

## JAPAN

*Japan's Aging Population: Perspectives of "Catastrophic Demography"*

*Shrinking Population Economics: Lessons from Japan.* By AKIHITO MATSUTANI. Tokyo: International House of Japan, 2006. xiv, 200 pp. ¥1429 (paper).

*Tackling Japan's Fiscal Challenges: Strategies to Cope with High Public Debt and Population Ageing.* Edited by KEIMI KAIZUA and ANNE KRUEGER. New York: Palgrave Macmillan, 2006. xvi, 222 pp. \$85.00 (cloth).

*Population Decline and Ageing in Japan—The Social Consequences.* By FLORIAN COULMAS. New York: Routledge, 2007. viii, 167 pp. \$150.00 (cloth).

*The Care of the Elderly in Japan.* By YOUNGMEI WU. New York: Routledge, 2004. xv, 224 pp. \$170.00 (cloth).

*Social Welfare in Japan: Principles and Applications.* By KOJUN FURUKAWA. Melbourne: Trans Pacific Press, 2008. xi, 425 pp. \$109.95 Aus (cloth).  
doi:10.1017/S0021911808001836

The *Washington Post* recently observed that Japan is undergoing “a slow-motion demographic catastrophe that is without precedent in the developed world.... The economic and social consequences of these trends are difficult to overstate” (May 6, 2008). Such prognoses (not to mention such colorful language) are neither new nor peculiar to Japan. A decade ago, Peter Peterson began his book on the aging of America by comparing the aging of the population to a “massive iceberg”:

Visible above the waterline are the unprecedented growth in the number of elderly and the unprecedented decline in the number of youth over the next several decades. Lurking beneath the waves, and not yet widely understood, are the wringing economic and social costs that will accompany this demographic transformation—costs that threaten to bankrupt even the greatest of powers, the United States included, unless they take action in time. (*Gray Dawn: How the Coming Age Wave Will Transform America—And the World* [New York: Random House, 1999], 1)

Peterson, it should be pointed out, is senior chairman of the Blackstone Group and was secretary of commerce in the Ronald Reagan administration. Writers taking this tack are often political conservatives who are eager to get the

government out from under the burdens of welfare-state policies. Their opponents tend to be liberals who argue that decent social programs are necessary, desirable, and sustainable and dismiss as exaggerated the claims of what they call the "catastrophic demography" school. The critics do not deny that population aging is a significant problem, but they tend to see it as manageable, and perhaps a lower priority than other problems, such as slow growth or inequality.

Among the books under review, one chapter and some of the commentary in Keimei Kaizuka and Anne Krueger's edited volume *Tackling Japan's Fiscal Challenges*, and Akihito Matsutani's *Shrinking Population Economics*, belong to the "catastrophic demography" school. The chapter by Laurence J. Kotlikoff, "Avoiding a Fiscal/Demographic/Economic Debacle in Japan," is true to form in its call for dismantling the welfare state to the extent of closing down the defined-benefit pension system for future retirees and privatizing health insurance.

Matsutani subtitles his book *Lessons from Japan*, but it is more about lessons for Japan. It is one of those books of diagnosis and prescription for the ailments of the nation that bureaucrats write after they retire. Matsutani served in the Finance Ministry from 1970 to 1997; following retirement he studied civil engineering and wrote prolifically on a variety of subjects, publishing no less than three books, seven articles, and many columns on population loss alone. Matsutani's lessons are drastic. The core argument is that the declining labor force reduces supply, while the declining population reduces demand, so Japan must downsize by carrying out a steady reduction of productive capacity—negative investment. Corporations can no longer prosper by holding down wages, because wages are the source of demand. Government must cut back sharply on public works and most other spending, including pensions. How to do all this is not spelled out. For example, cutting capacity and putting a larger share of revenues into wages might serve the corporate sector as a whole, but the logic for an individual company is not so clear. Years ago Japan found capacity reductions in specific sectors to be extremely difficult, even among a small number of large firms as in coal mining and shipbuilding; the government had to enforce cartels to avoid free-riding.

As provocative as the prescriptions are the diagnoses. Matsutani gives his own projections and analyses of demographic trends. For example, he argues that rapid increases in the elderly population will be primarily an urban phenomenon. A forecasting model at the prefectural level indicates that the changing distribution of younger workers will bring industrial restructuring to the relative advantage of peripheral regions, which is hardly the conventional wisdom. He also refutes the prevailing view that population decline and aging could be stemmed if women started having more babies. For one thing, babies born now would not be entering the labor force for two decades. For another, because the number of women at childbearing age is declining precipitously, an implausibly large increase in fertility would be needed just to maintain the current low number of births per year.

Matsutani shares with other writers in the "catastrophic demography" school a certain perverse cheerfulness. The reader gets the feeling that Matsutani had been saving up a lot of complaints about Japanese governmental and corporate

behavior through his long bureaucratic career, and he found the shrinking population a welcome occasion to bring up his pet prescriptions. Similarly, bankers and conservative economists (such as Peterson and Kotlikoff) have generally not been fond of the welfare state anyway and seem happy to find a good argument for cutting it back.

As a whole, *Tackling Japan's Fiscal Challenges* is quite balanced. This book is the proceedings of a 2005 conference of economists from both sides of the Pacific, organized by the Ministry of Finance and the International Monetary Fund. About half of the volume is about economic growth, high public debt, and fiscal decentralization. These issues are beyond the scope of the review; however, it is worth noting that the discussion is interesting and that dissenting comments from conference participants nicely temper alarmist predictions in the main papers. This sort of dialogue is particularly helpful in volumes of papers by economists, where the conclusions are based on technical arguments that most readers cannot evaluate.

The half of the book directly relevant to population aging has eight papers and accompanying comments. Three of the papers make dire forecasts and recommend radical paring of social programs, and four are quite moderate. The paper of Yutaka Imai and Howard Oxley falls somewhere in between. Focusing on the medical and long-term care insurance sectors, the authors grimly forecast a rise in public spending of at least three to six points of gross domestic product (GDP) by 2050. In my view, however, their projection is not too alarming (it would still be well below U.S. spending today), and indeed, the authors' recommendations amount to some fairly modest reforms in both sectors aimed at improving efficiency, not gigantic cutbacks.

Leading the moderates is Henry J. Aaron, the elder statesman of practical-minded liberal economists who write about social policy. Aaron provides a sensible review of pension and health care policy, and gives Japan credit for generally successful reforms of the pension program and for keeping medical spending under tight control. He calls for more automatic adjustments in pension policy in medical care. I disagree with some of these, but they are usefully detailed proposals.

Aaron's overall perspective deserves more attention than it usually gets. Japanese population aging is often seen as a future phenomenon, and so a "crisis," but in fact the most drastic changes in the actual numbers of the elderly have already occurred. In the twenty-five years from 1980 to 2005, the number of Japanese aged sixty-five and over rose from 10.6 million to 25.4 million, or from 9.1 percent to 19.8 percent of the population. That was extraordinarily rapid aging: about 240 percent in a quarter century. In the current quarter century, the elderly population is projected to grow at a considerably slower pace, reaching 34.8 million in 2030, which would represent a 25 percent rise.

These facts make the Japanese record in controlling health care costs look impressive. Health spending as a percentage of GDP went up from 6.5 percent to 8.2 percent from 1980 to 2005—just 1.7 percentage points of GDP over twenty-five years despite rapid aging. Considering that conservative economists in this volume and elsewhere consistently recommend that Japan adopt American-style health care practices for the sake of efficiency, it is worth mentioning that in the

United States in that same twenty-five-year period, health spending ballooned from 8.7 percent to 15.2 percent of GDP, although the proportion of the elderly rose only slightly (from 11.3 percent to 12.4 percent). Any lessons should be learned in the other direction. In any case, for this issue at least, the catastrophe scenarios look less plausible than the views of moderates such as Aaron.

*Tackling Japan's Fiscal Challenges* and *Shrinking Population Economics* are both proscriptive, the first full of advice for the Japanese government, the second addressed to corporations as well. The remaining books on our list do not give as much advice. *Population Decline and Ageing in Japan—The Social Consequences* is essentially descriptive, and all the better for it, though hints of the author's preferences come through. It is by Florian Coulmas, an established sociolinguist who is director of the German Institute of Japanese Studies (DIJ) in Tokyo and writes broadly on Japanese social topics.

Demographic change has been the DIJ's major preoccupation for some time. It has sponsored several research projects and recently produced a massive, two-hands book, sixty-three chapters and 1,242 pages long (*The Demographic Challenge: A Handbook about Japan* [London: Brill, 2008]). Coulmas is the lead editor of that volume, and his authored book covers much of the same ground at one-seventh the length (though, sadly, at only one-half the price). The book has twelve short chapters, fifty-three charts and tables, 181 endnotes, and a useful 2,000-plus-item bibliography.

To my eye, Coulmas picks up the right points, his interpretations are reasonable, and he has a real talent for succinct explanation. The book gives us an overview of the causes of aging and population decline and of most of the big effects (other than macroeconomics): living patterns, gender, age grading, retirement, parents and children, consumer behavior, politics, culture, and more.

Coulmas's chapter on immigration is a good example. He starts off quoting two economists saying that Japan urgently needs to import workers, notes the qualms about social inclusion among both resident foreigners and Japanese, runs down the data on immigration with a chart showing the sharp growth from the 1990s, reviews the academic literature on immigration dynamics, and recounts the sharp debates over the issue among Japanese opinion leaders. He mentions favorably a "human resource development and circulation model" to benefit both Japan and feeder countries, and concludes judiciously that despite the problems a new policy will probably emerge and "eventually change the face of Japan" (p. 124).

Coulmas includes a short chapter on the socialization of care for frail older people, which covers trends in family care and the advent of public, mandatory long-term care insurance (LTCI) in 2000. Most of the expansion of services under LTCI has been in programs for elderly people living at home (with or without their children), but institutional care remains important, and that is the subject of our fourth book. Methodologically, this book is a good reminder that for learning how things work, it is hard to beat a good old-fashioned ethnography.

Yongmei Wu, an anthropologist who teaches in Beijing, spent six months as a participant-observer at a large old-age facility in western Tokyo in 1999,

preparing a dissertation for the University of Hong Kong. She learned a lot and passes it on: a day in the life of a nursing home; detailed narratives of five residents and four staff members; accounts of the “organizational culture” of the facility; and a close analysis of two kinds of conflicts that sprang up among residents. She starts by placing her facility in its public policy context, and ends with an account of the impact of LTCI on the facility (based on a short later visit). Befitting a dissertation, the book has a review of the literature and a section addressing theoretical and comparative issues about quality-of-life, dependency versus autonomy, and Japanese culture—both are brief and satisfactory.

*The Care of the Elderly in Japan* has an overly expansive title, but it fills a big gap for anyone trying to understand the welfare policy side of population aging in Japan. Happily, the institution that Wu chose includes all three types of welfare facilities for the elderly (nursing home, old-age home, sheltered housing), and she draws good contrasts among them. Nothing else in English (nor, so far as I know, in any other language) gives us such a good picture of institutional care in Japan.

Our fifth book is different. *Social Welfare in Japan: Principles and Applications* sounds like a textbook, and it is a translation (anonymous but okay) of a 2003 text clearly aimed at Japanese undergraduate social welfare majors. The “principles” part, roughly the first 170 and last 40 pages, is about social welfare theory in Japan, centered on a discussion about the essence of the field—is it social policy or is it social work?—which evidently has occupied three generations of Japanese scholars. Oddly, although acknowledging that Japanese social welfare theorizing is largely stimulated by Western writings, the book cites only three non-Japanese works published since the war, the most recent in 1980. That is too bad given that scholarship in this field has been quite lively in Europe and even the United States recently; still, it is hard to imagine that anyone who does not have to take an exam in the subject would be interested in this “principles” part.

Happily, most of the middle 200 pages is about “applications,” and this provides a useful overview of Japanese social administration that is available nowhere else in English. It outlines the roles of different governmental levels and types of agencies, and distinguishes among the variety of administrative relationships between public authorities and service providers. Unfortunately the descriptions of eligibility determination, complaint procedures, financing, qualifications and examinations for specialized personnel, and so on, are quite formalistic—indeed, woefully short on numbers and other specific information that would give an idea of how things actually work. Still, those who try to study Japanese social policy in action are often baffled by arcane administrative details and this book would be a helpful reference. Incidentally, it and other books like it would be much more helpful if they would include the names of institutions and technical terms in the original Japanese along with their sometimes opaque English glosses.

To return to the topic we started with: The reader will have guessed that I am not of the catastrophic persuasion. Perhaps I am naive and blinded by my ideological preferences, but it is my experience with social policy that most dire

predictions turn out to be off the mark. Not infrequently the flaw is extrapolating from a few current trends without taking into account that somebody (e.g., the government) might notice the problem and remedy it. The health spending case mentioned earlier is a good example—people were forecasting skyrocketing medical spending back in the 1970s, as they are today, but in fact the government was repeatedly able to constrain spending growth cleverly and effectively.

This observation suggests that it might be a good idea to look at the past before speculating about the future. As noted, Japan has already gone through massive and rapid population aging in the past twenty-five years. Before asking how Japan *will* meet such challenges, why not ask how well it *already has* met them. Incidentally, neither I nor three Japanese experts I consulted have ever seen a serious book or article that asks that question.

Here is a sketch of such an argument: We know that in recent years Japan's economic performance was anemic and that it ran up gigantic national debts. Was demographic change the cause of the problems? For the most part, clearly not. Aging is supposed to bring labor shortages, and Japan had high unemployment. Aging is supposed to cut savings rates and inhibit investment, but it was consumption that was weak, and Japan had plenty of money to invest for most of the period. Aging should cause soaring health care and pension outlays, but both programs have been effectively moderated—the big deficits are mostly the result of extravagant public works spending. Among the many negative factors influencing the Japanese economy (the bursting of the bubble, bad loans, poor fiscal policy choices, overregulation, outmoded structures, whatever), population aging has played a small role, if any.

The future is certainly uncharted territory. The worry is not so much more old people as fewer young people—population shrinkage. That might have terrible effects. To me, though, the key point is that demographic change does not happen all at once but incrementally, and so tends to bring incremental adjustments both in public policy and individuals' choices. Just looking at the oft-cited problem of worker shortages, by OECD (Organisation for Economic Co-operation and Development) standards, overall labor productivity is low in Japan, women are underemployed, and the number of foreign workers is not yet high enough to provoke political reactions. There would seem to be lots of room for improvement without much strain in this area, and perhaps in others as well.

Japan has lots of problems that need attention—certainly economic, but also political, social, administrative, and possibly cultural. Some are made more difficult by demographic change, but in my view, few, if any, thereby become insurmountable. For myself, I am confident that when we look back twenty or thirty years hence on how well Japan has done, we will not be singling out population aging as the number one problem in maintaining the well being of its citizens.

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