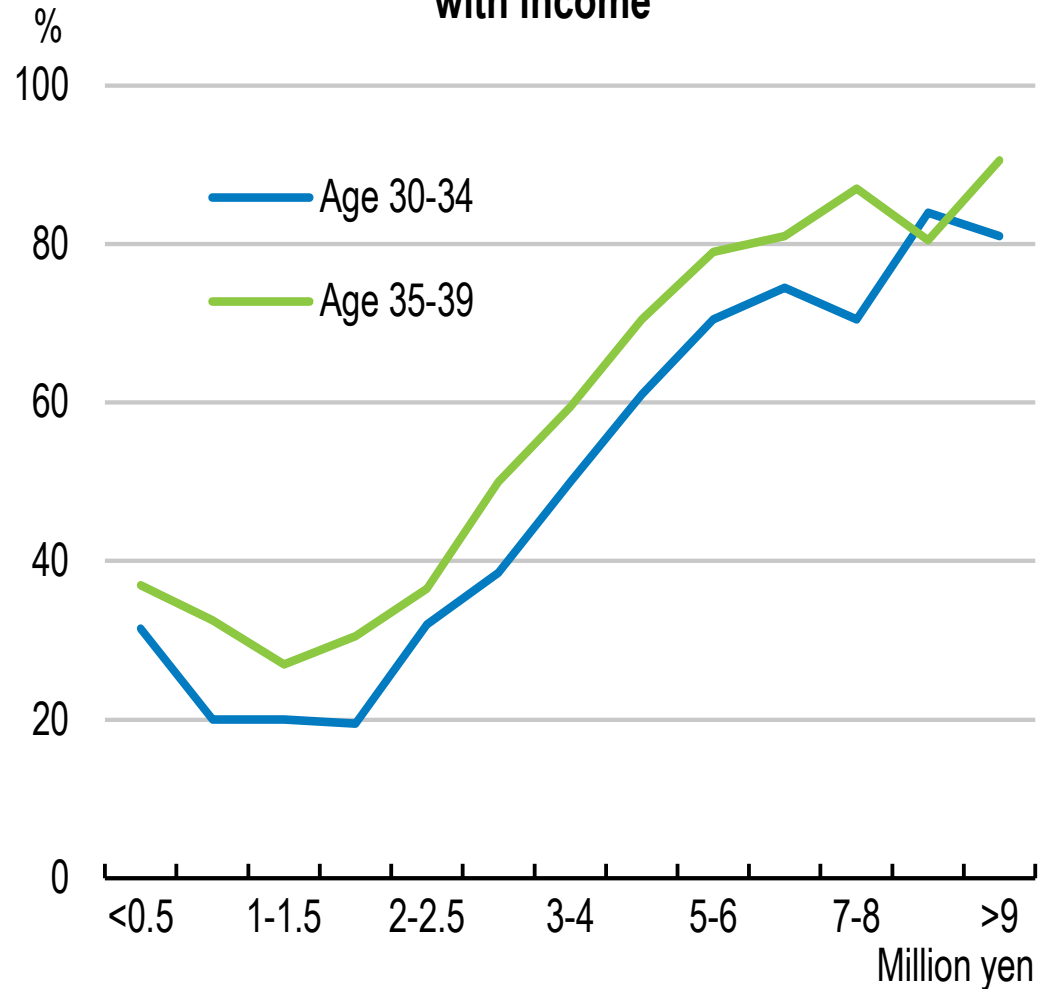
# The share of employees who are married is significantly higher for regular workers



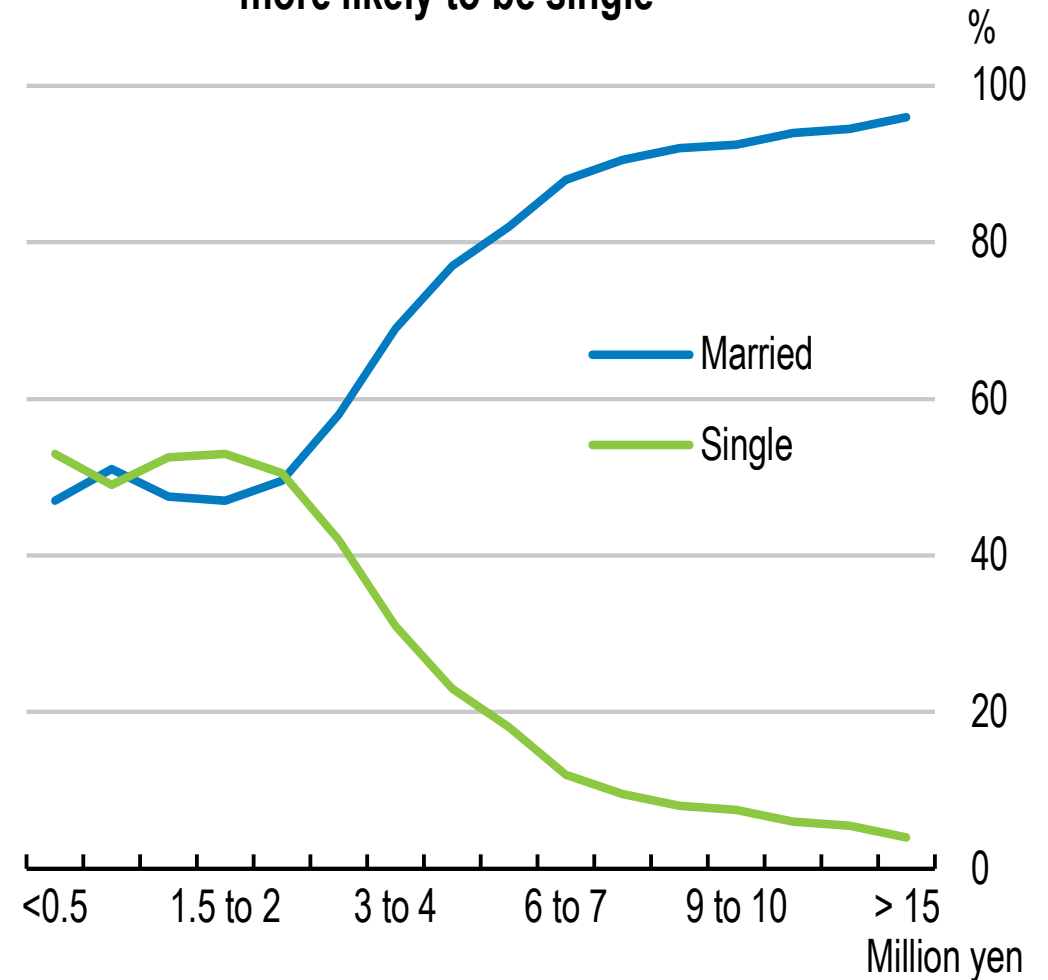
Source: R. Jones, "Addressing demographic headwinds: a long-term perspective", 2024 OECD Economic Survey of Japan, OECD Publishing, Paris.

# The link between income and marriage

**A. The share of men who are married rises with income**

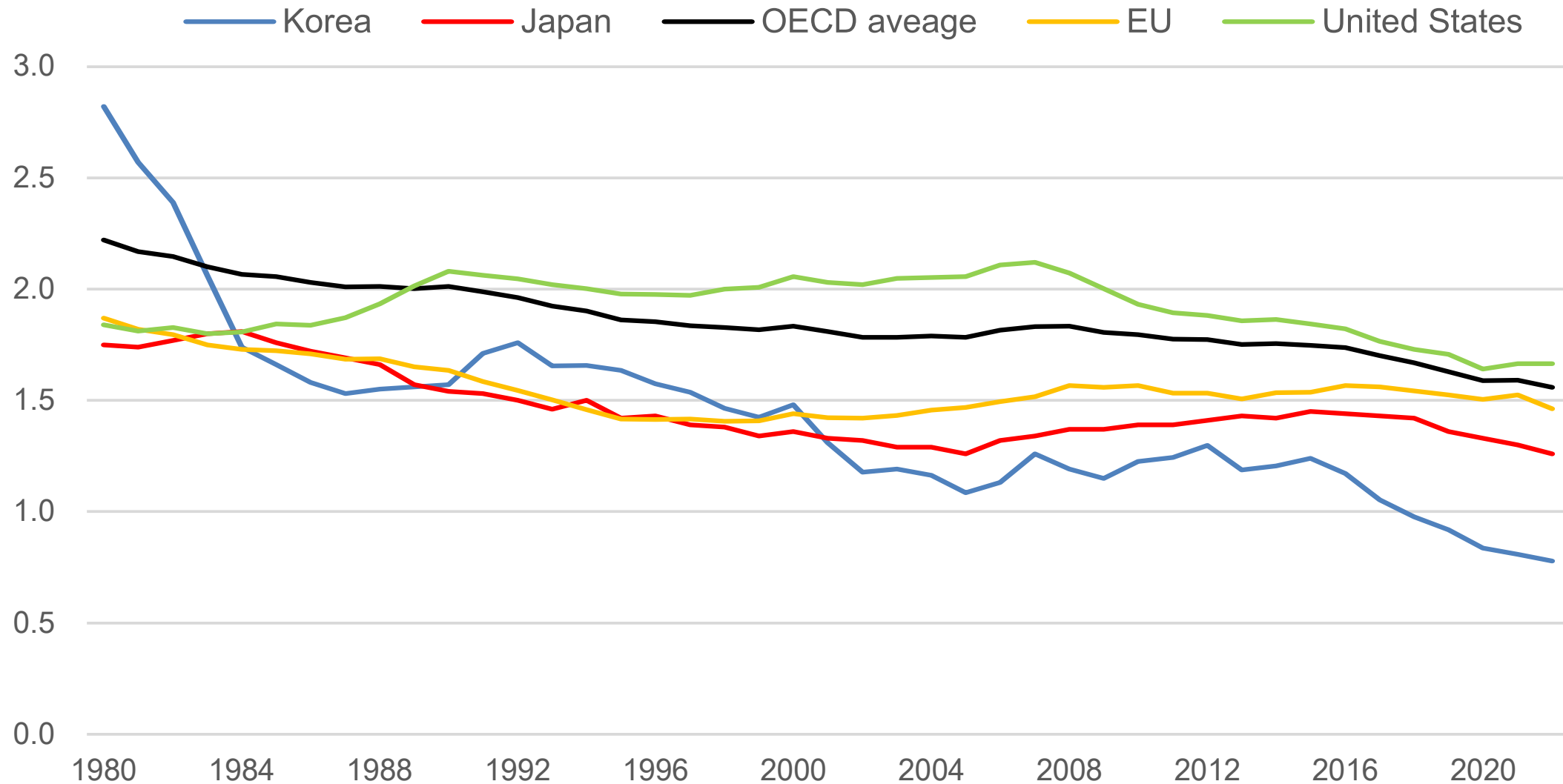


**B. Men in their 40s with low incomes are more likely to be single**



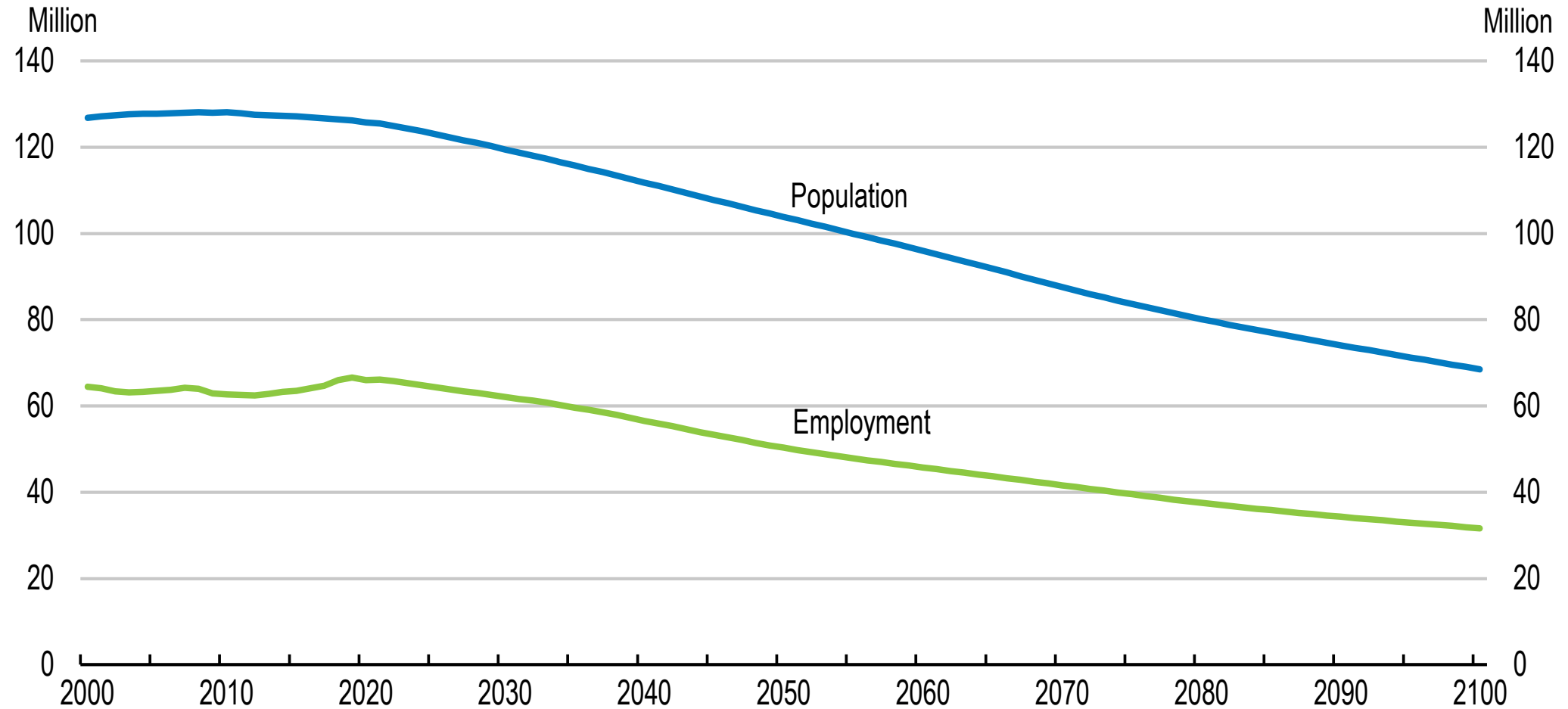
Source: Ministry of Internal Affairs and Communications.

# Japan's fertility rate has fallen to 1.20





# Japan's employment and population will fall significantly under current parameters



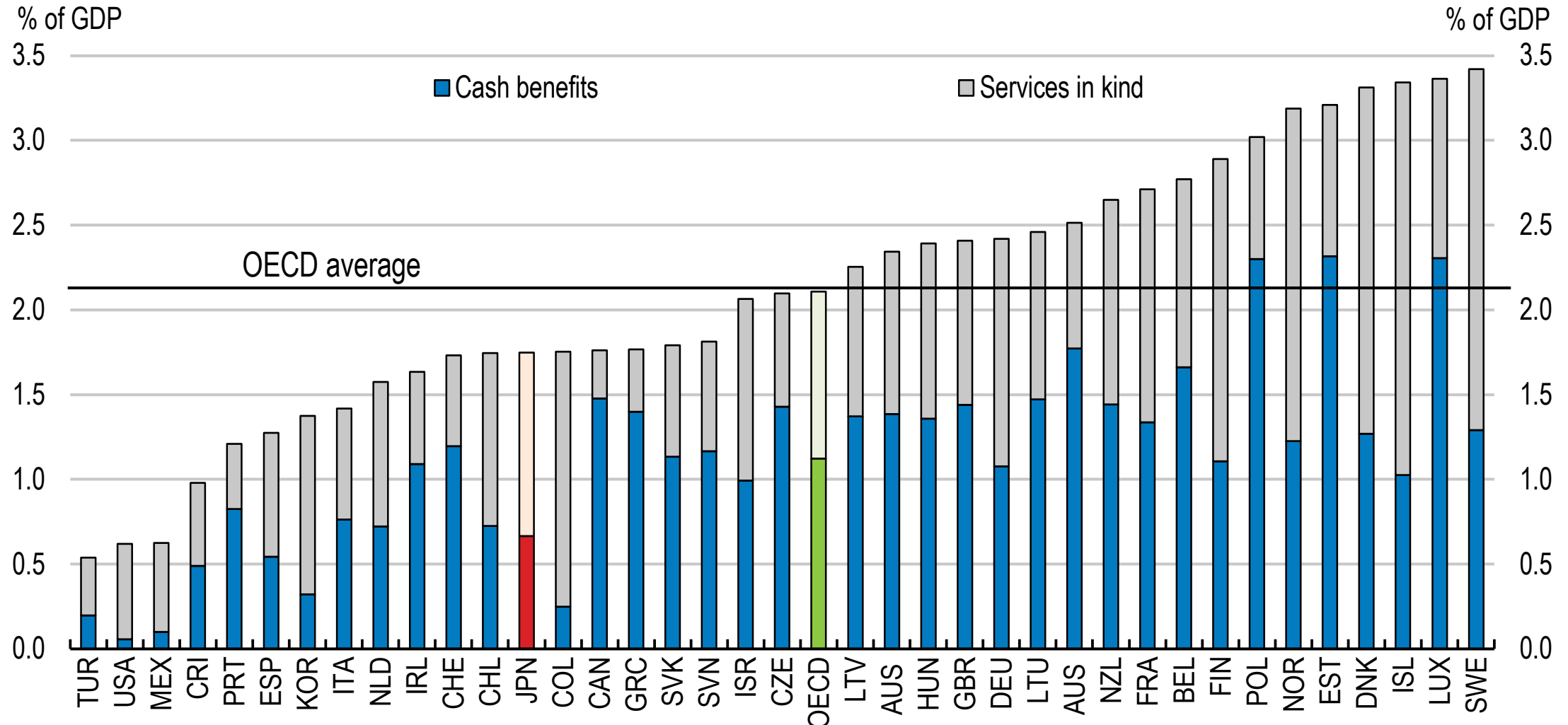
Note: Assumes that the total fertility rate remains steady at 1.3, net immigration continues at 100,000 per year and employment rates by gender and five-year age cohorts stay constant. In this baseline, Japan's population would fall to 96 million in 2060 and to 68 million in 2100. Employment includes self-employed and workers in family businesses.

Source: R. Jones, "Addressing demographic headwinds: a long-term perspective", *2024 OECD Economic Survey of Japan*, OECD Publishing, Paris.

# Will the measures discussed earlier to boost female employment further reduce the fertility rate?

- The relationship between the fertility rate and female employment is positive in advanced countries.
- Fertility behavior in high-income countries, appears driven by the compatibility between women's careers and families. Without such compatibility, women choose to have fewer (or no) children. In other words, making it easier to combine paid work and family is critical so that women are not forced to choose between a career and children.
- **The compatibility of women's careers and families depends on:**
  - i. Public social spending (including cash transfers, services and in-kind benefits) and tax benefits for families with children.
  - ii. The role of fathers
  - iii. Flexible labor markets: segmentation between regular and non-regular workers is a problem in Japan
  - iv. Favorable social norms: 教育ママ (Education Mother)

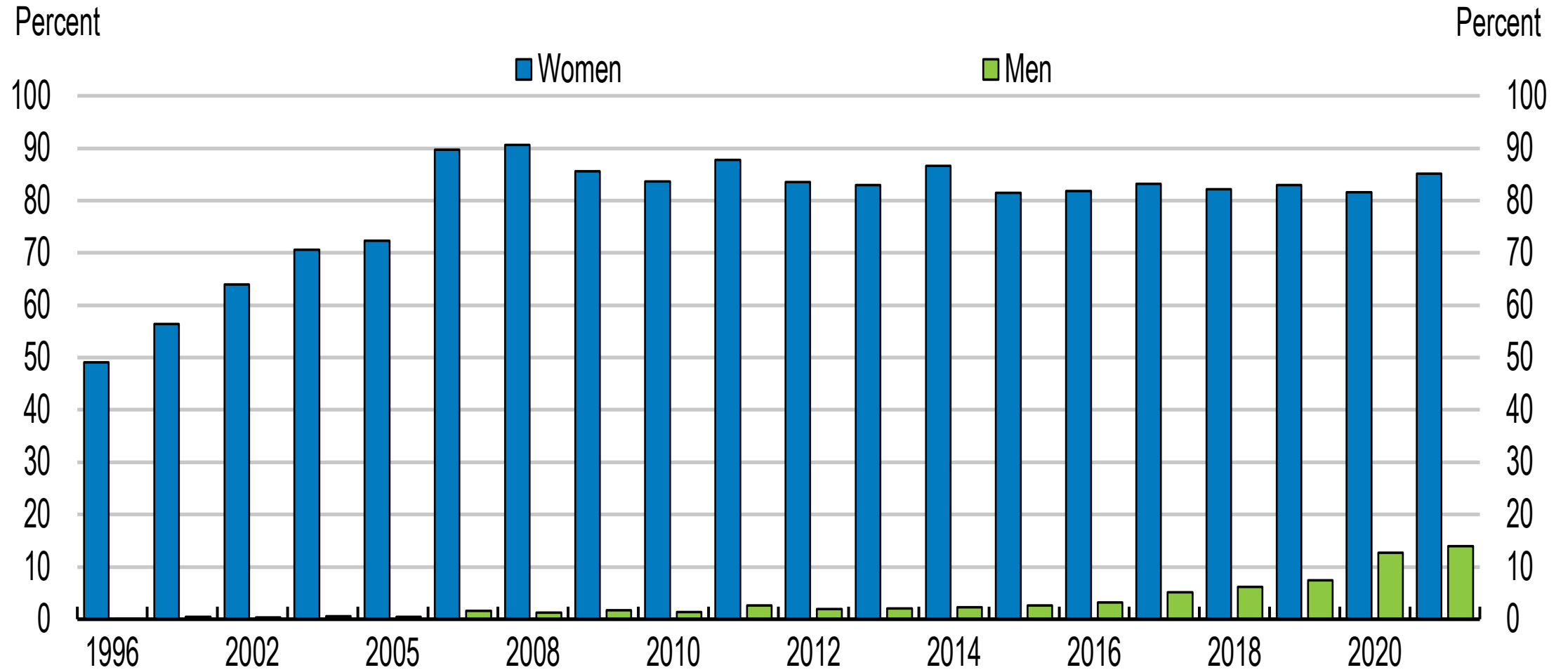
# Public expenditure on family support in Japan is relatively low



Note: The figure does not include tax breaks for families, which amounted to 0.3% of GDP in Japan in 2019, close to the 0.2% of GDP average.

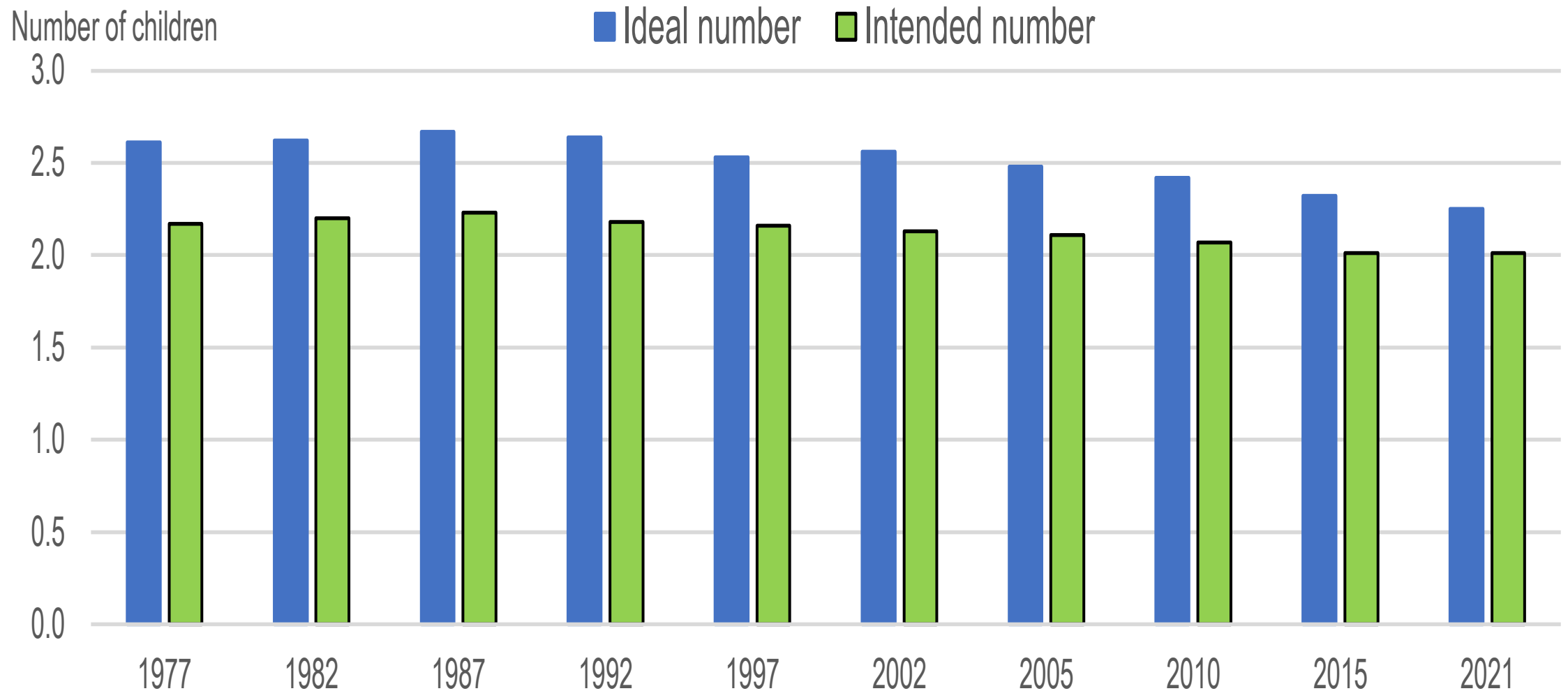
Source: OECD Family Database.

# The share of men taking parental leave is low in Japan



Source: Ministry of Health, Labor and Welfare.

# Policies should focus on enabling couples to have their intended number of children

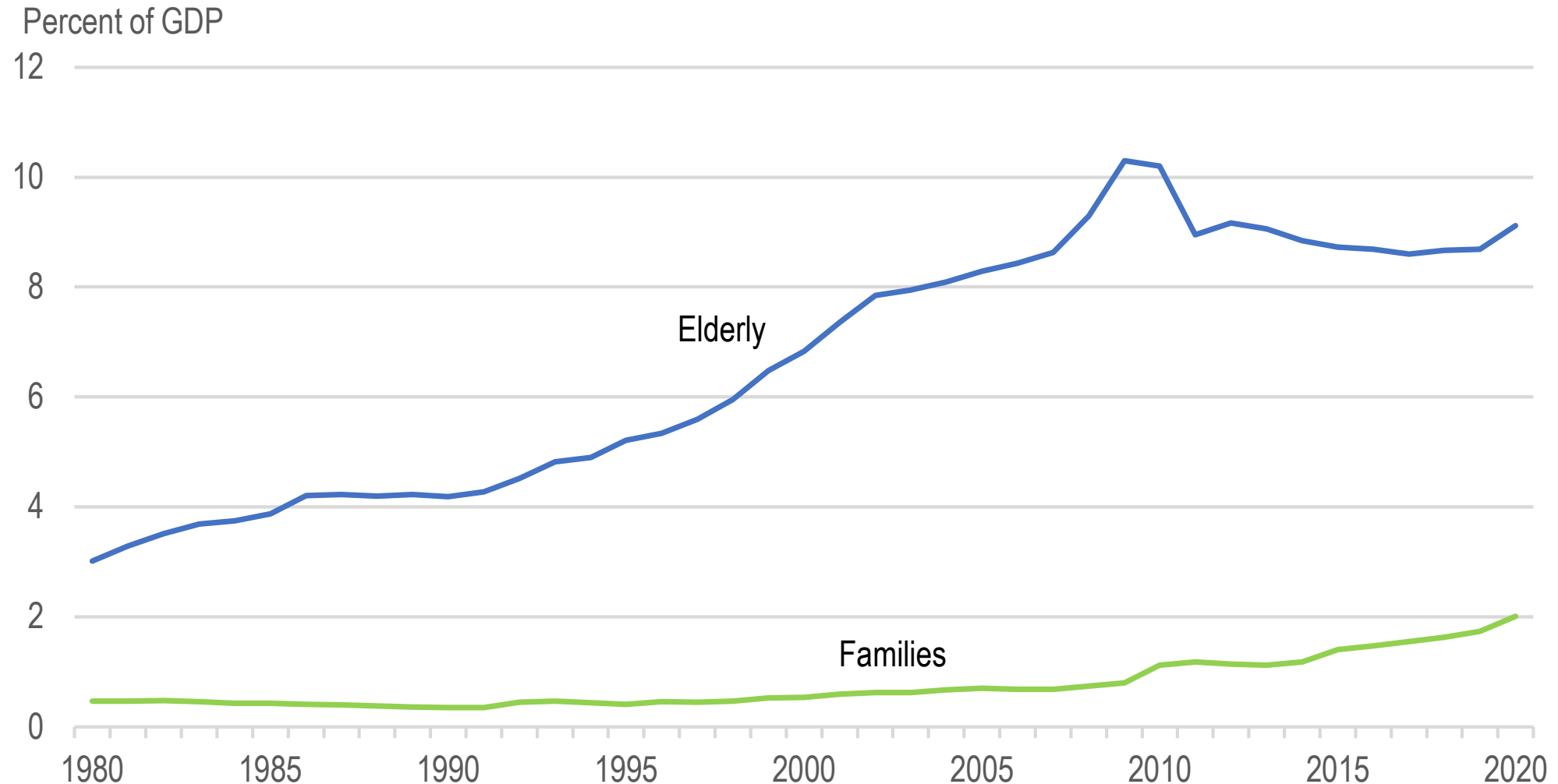


Source: National Institute of Population and Social Science Research (IPSS) (2022).

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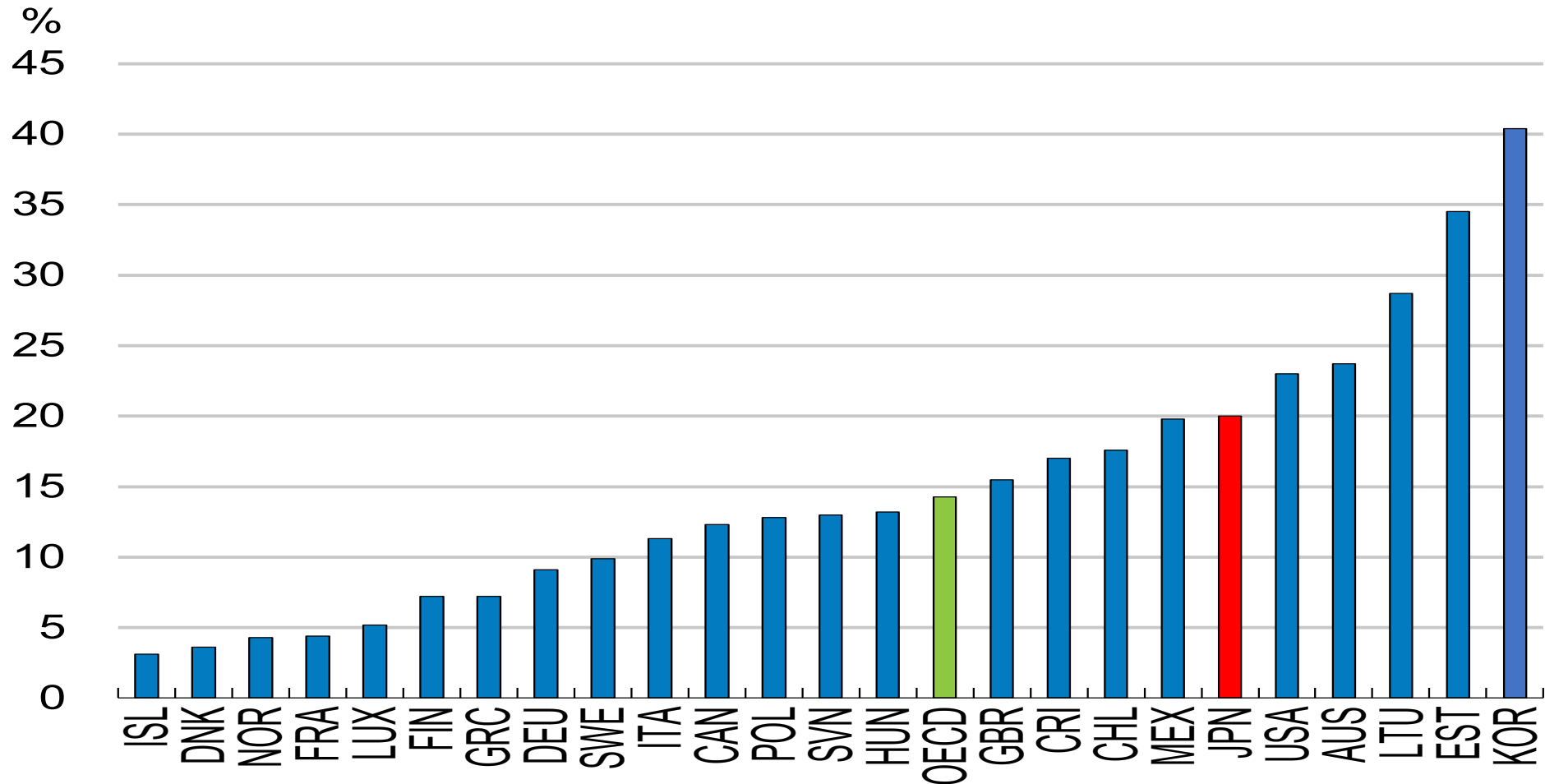
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# Public social spending: outlays for the elderly far outpace expenditures for families



Source: National Institute of Population and Social Security Research (2021), *The Financial Statistics of Social Security in Japan FY2020*.

# Japan's relative poverty rate for the elderly is 20%, well above the OECD average



Note: The poverty rate is the share of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population.

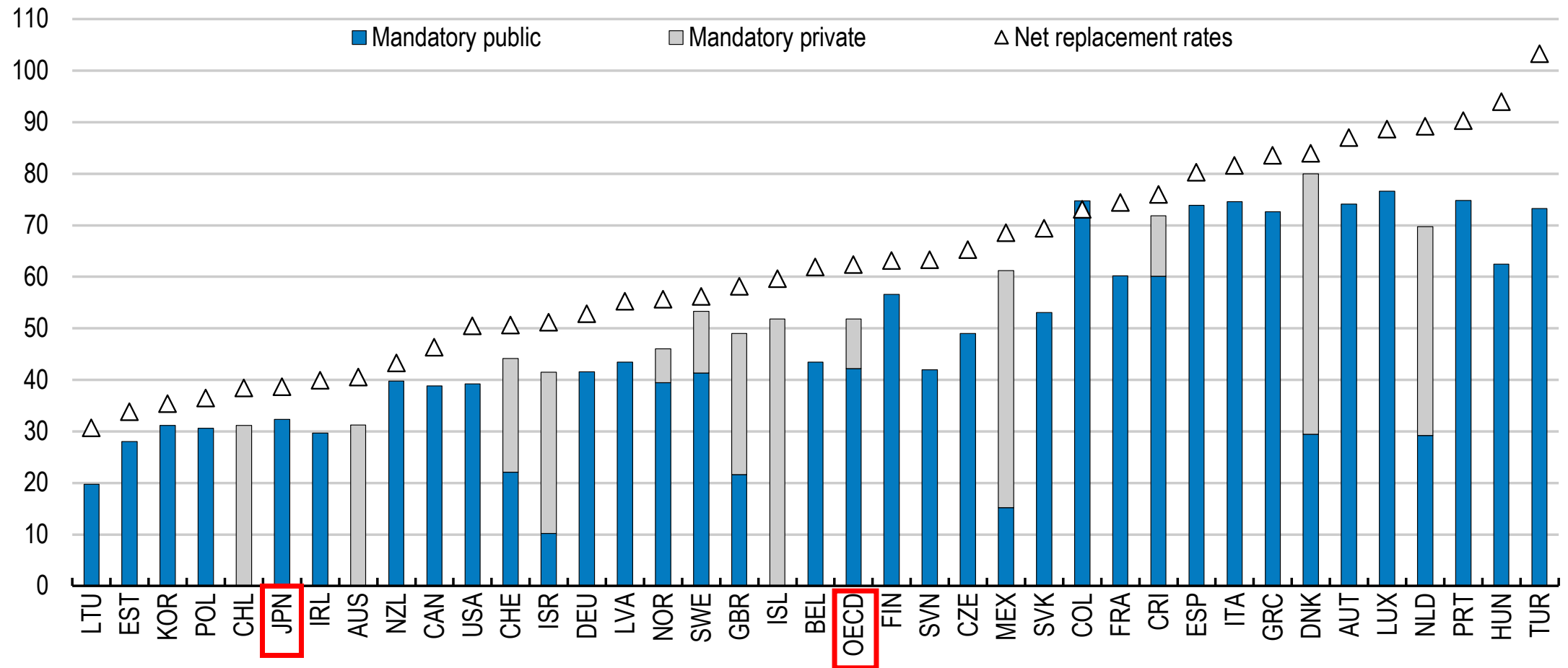
Source: OECD (2022), Income distribution (database).



# The pension replacement rate in Japan is relatively low

Pension replacement rates from mandatory public and private pension schemes for entry into working life in 2020 at age 22

% of individual earnings

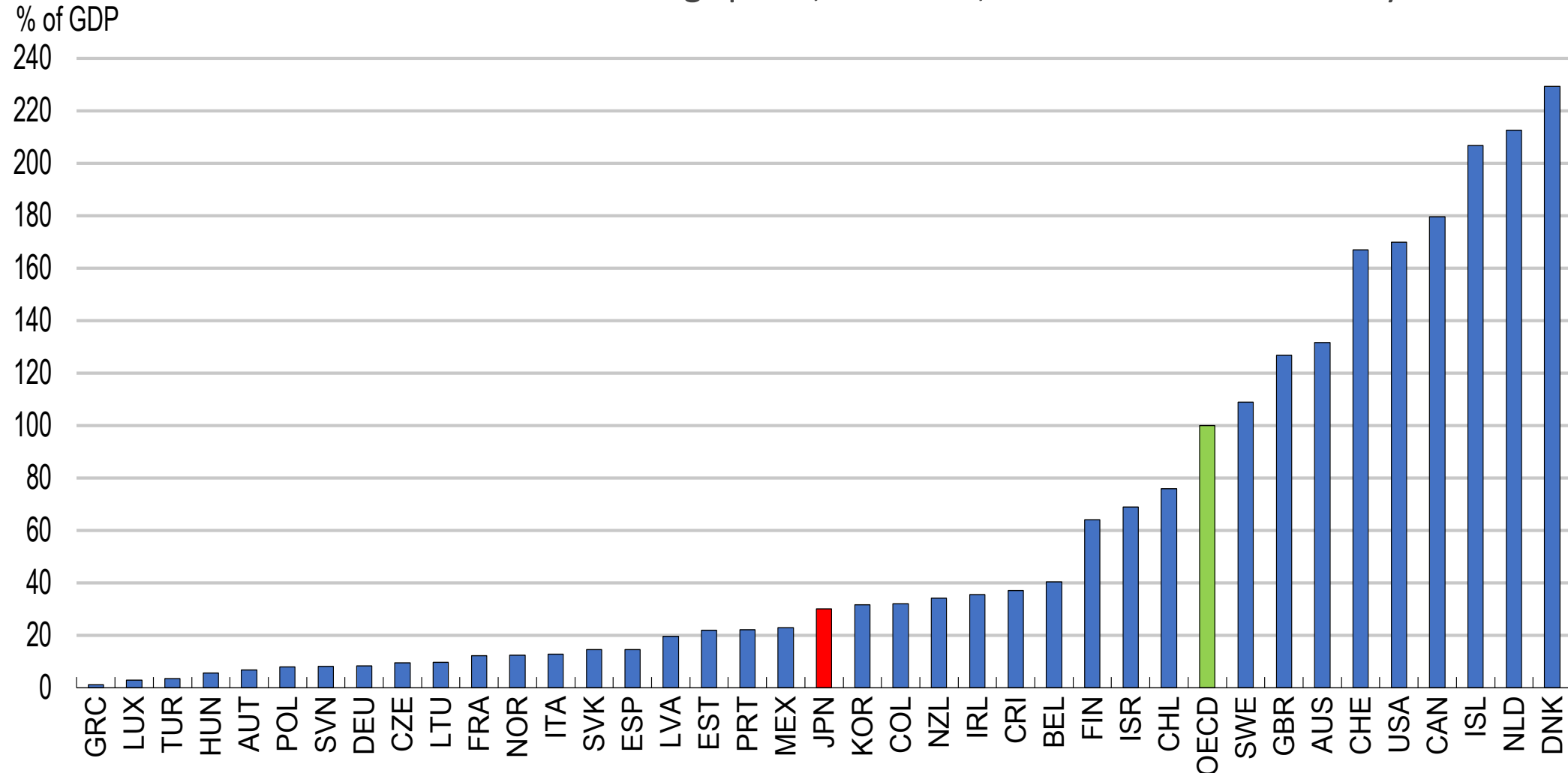


Note: The replacement rate is the percentage of a worker's pre-retirement income that is paid out by a pension program after the worker retires.

Source: Pensions at a Glance 2021: OECD and G20 Indicators, OECD Publishing, Paris.

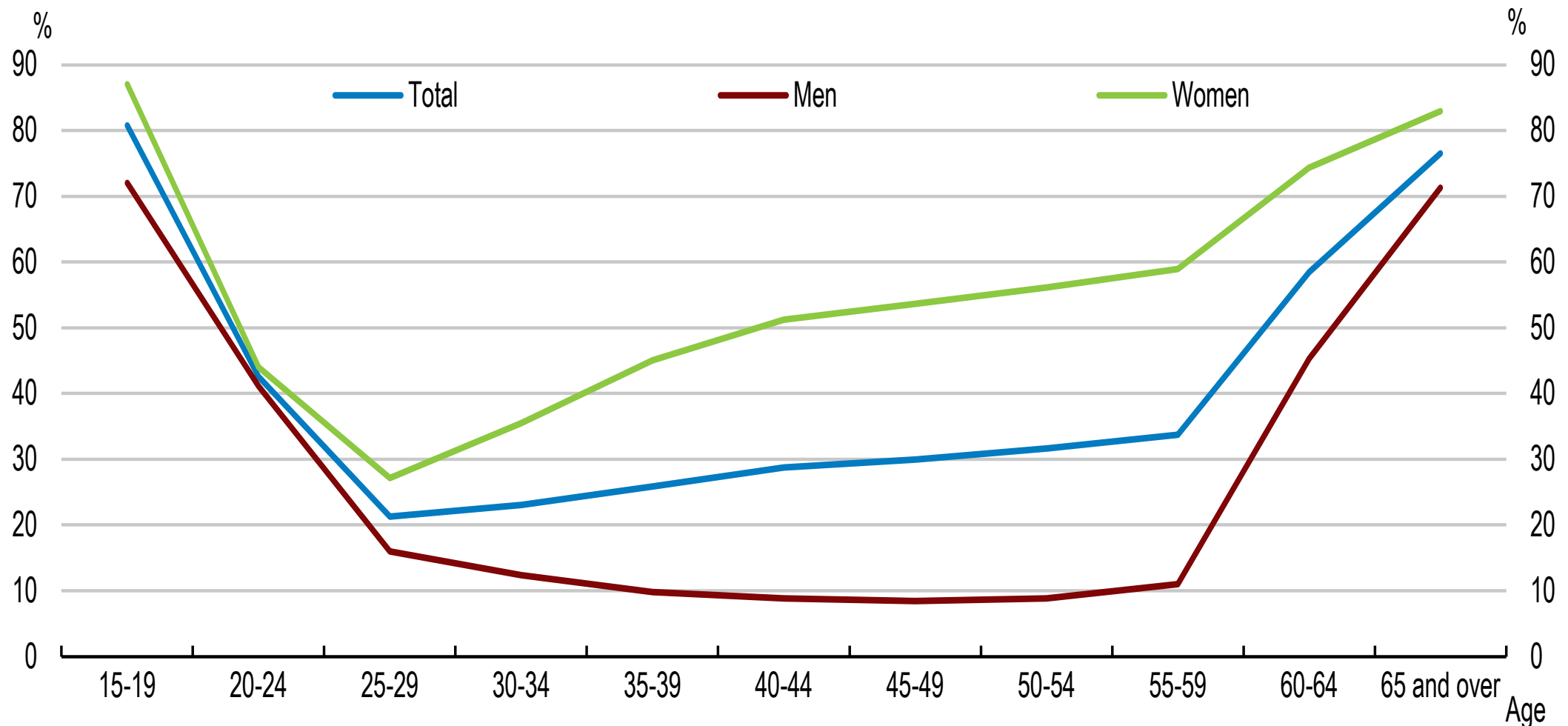
# Private pensions funds are small in Japan

Total assets in retirement savings plans, % of GDP, 2020 or latest available year



# Since 2013, workers are allowed to continue working to age 65, but many become non-regular workers

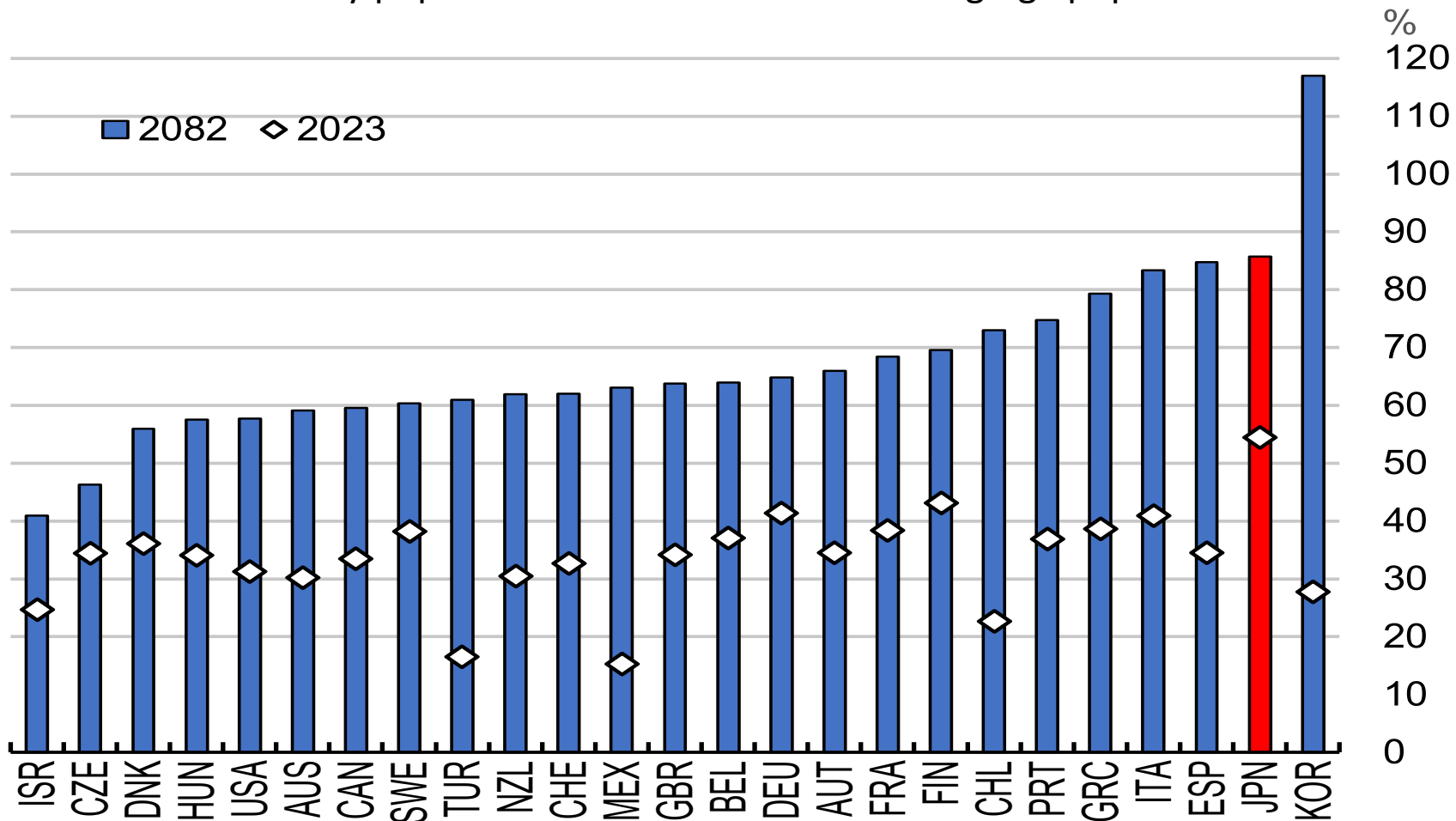
Non-regular employees as a share of all employees (excluding executives) by age, 2022



Source: Ministry of Internal Affairs and Communications, *Labor Force Survey (Basic Tabulation)*, 2022.

# Japan's elderly dependency rate – already the highest in the OECD – will continue rising

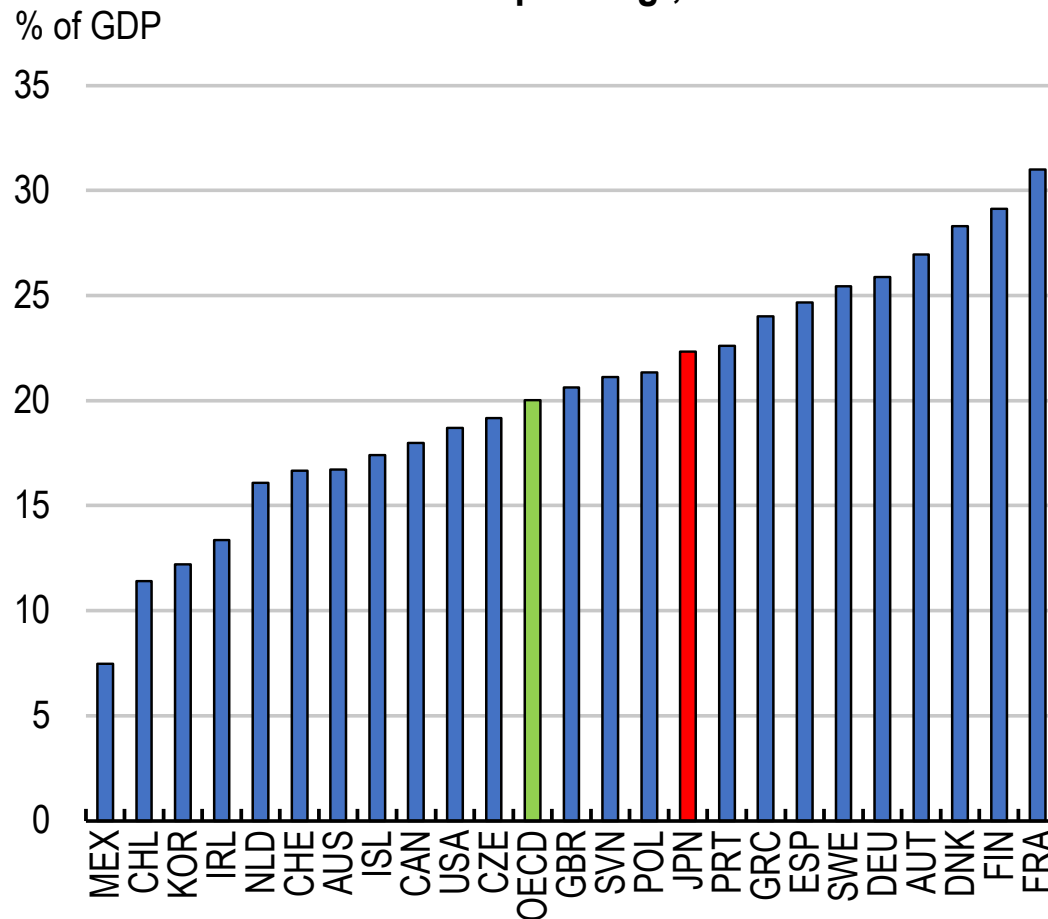
The elderly population as a share of the working-age population



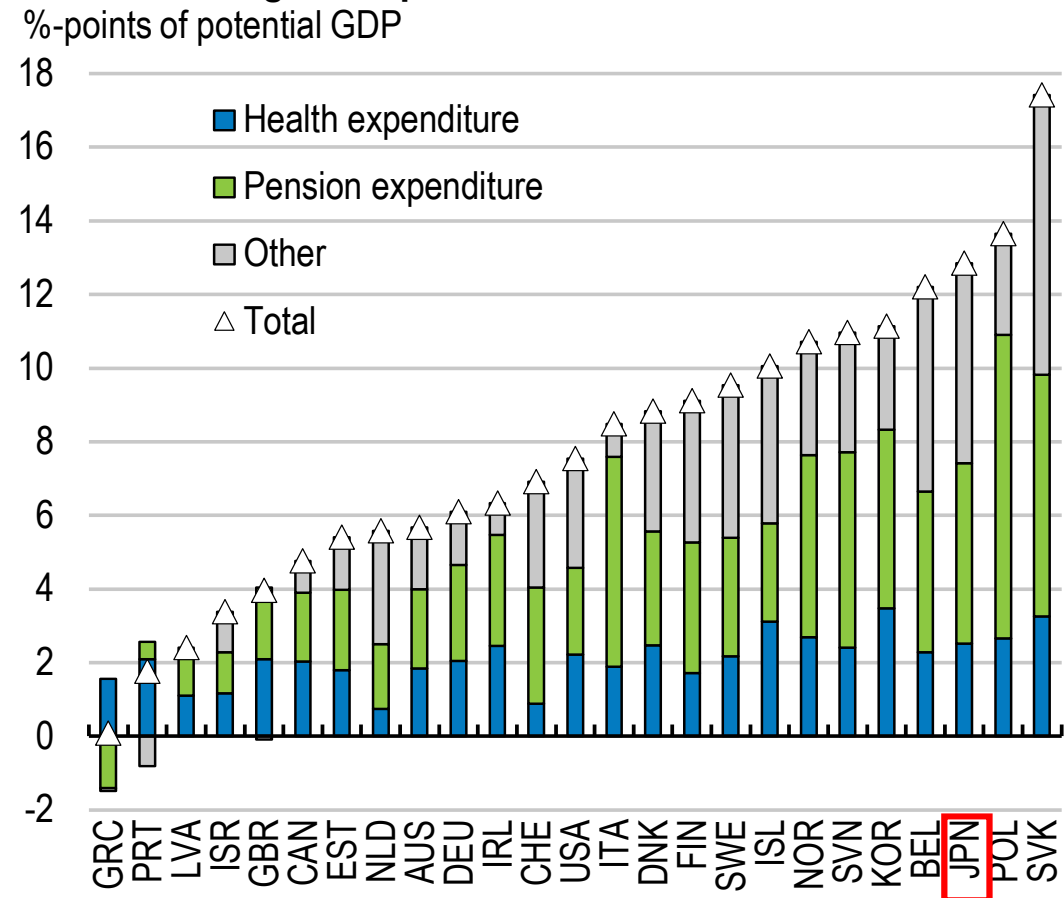
Note: Ratio of population aged 65 and above to population aged 20-64. Projections are based on medium fertility variant.  
Source: OECD Demography and Population Statistics database.

# Japan's public social spending – already 22% of GDP – is projected to rise to 35% by 2060

**A. Public social spending<sup>1</sup>, 2019<sup>2</sup> or latest**



**B. Change in expenditure between 2021 and 2060**



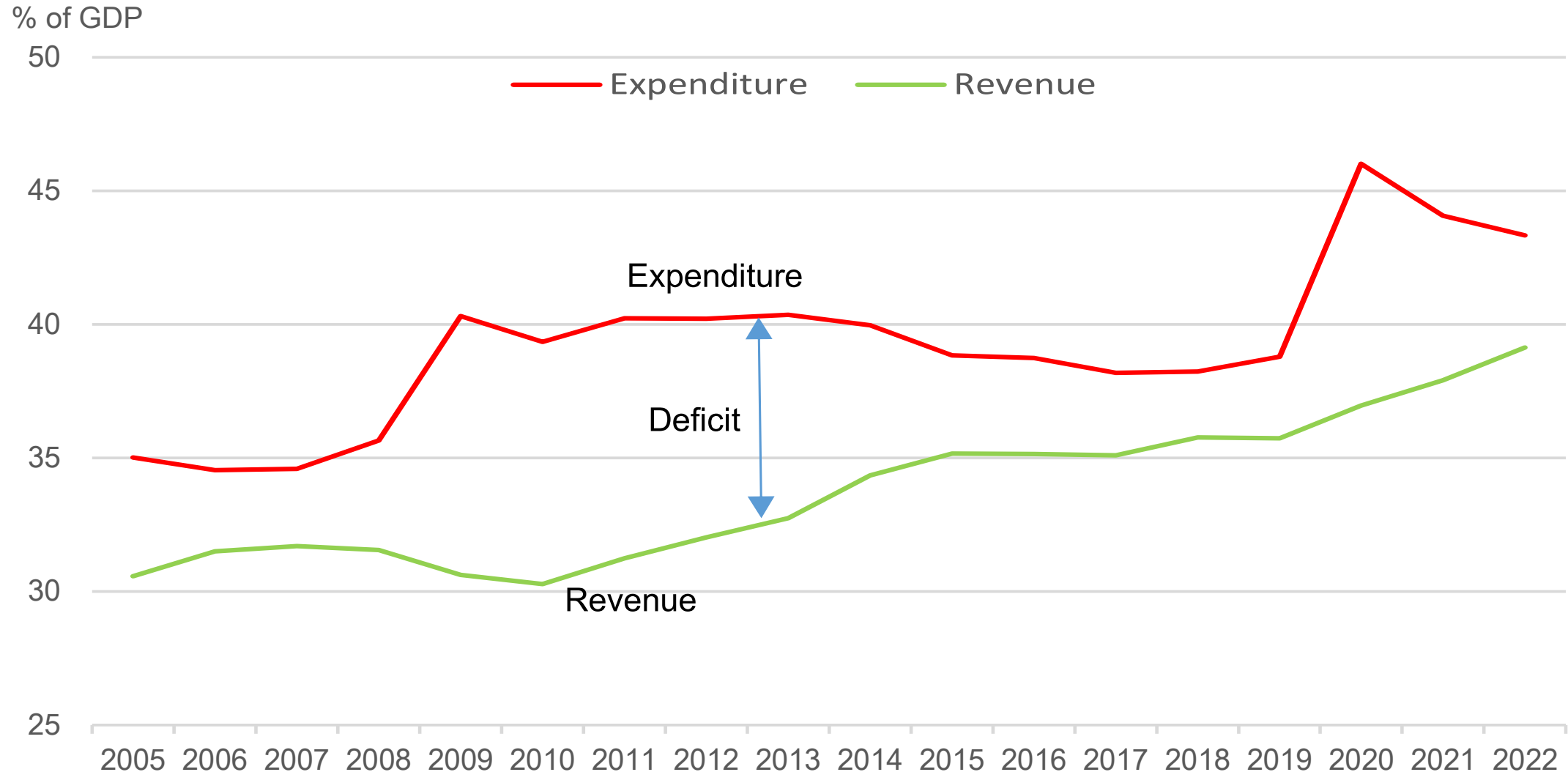
Note: Social expenditure comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes.

Source: OECD (2022), Social spending (indicator).

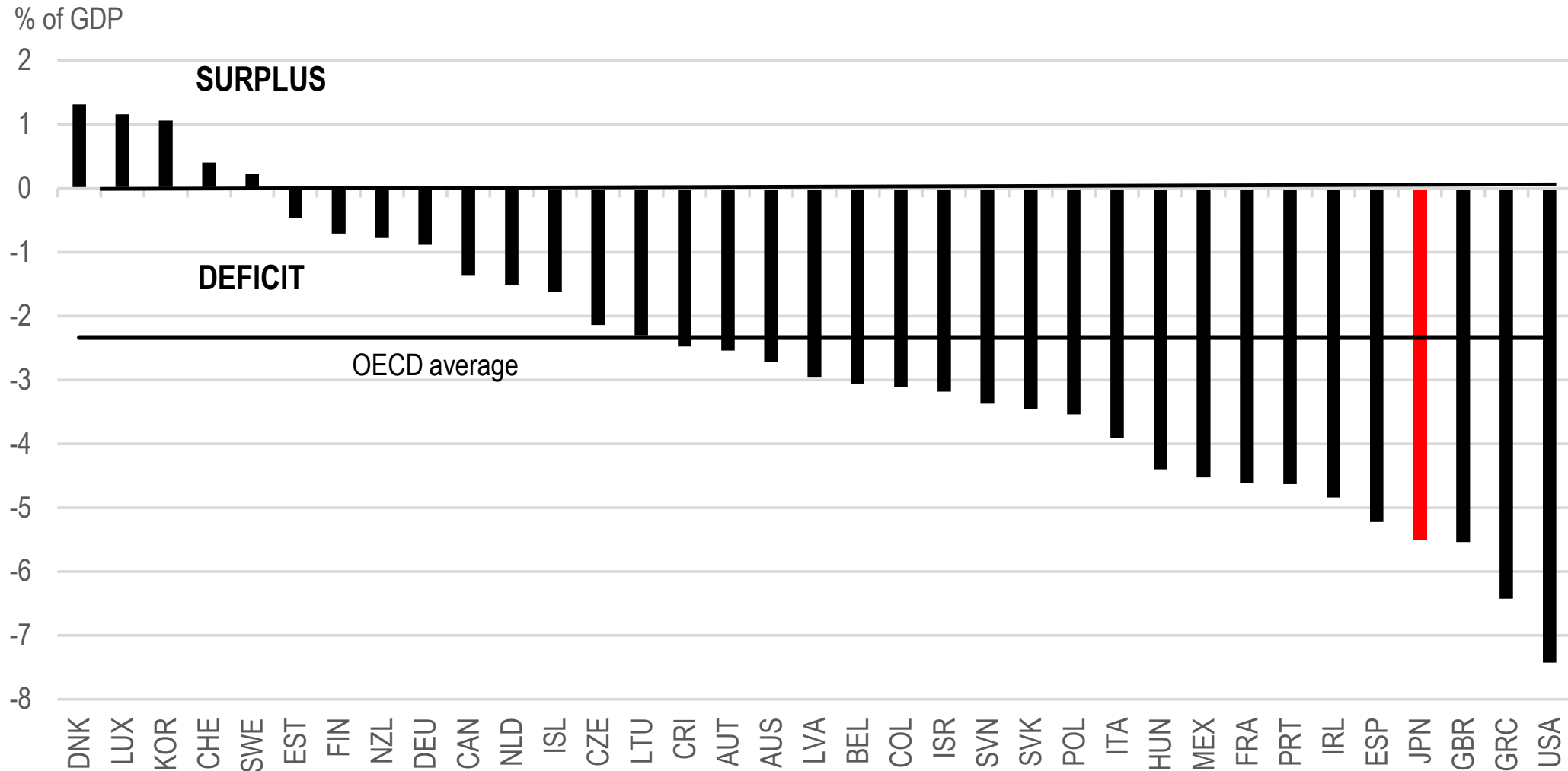
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# Japan has run a budget deficit each year since 1991



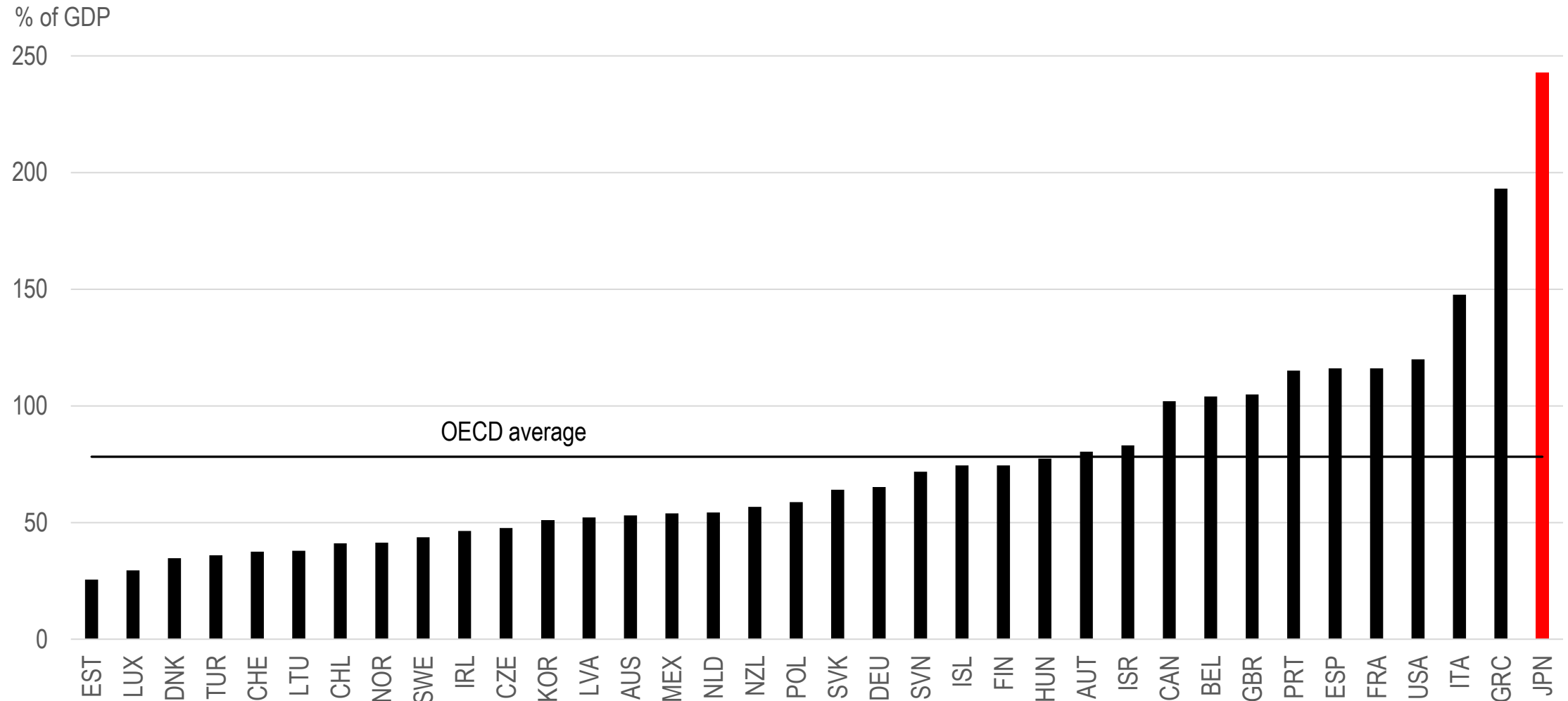
# Japan's government deficit has averaged 5.5% of GDP over 2005-22





# Japan's gross government debt relative to GDP is the highest among OECD countries

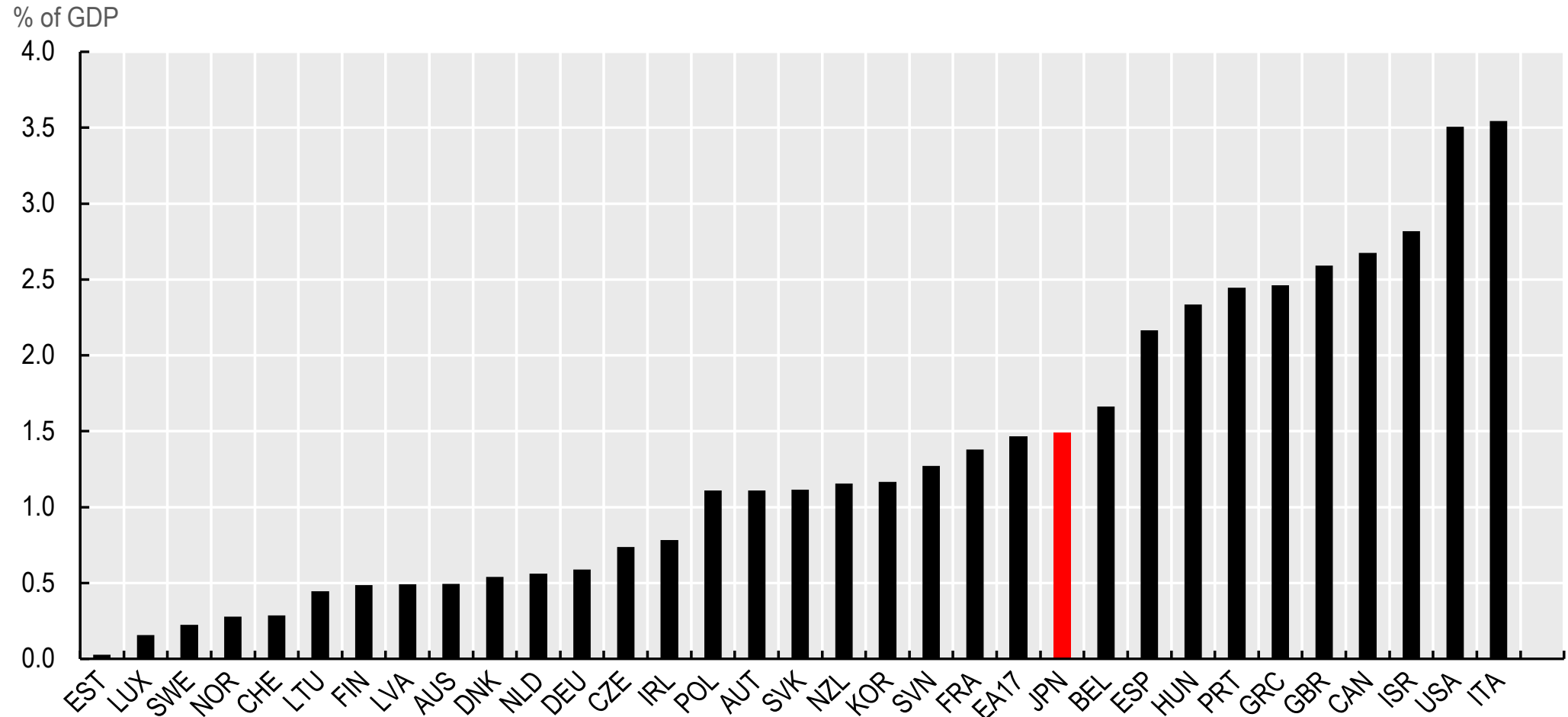
In 2022



Source: OECD Data Explorer, "Public Finance Main Indicators," accessed 17 August 2024.

# The impact of high government debt has been muted by low interest rates

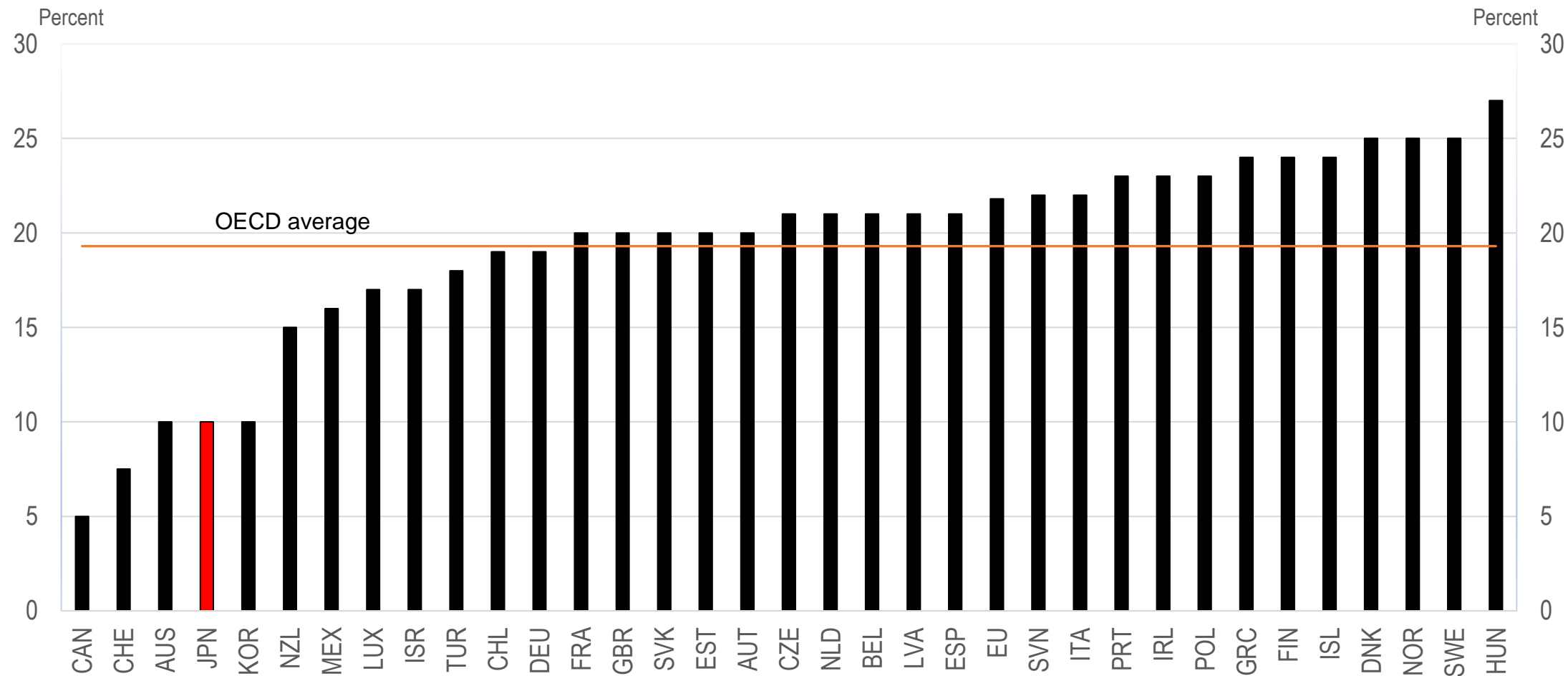
Gross government interest payments as a percentage of GDP



OECD (2022), "Gross government interest payments in OECD and selected countries, 2020: As a percentage of GDP", in *Tax Policy Reforms 2022: OECD and Selected Partner Economies*, OECD Publishing, Paris.

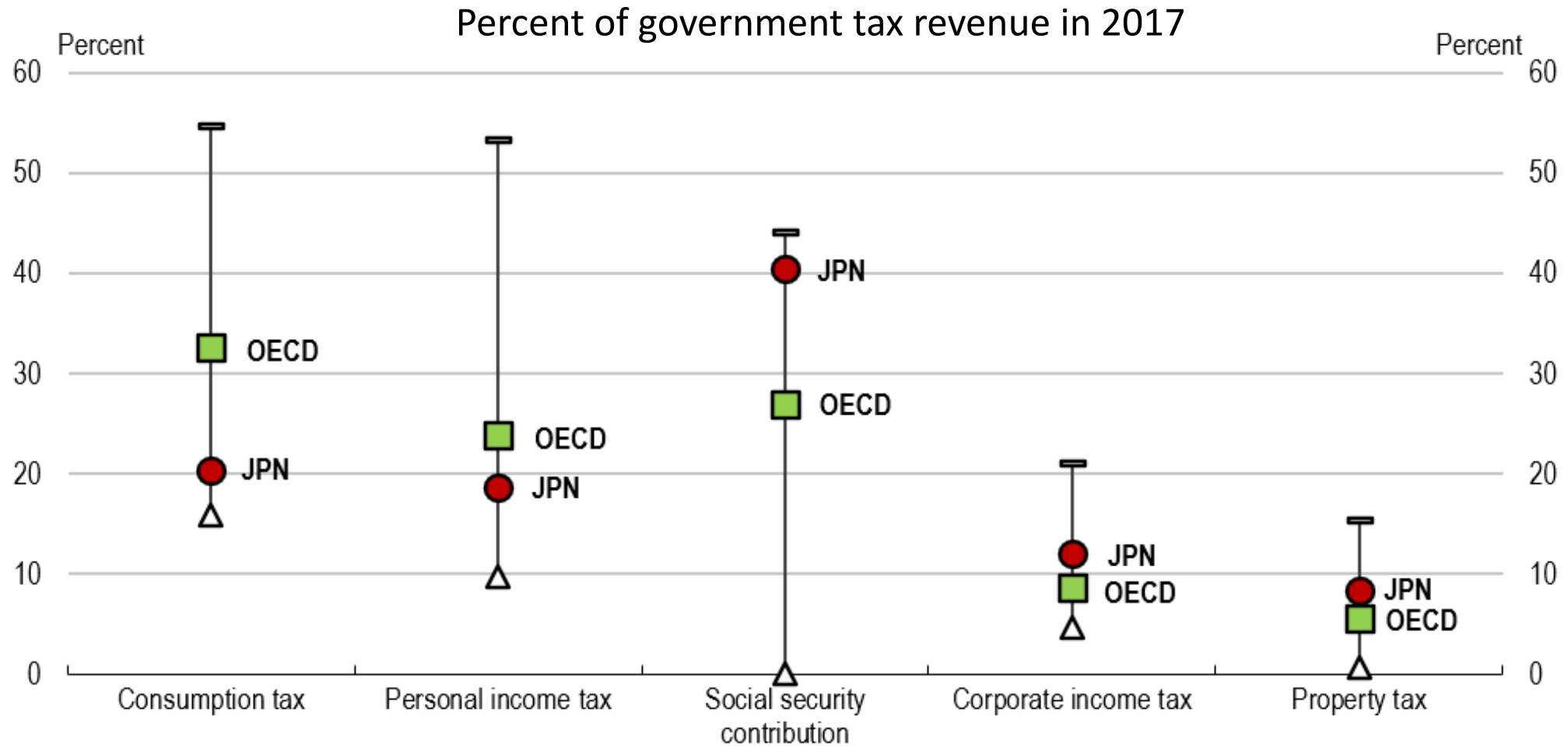
# The VAT rate in Japan is among the lowest in the OECD

Standard rate in 2018 (October 2019 for Japan)



Source: OECD Consumption Tax Trends 2018.

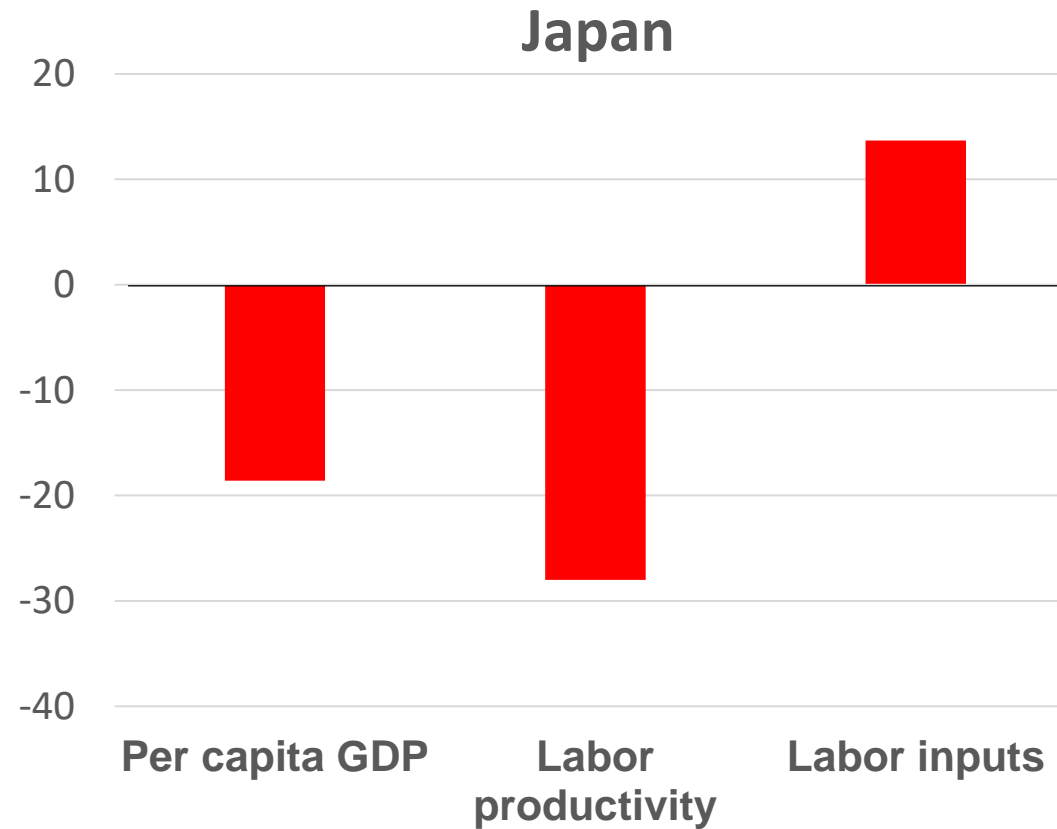
# In addition to a higher consumption tax, broadening the personal income tax base is key to increasing revenue



Note: The triangle represents the share of tax revenue in the country with the small share, while the line represents the country with the largest share.  
Source: R. Jones (2022), *The Japanese Economy: Strategies to Cope with a Shrinking and Ageing Population*, London: Routledge Press.

# Measures to raise revenue and control spending should be accompanied by measures to boost productivity and sustain economic growth

Japan and Korea relative to the top half of OECD countries in 2018

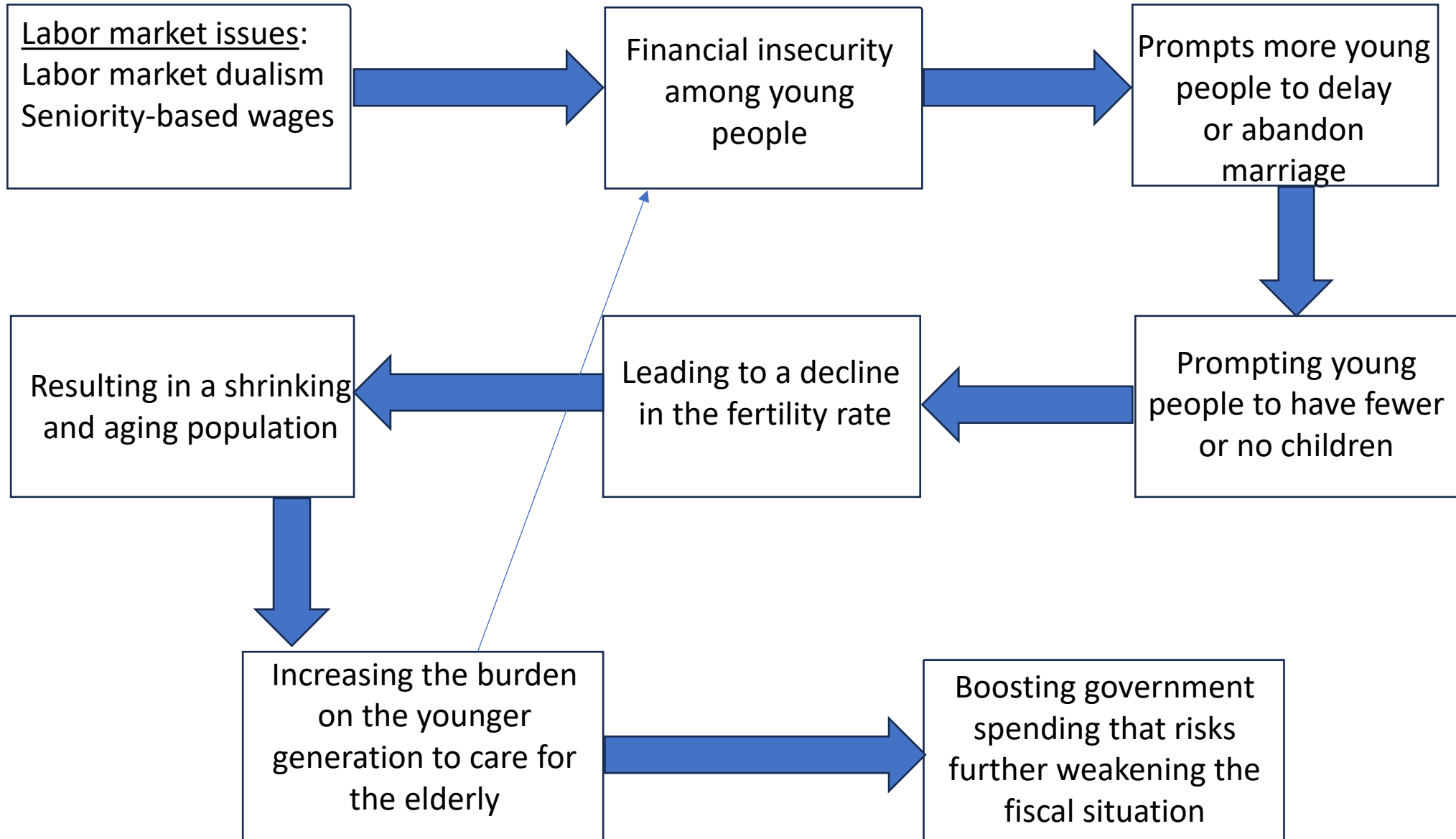


Note: Labor productivity is GDP divided by hours of labor input. Labor inputs is the total number of hours worked per capita.

Source: OECD Economic Outlook database.

# Outline of presentation

1. Signs of pessimism among Japanese youth
2. Labor market practices contribute to the financial challenges facing Japanese youth
3. Financial insecurity among young people reinforces the downward trend on the fertility rate
4. The rising proportion of the elderly in Japan's population poses a growing burden on the younger generation
5. Rising spending for the elderly population in context of exceptionally high government debt may pose risks to Japan's fiscal sustainability
6. **Policy directions to address these challenges**



# Policy directions

- ❑ Improve the financial position of young people through labor market reforms to:
  - I. Reduce the weight of seniority in setting wages.
  - II. Break down labor market dualism between regular and non-regular workers, which would make it easier for married women in particular to pursue careers as regular workers.
  - III. Eliminate tax deductions and exemptions from social insurance contributions for second earners.
- ❑ Along with an improved financial position for young people, it is essential to address other issues that prevent couples from achieving their desired number of children.
  - I. A top priority is to make it easier to combine paid work and family. Without such compatibility, women are likely to choose to have fewer (or no) children.
  - II. Such compatibility can be enhanced by greater take-up of parental leave by fathers and reforms that reduce the cost of education.
- ❑ The drop in the fertility rate is creating demographic headwinds as the population shrinks and the proportion of elderly rises. The share of elderly in relative poverty remains high despite sharp increases in social spending focused on older persons. Priority measures include:
  - I. Eliminating mandatory retirement to allow older persons to continue their career jobs and avoid economic inactivity and non-regular employment.
  - II. Smoothing the seniority wage curve so that older workers remain affordable.
  - III. Raise the pension eligibility age and increase the pension replacement rate to help reduce elderly poverty.
- ❑ Rapid population aging is boosting government spending, making it difficult to achieve the target of a balance government budget and reduce the high debt to GDP ratio.
  - I. Raise government revenues using taxes that are less negative for economic growth, notably the VAT and environmental taxes, and broadening the personal income tax base.
  - II. Boosting output growth through productivity gains.



EUROPA ECONOMIC PERSPECTIVES



**The Japanese Economy**  
**Strategies to Cope with a**  
**Shrinking and Ageing Population**

**Randall S. Jones**



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