

Choice for the Future

— Creating a Growth and Development Model Made in Japan
Transcending Rapid Depopulation and Super Aged Society —

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Introduction

The Committee for Japan's Future has conducted discussions mainly about medium- and long-term visions of Japan's economic society beyond what Abenomics aims to achieve—the end of deflation and revitalization of the economy—or what Japan should be like in the future, 50 years from now, and what challenges we should address by around 2020.

This report has a very simple message to deliver; if no action is taken now to change the current situation, our future will be extremely tough and difficult. However, you have a choice for the future. Choice for the future is not what you may do sometime in the future, but you must positively choose something now, and a choice you make now can change your future.

So far, Japan has seen the steady trend of rapidly declining and aging population going on amid chronic deflation, and has yet to achieve strong and sustainable economic growth, leaving regional communities impoverished and creating a vicious cycle we have been locked in. Now that economic conditions have started turning around, with the end of deflation coming in sight, we should address challenges we face in population, economy, and regional community in an integrated manner to produce synergistic effects between them and turn a cycle around for the better. This report delivers suggestions that are as specific as possible, mainly on the direction of actions we should take by around 2020.

The recommendations this report presents are directed primarily toward the government of Japan. However, Japan now faces such a broad range of multi-layered and complicated challenges that it seems unlikely that all of them can be solved by any set of policy measures the government would take could by themselves. In this regard, we expect this report to be taken not only by the national and local governments but also by regional communities, businesses, nonprofit organizations, and ordinary people, regardless of segments they belong to, as an opportunity to consider for themselves what choices they should make for the future and turn them into action.

[Key points]

- **Message:**
You have a choice for the future.
- **Key concept:**
Draw the “future” in association with “population.”
- **Approach:**
Address challenges related to population, economy, and regional community in an integrated manner;
Take advantage of the current opportunity as the end of deflation is coming in sight;
Deliver innovations for enhancing potential for growth. That should be based on development of people and effective use of diversity.
- **Numerical guides:**
Measures to counteract the falling birth rate: Aim to double the expenditures for this purpose as early as possible. (Place such measures as a pillar of social security, and establish a source of funding mainly by reviewing the entire system of social

security to avoid leaving liabilities to the next generation.)

Juvenile population: Stop the decline by the early 2020s.

Population decrease: Stop the increase in the rate of decline by around 2040, and bring the population decrease to a halt in this century.

Potential for growth: Maintain GDP growth at around 1.5 to 2.0 percent in real terms even 50 years from now.

○ **Time frame:**

By the 2020s: Provide a jump start (Doubling of the expenditures for measures to counteract the falling birth rate, rapid enhancement of productivity, and local revitalization, pursued in an integrated manner; Reform and change to dispel dormancy and defensive attitudes.)

During the 2030s & 2040s: Endure tough conditions, showing firm resolve.

During the 2050s & 2060s: Pass the baton to coming generations.

○ **Suggestions of specific initiatives:**

Population: Enhance measures relevant to realities of regional communities, and expand support for marriage, childbirth, childcare, and education.

Economy: Make the most of diversity as well as unusual abilities and extraordinary talent for rapid enhancement of productivity.

Regional community: Take advantage of the unique characteristics and strengths of regional communities, to establish a spontaneous and sustainable model.

I. Basic approach

1. Address challenges related to population, economy, and regional community in an integrated manner

(Overview)

For the past 30 years, Japan has seen a large decline in the birth rate¹. In 1984, Japan's birth rate stood at 1.81, before falling to 1.26 in 2005, and leveling off at around 1.3 or 1.4 until now. The lower birth rate is a primary cause of the decline of the total population, which peaked in 2008 and decreased by 800,000 between that year and 2013 to 127.3 million. The population aging rate, at 9.9% in 1984, rose to 25.1% in 2013. The Japanese economy has shown significant ups and downs over the same three decades, as we have experienced emergence and collapse of an economic bubble, the currency crisis in Asia and the financial crisis in Japan in the late 1990s, a modest recovery in the early and mid 2000s, chronic deflation, the Lehman Crisis, and the Great East Japan Earthquake. Japan's GDP per capita grew from ¥2.123 million in FY1980 (17th among OECD members) to ¥3.958 million in FY1994 (3rd), more than 1.8 fold, before showing minor increases and decreases (to ¥3.707 million in FY2012, 10th).

Looking at how regions in Japan have each been going amid movements of the

¹ This refers to the total fertility rate, an estimate, made with specific assumptions, of the number of children that would be born to a woman over her lifetime. Meanwhile, the number of newborn babies per 1,000 population is referred to as crude birth rate.

country as a whole as described above, population continued flowing into the Tokyo metropolitan area from the late 1980s to the early 1990s, before a temporary break in the trend, followed by the influx of more people starting in the 2000s. A greater number of people come from distant places, such as Hokkaido, Tohoku, Chugoku, Sikoku, Kyushu, and Okinawa, and avoid going back home. The birth rate is especially low in places with a large population, such as Tokyo, Osaka, and Kanagawa. Tokyo, having been with a low birth rate, saw its natality decline further, touching 1.00 in 2005, the lowest found in the statistics available, and leveling off at around 1.1 until now. Meanwhile, the birth rate is rising with a consequent increase in the number of births in some regions, including Shiga, Fukuoka, and Okinawa, although the residents there are only a small minority in relation to the country as a whole.

On the economic front, tough conditions generally continue in Hokkaido, Tohoku, Hokuriku, and Sanin, regions lying along the Sea of Japan, as well as in Kinki and the southern part of Shikoku, with a great disparity in performance even within a region. Many of the cities with a population of 50,000 or 100,000 manage to remain economically viable. Those with a little larger population, 300,000 through 400,000 and 500,000 or more, see a gradual decline continuing. Most of the towns and villages with less than 10,000 residents are faced with tough conditions. The national average of economic performance among the municipalities, arithmetically calculated with no regard to differences in the size of economy between them, shows an increase of 0.6% during the ten years between 1990 and 2000, and a decline of 0.3% during the next decade between 2000 and 2010, a conspicuous increase of stagnant regions in recent years².

Examination of the relationship between economic conditions of municipalities and the trend of birth there shows little correlation between them 30 years ago, but finds a positive relationship in recent years. This suggests that regions that succeed in maintaining a certain level of economic vigor see no decline in the number of young people and instead an increase of children, and that conversely, municipalities chosen as nice places for young people and children to live in are relatively well off economically. Around 60 percent of the regions with a higher crude birth rate show some improvement in economic indicators compared with their past record or the national average. In turn, 40 percent of the regions getting better in economic indicators than ever before or the nationwide average are found among the top 20-percent regions with a higher crude birth rate.

(Address challenges related to population, economy, and regional community in an integrated manner.)

The general trend of Japan we have seen above leads us to admit we are locked in a vicious cycle as regional economies have come to a dead end, which causes young people to flee to Tokyo and other urban areas, a cause of further impoverishment of regional communities, while Japan as a whole, especially regions with a large population where raising children is tough, sees a continuing falling in the birth rate. However, despite significant ups and downs in the macro economy, we can find some regions that successfully sustain their economic viability, with little or no decrease of

² The analysis is based on time-series comparison of economic indices of municipalities, obtained by synthesizing statistics of manufacturers, commerce, agriculture, and others into one.

young population and instead an increase in the number of children. They are far from a small minority, and rather found in significantly large numbers even among hilly and mountainous areas and remote islands. It is here that we can make a breakthrough.

Pursuing Abenomics and placing the macro economy on a stable growth trajectory is the top priority among challenges to address. On that premise, what comes next as the most important issue for turning around the current status of Japan, which has seen the steady trend of rapidly declining and aging population, and is yet to achieve strong and sustainable economic growth, leaving regional communities impoverished, is addressing challenges of population, economy, and regional community in an integrated manner. We need to address such challenges comprehensively as making drastic enhancements to measures to counteract the falling birth rate, securing employment opportunities as a basis of livelihoods for families, breaking down the polarization between regular and non-regular employment, transforming the entire economy into a high-value added model, promoting spontaneous and sustainable economic activities in regional communities and creating jobs there, and encouraging flow of population into the provinces.

Once these approaches to initiatives for reform and change succeed in producing synergistic effects between them, just as in some regions that have already achieved a breakthrough, we will have a pretty good chance to see a cycle start turning around for the better.

For that, it is critical to see things from such standpoints as listed below.

(Draw the “future” in association with “population.”)

“Population” refers to the number of people living in a certain area or a country. The concept connects people with their families and relatives, workplace and school, a place they live now and the hometown where they were born and brought up, and Japan as the mother country, as well as the past when they experienced a lot of things and the future the next generation will live, in terms of both space and time.

People choose a certain place to work, marry, have a family, and bring up children of their own will, and it is a fundamental right they have as an individual. That must be always kept in mind in talking about “population” as part of any policy program. On that premise, we should face up to challenges of “population” and design the “future” we should leave for the next generation to live.

We cannot overcome the problem of rapidly declining and aging population without succeeding in increasing the number of children as an essential challenge to address. A society with its population left decreasing will disappear in the end, and has no design it can draw for the future. What is important is to develop a society that maximizes welfare of children and helps people have and bring up children easily, motivating them to do so, and rank the initiative in a positive way as an investment for the future.

(Attach great importance to “ability to connect” and “openness.”)

It is “people” that carry out reform and change of the economy and regional

communities, and careful development of people must be established as the basis. What should be attached great importance here is development of “ability to connect.”

Japan has a diversity of excellent people, technologies, resources, and skills. What we need for reform and change is to adopt new points of view to see them for connecting them together or connect with them. For instance, however excellent element technologies you may have, they themselves do not necessarily guarantee you success in global competition. Only when you skillfully integrate, or socialize, them, will you be competitive in business. Japan has weakness here. To put it the other way around, once we successfully overcome the weakness, new prospects will be opened to us.

Education in Japan is rated high for its excellence in helping students acquire academic abilities in individual fields, but is considered weak in developing their ability to think and judge for getting the whole picture of things and picking out a specific focal point to make an approach to it, and their ability to communicate with others and find a solution together (here we refer to such abilities as “general-purpose skill.”). Groundings in individual fields and basic academic abilities, with “ability to connect” added on top of them, would allow people to release their great potentials.

For adopting new points of view to see people and things for connecting them together or connecting with them, “openness” is also critical. Response to globalization in the world of business is the most obvious case, as globalization means connecting with excellent people, technologies, resources, and skills around the world. Regional communities that have experienced certain success tend to be more conservative, and because of that, they need to exert all the greater effort to accept new people, technologies, and skills and connect what is new to them with what they have had.

The key for connection and openness is “information.” More effective application of innovations in information technology to spread information to every corner of the economic society should remarkably enhance the ability of people and communities to open up and connect.

(Broaden the range of “alternatives” and make the most of diversity.)

When you design an preferable future, you must treat welfare, unitary, and amenity of individuals as basic elements for consideration. In this respect, it would be important to consider whether Japanese people today, living in rapidly changing conditions of the economic society, despite tardiness of changes in systems, institutions, practice, awareness, and other circumstances, may often make a choice for their life among a narrow range of alternatives, although they may not be aware of this.

We should have a broader range of “alternatives” to make the most of diversity.

For instance, you may start working earlier, just after graduation from high school, to gain some work experience, before learning something again. You may also try to learn or work in some completely different fields. You may work in Tokyo or overseas before moving somewhere in the provinces to start up a business. Once finishing bringing up your children, you may have an opportunity to learn something again and

start a new job. Moving to a place unfamiliar to you and engaging in community activities may be a choice you can make.

With more alternatives among which you can make a choice on your own responsibility and judgment, you may find it easier to realize your wishes, including employment, marriage, childbirth, and childcare. That would help you obtain greater utility and amenities for yourself. Enabling individuals to demonstrate their individuality and abilities in such a manner that the diversity among them will be made the most of should invigorate local communities, and the entire economy in the end. A broader range of “alternatives,” especially opportunities for learning and work, must be offered.

2. Numerical targets and guides, and timeframe

(Targets and guides for the overcoming of rapid decline of population)

If no action is taken now to change the current situation, Japan will see rapidly decreasing and aging population, which should send the entire economic society falling into a negative cycle, leaving local communities with inevitable decline. We should aim at overcoming the rapidly decreasing and aging of population and maintaining a population of about 100 million with a stable demographic structure in 50 years. This has been set at for various reasons stated below.

First, it is important to enable young people to realize their wishes. If, around a midpoint between now and 50 years in the future, conditions are realized that allow 90 percent of young people to marry and have two or more children, as they wish, it is estimated that the decline of population will significantly slow down, leading the size of population to stay at around 100 million even 50 years from now, followed by the end of population decrease.

Another reason is importance of the stability in the demographic structure. If population stays at about 100 million 50 years from now, people aged 65 and above will account for one-third of the population at the time, with the remaining two-thirds as those younger than 65, almost the same proportions between the two sides as those of the number of age groups belonging to each, meaning that demographic imbalance will be virtually eliminated. That would make it much easier to find viable solutions to a diversity of challenges rather than with a persistent imbalance in the population structure.

Below are numbers presented as guides³.

The first issue we take up here is juvenile population. If population goes along the lines of the target, juvenile population will stop declining by the early 2020s. In 50 years, under the current conditions, the juvenile population ratios would fall below 10 percent. If juvenile population takes an upward turn, starting to show slight increases, the ratio will stand at 15 or 16 percent, with more children than today and a gradually

³ Juvenile population ratio: [Those aged from zero to 14] / [Total population]; Population aging rate: [Those aged 65 and above] / [Total population]; and Working-age population ratio: [Those aged from 15 to 64] / [Total population]

growing proportion of children in society. The population aging rate, if population goes along the lines of the target, will peak at around 34 percent in the late 2040s, before starting to decline, meaning that society as a whole will get rejuvenated.

The working-age population ratio, 62 percent at the moment, would not stop going down with rapidly declining and aging population, falling below 50 percent in the future. However, once we succeed in overcoming the rapidly declining and aging population, we could avoid seeing the ratio fall so low, and instead will start to show a modest upturn in the mid 2040s. On top of that, with some effort to encourage more of the elderly, while in good health, to play more active roles, society could maintain enough of its vigor.

Under the current conditions, population would decrease by 600,000 persons per year in the early 2020s, and by one million around 2040. Population would decline sharply, and continue declining indefinitely. If population decrease can be controlled at around 300,000 persons annually in the early 2020s, the pace of decline will hit the ceiling around 2040 at an annual decrease of 600,000, before starting to slow down. Even though population will continue declining by around 400,000 persons per year in 50 years later from now, it will start leveling off during the 21st century, or shrinkage of population will draw to an end.

It takes some time before any change can be observed in population, but the composition and size of population change in parallel, dynamically, and steadily. If the trend in figures mentioned above as guides starts to change by around 2020, and they peak or bottom out by around 2040, you can conclude that Japan will maintain a population of about 100 million with a stable demographic structure in 50 years.

In addition, challenges concerning population, economy, and regional community must be addressed in an integrated manner, taking into account guides mentioned below.

(Double the expenditures for measures to counteract the falling birth rate)

Expenditures for measures to counteract the falling birth rate (family-related expenditure) should be doubled as early as possible, with 2020 set as a rough guide ⁴. Any change significant enough can be made in the current trend only with some bold steps. Support for childbirth and childcare is an investment for the future, and liabilities should not left to the next generation, and instead should be taken on by the present one. Childbirth and childcare support should be placed as a pillar of social security, and necessary sources of funding must be secured for it, primarily by improving efficiency of, and setting priorities between, medical, nursing, and other welfare services, shifting the weight of resource allocation from the elderly to children, and conducting a radical review of the social security systems as a whole to restructure

⁴ According to the OECD Social Expenditure Database, the proportion of the family-related social expenditures (total of cash and in-kind benefits granted as childbirth or childcare support under some systems) against GDP in FY2009 was 3.8 percent in Sweden, 3.2 percent in France, and 2.3 percent for the OECD average, while the ratio in Japan was 0.96 percent that year. The National Institute of Population and Social Security Research estimates that in FY2011 the ratio stood at 1.35 percent. Meanwhile, the ratio of expenditures for the elderly in family-related spending was 0.36 in Sweden, 0.26 in France, and 0.36 for the OECD average, while it was 0.12 in Japan. According to the OECD Family Database, the proportion of public spending for family benefits, including tax treatment, was 3.98 in France, 3.75 in Sweden, and 2.61 for the OECD average, while the ratio in Japan was 1.48.

them in such a manner that benefits and burdens will be well balanced between them.

Focus on improvement in quality of expenditure is also important. We should learn from other countries that have succeeded in recovering the birth rate, irrespective of the existing framework for measures to counteract the falling birth rate, to expand comprehensive and seamless support, attach greater weight to in-kind benefits, such as broader options of childcare services, and enhance support for education.

Children are born into, and brought up by, younger generations, and under their care, children grow up. We should see things from a standpoint of what we should do to develop a society that enables younger people to have and bring up children, and children to grow up, both cheerfully, in endeavoring to enhance and expand related policy measures.

(Deliver innovations for enhancing potential for growth)

For the economy, we should aim to maintain GDP growth at around 1.5 to 2.0 percent in real terms even 50 years from now. We anticipate downward pressure on the economy in the 2030s and 2040s as population of working generations will start declining at a faster pace. A decreasing population, and consequent stagnation of the economy, would send it into negative growth in the 2040s, a situation we might find difficult to get out of once falling into it. What is critical here is to make the economy more resilient to such downward pressure by delivering innovations and enhancing potential for growth by the 2020s. If that is followed by a turnaround of the working-age population ratio from a decline to a modest increase in the 2040s, together with other positive changes, the economic growth rate will be successfully maintained at around 1.5 to 2.0 percent.

A challenge to address in striving to enhance potential for growth is to develop a society that enables people to fully exhibit their individuality and their own abilities, regardless of their age or gender, beyond regions or type of work. We should pursue initiatives, among them, to encourage women to play more active roles by raising the share of women among managerial positions to 30 percent, while correcting the uneven distribution of female workers between types of jobs and businesses as they are concentrated in clerical work and sales business, and smoothing out the so-called M-shaped curve, to increase the employment rate of women in their 30s and 40s by around five percent, or 950,000 persons; for encouraging the elderly to play more active roles, we should introduced measures to allow them to work at any age, as far as they hope to, and raise the employment rate of people aged 65 or above by around three percent, or 960,000 persons, as rough guides at the moment⁵.

(Prevent over-concentration in Tokyo and revive regional economies)

With unipolar concentration in Tokyo, the share of people living in the Tokyo metropolitan area in the total population of Japan has grown over these some 30 years by four percent, from 24 percent to 28 percent; especially, over the past ten years or so since 2000, the growth has been two percent. Preventing such an accelerated concentration is an urgent task to address.

⁵ The estimates are based on the number of employees in 2013.

As mentioned at the beginning of this report, regional economies, seen in an economic indicator that shows the national average of municipalities, have been declining by 0.3 percent per year for these some ten years. A vicious cycle between impoverishment of regional communities, accelerated over-concentration in Tokyo, and sharper declines in the birth rate has intensified over these some ten years. The decline is not so significant in number, at the moment. Nonetheless, efforts of cities with a rather large population and smaller towns and villages, municipalities conspicuously poor in economic performance, to produce a 0.3 percent improvement in aggregate every year would work as a rough guide for initiatives to turn a cycle around for the better.

(Make a Jump start by the early 2020s.)

Japan is now faced with quite tough conditions in population, economy, and regional community, which are expected to get tougher over time. Fewer children and a decreasing number of the youth would cause the low birth rate to make faster and larger declines. As population decrease continues with that, the economy and regional communities would see their challenges getting even tougher. The later we start addressing the problems we face, the more difficult it would get to make up for lost time. We should recognize that the game will be decided by the early 2020s.

With stability of the macro economy as a prerequisite, it is critical to make a jump start by the early 2020s as a rough guide. Here, a jump start refers to doubling of the expenditures for measures to counteract the falling birth rate, rapid enhancement of productivity, and solutions to a widening gap between regional economies in performance, pursued in an integrated manner. That is a tough challenge to address, but together with efforts to end deflation, reform and change to dispel various forms of dormancy and defensive attitudes must be carried out to produce results.

(During the 2030s & 2040s: Endure tough conditions, showing firm resolve.)

Even when a jump start is successfully made, it will take some more time before the relation between population, economy, and local community starts to turn around for the better. Any one-off measure would produce little effect, and what is important is carrying out persistent initiatives for reform and change, with careful monitoring of how effective the efforts are.

The influence of a variety of factors on the state of population, birth rate, and regional communities makes policy programs far from easy to evaluate in their effectiveness. However, what is critical is to design relevant indicators for analysis and review of policy programs to examine how much effect they have produced, and, while enduring downward pressure of decreasing population on the economy, to continue carrying out and updating initiatives.

(During the 2050s & 2060s: Pass the baton to coming generations.)

If, 50 years later from now, the future designed by this report come true, generations to come will see bright prospects in their own future. To leave such a future to them, we must make a start now.

3. Some specific suggestions of initiatives

What is important is to get bold enough to take up something we have put aside and give momentum to reform and change, and to carry out initiatives people feel familiar enough with to understand them and come to participate in them from a broader base. Below are some specific suggestions of initiatives we deliver from such a standpoint.

(1) Population: We have a lot we can do and we should do.

So far, measures to counteract the falling birth rate have concentrated in childcare support for people at work or seeking employment. However, there are a broader range of challenges to address, including support for marriage and childbirth, and development of environments that encourage people to have a child. Setting out to double the expenditures for measures to counteract the falling birth rate, we should do as much as we can in initiatives for that purpose.

○ Enhance measures relevant to realities of regional communities.

Fine-tuned responses relevant to realities of regions are required. Different regions - small towns and villages, medium-size local cities, large cities, and the Tokyo metropolitan area - have different problems. Some of the regions, exerting effort that fit the realities of their own, have produced results⁶. Initiatives needed to enhance measures relevant to realities of regions include reinforced support by the national government from FY2015 onwards, and coordination and cooperation between local governments, private organizations, and other parties in a region.

○ Spread knowledge about pregnancy and childbirth

Spreading scientific knowledge about pregnancy and childbirth among people so that they have better understanding of it is critical. As lack of knowledge or understanding may prevent people from making the right decision about their life plan, we should take advantage of education and other various opportunities to spread knowledge among people and help them understand it⁷. Desirably, knowledge about maternity should be so widely spread and well understood that people are readily allowed to take leave for infertility treatment. Some initiative should also be carried out to offer them information about how much influence marriage, work, childbirth, and childcare, among others, may have on their income and expenditures over a lifetime.

○ Encourage businesses to provide support for childcare and the youth.

According to the revised Act on Advancement of Measures to Support Raising Next-Generation Children, which comes into force in April 2015, businesses need to

⁶ Reference Material 14, "Surveys Conducted by the Chief Cabinet Secretary (2014)," shows that local governments that have set up a department responsible for measures to counteract the falling birth rate, increased the staff engaged in such programs, and/or allotted more budget, among other initiatives, have seen some upward trend in the birth rate over the past ten years.

⁷ Reference Material 15, "International Comparison of Knowledge about Fertility (2013)" ranks Japan the lowest among developed countries.

give a positive place, in an action plan or other relevant programs they formulate, to excellent initiatives for support for the youth, marrying and childbirth, and childcare, as well as work-life balance, and to make them visible⁸.

○ **Provide public support for education.**

It is important to position support for education as aid that should come after infancy. For instance, in addition to government expenditures, extension and/or expansion of exemption of tax on gifts for education⁹, a tax privilege that comes to an end at the end of 2015, and other measures to encourage older generations to transfer their assets to children and grandchildren should be taken into consideration as indirect support.

(2) Economy: Encourage diversity, and accept unusual abilities and extraordinary talent to take advantage of them.

Pursuing reform in the way of working, among others, in a manner that allows people to make the most of individuality and their own abilities in a more diverse way is critical. Unique characteristics should be respected. Young people, women, and the elderly should be offered more opportunities to play some active role, while the uneven distribution of them between types of jobs and businesses should be corrected. Jobs should be created in regional communities, and interaction between people should be encouraged.

At the front line of research and development, and business start-ups, more emphasis should be placed on respect to diversity of individuality and abilities. Encouraging diversity, and accepting unusual abilities and extraordinary talent to take advantage of them delivers innovations. It is a diversity of grass-roots level innovations that provide a source of growth.

○ **Offer more diverse opportunities to learn.**

It is development of human capital that forms the foundation. What is needed includes initiatives to offer more diverse opportunities and alternatives of learning, other than public education, and support for children to receive education regardless of their family background.

○ **Discover and nurture unusual abilities and extraordinary talent.**

We should respect individuality for its great diversity. With that, we should carry out initiatives aiming to discover and nurture unusual abilities and extraordinary talent¹⁰.

⁸ The revised Act states that a new special recognition system shall be set up for progressive programs that businesses adopt as a measure to support raising next-generation children. It also obligates them to disclose the status of implementation of their support measures. At the moment, businesses' disclosure of information about their initiatives for work-life balance falls short. (See Material 8, page 6, for the 8th meeting of the Committee for Japan's Future, July 18.)

⁹ As an arrangement to encourage transfer of assets between generations, and effective use of them, once gifted, the tax treatment is in force for three years, from April 2013 through December 31, 2015. (See Material 3, page 7, for the 12th meeting of the Committee for Japan's Future, October 28.)

¹⁰ Some of the examples are the Innovation Program of the Ministry of Internal Affairs and Communications, and the Room Of Children with Kokorozashi and Extraordinary Talents (ROCKET), of the University of Tokyo and the Nippon Foundation. (See Material 3, page 14, for the 12th meeting of the Committee for Japan's Future,

○ Encourage unique research and development, and business start-ups.

For university ventures, cooperation between academia, industry, and government, and similar initiatives, what is important is to change rules and practices in such a way that researchers and developers with great individuality will be better rewarded and motivated.

○ Encourage women and the elderly to play active roles.

Not only should more women have active roles to play, but also the field of work should be expanded for them¹¹. Perspectives of women should be better incorporated into product innovation¹². More active effort should be made to replace systems or practices that serve to hinder more women from working.

For elderly people, what is of primary importance is to develop environments that allow them to work at any age, as far as they hope to¹³. A broad range of initiatives should be carried out to offer the elderly more opportunities to meet and talk with children, prepare a system similar to a personal pension that enables them to have some active role to play in a flexible manner, provide more alternatives to make better use of their assets, and redesign the relationships between self, mutual, and public support.

(3) Regional community: Toward transformation of regions

Pursuing initiatives with a new concept, rather than existing measures to revitalize regions, is critical. What we should seek is to design a model of spontaneous and sustainable development that enables regions to find the seeds of growth and development inside, while interacting with external parties to take in something good from them. Young people and women should be offered active roles to play in environments helpful for them to have and bring up children, with understanding and support from middle-aged and elderly people, while taking in new perspectives from outside, to make regions more energetic.

○ Think and act free of what has been in place in pursuing initiatives.

You should understand adherence to the status quo is highly likely to lead to a dead end. Instead, we should reconsider the existing structure of neighborhoods to carry out drastic integration and vitalization. Work should be done to establish multi-layered cooperation and collaboration with external parties. Among what should be actively pursued are development of compact cities¹⁴, enhancement of support programs,

October 28.)

¹¹ Despite an upward trend in the number of working women, most of them have clerical, sales, and service-related jobs, with little change seen in the shares of jobs women have. (See Material 3, page 15, for the 12th meeting of the Committee for Japan's Future, October 28.)

¹² The term refers to development of an innovative and epoch-making product out of the extension of existing ones.

¹³ A public-opinion poll conducted by the Cabinet Office (2014), asking "Until what age should people desirably work?", has found that 32.3 percent of the respondents say "Age should not be treated as uniform criterion." while "Age 66 to 69" and "Age 70 to 74" are mentioned by 30.3 and 12.3 percent of them, respectively.

¹⁴ The term refers to redevelopment of a city, with residential areas and other city functions concentrated in its central part, to make it densely populated. A compact city may have more than one central part, such as

such as a network for cooperation between regions, management of public assets¹⁵, sharing and diffusion of know-how and expertise in regional development, and promotion of leading medium-sized companies as the core of the regional economy. In the Tokyo metropolitan area, bold initiatives are also needed as part of measures to counteract the falling birth rate, and policy programs for nursing-care service.

○ **Start from “New Kizuna (bonds)” in pursuing initiatives.**

Regional communities have a great number of seeds of business that could contribute to them for their development. Such seeds will be allowed to grow and send out shoots only when you consider how regional financial services and social investment, such as donation, should be designed to formulate a flow of funds, and how corporations and their business, for-profit or non-profit, should operate. In a word, such effort is formation of “New Kizuna (bonds).”

○ **Make better use of ICT to achieve a breakthrough.**

Information and communication technology (ICT) is an effective tool to offset geographical disadvantages. Regions have many excellent things to offer, but may have no knowledge of how to sell them, or may have difficulty in introducing them outside, a bottleneck they are faced with. Effective use of ICT would allow them to connect with, and take in, external parties in a cost-efficient way¹⁶.

(4) Review and evaluate policy programs

What is important for implementing and updating initiatives to address challenges related to population, economy, and regional community in a steady and consistent manner is review and evaluation of policy programs.

○ **Present quantitative effects to be achieved by overcoming rapidly declining and aging population.**

Quantitative presentation of positive effects on the macro economy to be produced by achieving stability in the demographic structure or enhancing potentials of economic growth, or negative influence to be caused by delay in such effort, would offer a rough guide of cost-effectiveness of policy measures to be implemented, and render need of such initiatives broader and better understood.

○ **Evaluate measures to counteract the falling birth rate**

Any measures intended to counteract the falling birth rate are unlikely to take effect immediately. This makes it all the more important to conduct careful review and evaluation of such measures in a manner that will help make persistent effort. When consensus is reached in a region, natural and social increases and decreases in population should desirably be taken into account in carrying out review or

centers of former municipalities that were consolidated into it.

¹⁵ This report deals with fixed assets, such as land, buildings, facilities, and equipment, owned by public entities, such as national and local governments, mainly for administrative purposes.

¹⁶ For instance, ICT enables regions to make the most of digital media and own their own media to produce revenues and spread their messages directly around the world.

evaluation¹⁷.

○ Present a regional flow of funds in quantitative terms

What is crucial for a region to realize a spontaneous and sustainable economy is to monitor and analyze the flow of funds within the region, as well as the inflow from, and the outflow into, other regions in quantitative terms to consider what action to take. Some leading regions have started such initiatives¹⁸, and other regions should be encouraged to follow suit.

II. Direction of major policy programs

Major policy programs and related initiatives for economy, industry, financial services, national land, region, employment, education, human capital, and welfare, among others, having the same image of the future as desirable and the same direction they should move in, would produce synergistic effects between them.

1. Toward an economic society with sustainable growth and development

[Key points]

- Demographics make some impact on all three elements that determine potentials of economic growth: labor input, capital accumulation, and total factor productivity (TFP)¹⁹. This makes it all the more important to stabilize the population at about 100 million.
- As it takes some time before any stabilization in the size of population produces an effect to shore up the economy, some jump start must be provided to deliver innovations that produce significant improvement in productivity.
- Enhancement of businesses in their ability to generate added value, “regeneration and rejuvenation” of business, and response to globalization should be encouraged to raise the growth of TFP to the highest level in the world, and by building the brand “Japan” we feel proud of in front of the world, we should aim to be a country that leads the world.

(1) Prevent a “contraction spiral.”

The long-term economic growth can be explained by three elements, labor input, capital accumulation, and rise of total factor productivity (TFP). As demographics, can change the economic growth from all the three elements, they are critical as a base of growth and development. Labor inputs depend on the population of working generation and the labor force participation rate. Capital accumulation is influenced by the change in the saving rate, which is determined in part by the population aging rate. Innovation, a key driver for productivity growth, comes not only from ideas of

¹⁷ As of FY2011, 19 prefectures had set a target of birthrate or number of births.

¹⁸ Two of the examples are Minamata City and Shimane Prefecture. They have found that funds coming into the region flow out before circulating within the region.

¹⁹ TFP refers to the part of economic growth that cannot be explained solely by capital and labor inputs, and includes technological innovation, improvement in quality of labor, managerial innovation, and other factors.

individuals but also from interaction between people with a diversity of ideas, which means changes in population of the working generations, with increases and decreases in opportunities of interaction between them, have some impact on the growth of productivity. For the future, we desperately need to take immediate action to check a rapid decline of population, and prevent a “contraction spiral” of the economy.

(2) Make a jump start for rapid enhancement of productivity.

Even when the population decline is successfully stemmed, with a stable population at about 100 million, it will take some time before that produces effect to shore up the economy. This requires, together with effort to put a brake on the downward trend of population, initiatives for rapid enhancement of productivity. For this purpose, radical reform must get started immediately to provide a Jump start, raising Japan’s productivity to the highest level in the world, with intensive implementation of reforms by the early 2020s.

1) Create new values by originality and ingenuity.

To provide a Jump start and achieve rapid enhance in productivity, innovation must be encouraged in a various of fields. Innovation has a broad range of implications, beyond mere use of new technologies to develop products, covering invention of new business models and reform in the economic society. It can be considered as “create new value by originality and ingenuity.” To deliver a broad range of innovations and enhance productivity, we must take a step forward from the existing “Monozukuri,” or manufacturing, and start to work on “Mono-Kotozukuri,” value added manufacturing²⁰, a concept that covers services, system, design, and brand story. We must also make bold investment in ICT, not only in hardware but, importantly, in development of human capital, to make the most of it and explore potential demand.

Any reform of the society requires some change in people’s awareness. The people of Japan still fail to fully recognize how important productivity growth is. Conversely, we still have significant room for improvement in productivity enhancement. If individuals and business managers become more aware of productivity improvement and start working on it, they will see productivity go up everywhere in the economy. Business managers and people engaged in production on the ground should also have more awareness of innovation and lay greater store in it. What is important here is for individuals and businesses to get back the spirit for feeling confident enough to make bold attempts to address enormous challenges, and the aspiration to spot a new trend of technology earlier than anyone and absorb it ahead of the world.

The Government should take any and all policy measures available to start developing environments immediately for promoting innovation and making rapid enhancement of productivity, as well as back up the private sector in their initiatives. The hurdle to clear is very high, and the challenges to address are very tough. However, bold reforms must be achieved by the early 2020s.

2) Carry out intensive reforms to enhance productivity.

²⁰ A concept one step advanced from Japan’ s traditional strength of “manufacturing (high performance and high quality product development)” to offer customers/users more satisfactory experience from many aspects of service, system, design, or brand story.

Radical reforms should be pursued to raise Japan's total factor productivity (TFP) to the highest level in the world.

(Strengthen businesses in their ability to generate added value.)

Businesses should be further strengthened in their ability to generate added value. What is important here includes introduction of ICT and research and development, as well as enhancement of knowledge capital, including branding and marketing, diversity secured in the human capital and expanded relationships with external parties that businesses have, and promotion of open innovation to expand diversity of connections. It is also important for the entire society to develop environments that facilitate innovation. That requires development of diverse human capital and provision of more opportunities for them to find active roles to play, enhancement of the roles universities have to play in human capital development and innovation, promotion of diversity and connections in regional communities, and reform of regulations according to changes of the times.

(Encourage “regeneration and rejuvenation” of business.)

“Regeneration and rejuvenation” of business should be facilitated in such a manner that business with lower productivity will be forced out while that with higher productivity will survive. What is required for this includes diversification of ways of financing methods, enhancement of the assessment abilities of financial institutions, development of a sound financial market, and effort to make administrative procedures more simplified and quick, as well as development of tolerance among people toward those who have failed in business, to encourage entrepreneurship and make the labor market more flexibility, and reforms in regulations that hinder functions of the market. It is also important for businesses to withdraw from inefficient activities quite timely and transfer unprofitable operations for business restructuring.

(Respond to globalization in a proactive manner.)

In addition, the initiatives mentioned above should be backed up by proactive response to globalization. Global connections not only enhance individual businesses in their ability to generate added value, but also facilitate “regeneration and rejuvenation” of business with new fusions. Efforts should be pursued to promote economic partnerships that are helpful for expanding a variety of connections, improve environment to increase foreign direct investment in Japan, develop global human resources, establish global value chains²¹, and facilitate financial business.

3) Lead the world with the brand “Japan.”

In addition to initiatives to raise Japan's productivity to the highest level in the world, efforts to turn the unique advantages we have into added value will help us further enhance productivity and lead the world. We should work to make unique features, that of products and services are not reflected to the price, added value, develop

²¹ This refers to a system of international division of work mainly for manufacturing, with production processes dispersed in and out of Japan, a concept that captures the status of the processes for producing added value being connected beyond national borders.

Japan's excellent ways of doing business into a new business model, and take advantage of cutting-edge technologies Japan has been taking the lead in, such as robotics, to reform our economic society. To develop the unique strengths Japan has, we should build the brand "Japan" people feel empathy for and we feel proud of in front of the world. We should also take an active part in rulemaking for the global community.

2. Mitigate impoverishment and decline of regions, and turn them around.

[Key points]

- Over-concentration in Tokyo must be checked, so that Tokyo and the provinces will complement each other to achieve sustainable development for each and promote long-term growth.
- What is important is to make the most of regions' sense of ownership, and "originality" and "human capital" while implementing "individual regional strategies that take advantage of local characteristics." Quite different conditions regions find themselves standing in require of them "selection and concentration" that helps them take advantage of the unique characteristics they each have for regional development.
- Regeneration of regions requires initiatives to make the lives of people living there more convenient while revitalizing economic activities; that is, "integration and vitalization." Together with the initiatives, the concepts of shift "from ownership to utilization" and facility management should be introduced.
- Networks should be built based on "New kizuna (bonds)." Stakeholders should work together according to a shared vision, with attachment for, and pride in, their own regions, to develop sustainable, recycling-oriented regional communities.

(1) Implement "individual regional strategies."

1) Correct Over-concentration in Tokyo, and encourage flow of people into the provinces.

The need to check the trend of over-concentration in Tokyo and overcome rapidly declining and aging of population requires us, rather than thinking of the relationship between Tokyo and the provinces in dichotomy, to recognize them as two regions in Japan that should complement each other to allow each of them to achieve sustainable development and promote long-term growth for the entire country.

An urgent task is to demonstrate to people that they can also lead healthy and fulfilled lives in the provinces in such a manner that as many of them as possible will realize this, and facilitate flow of population to the provinces. Efforts to create jobs there may include encouraging businesses to transfer headquarters functions, among others, to the provinces, promoting regionally-spontaneous industries through cooperation between industry, academia, government, the financial sector, and labor, and active use of telework.

2) "Originality" and "human capital" as required features

“Regional revitalization” refers to efforts to enable people who live and have some stake there to find bright prospects for the future there. The local government of a region and people living there should have some common vision and strategy that define a design of the region they intend to achieve, and work together to accomplish the goal from a long-term viewpoint.

What matters here is regions’ sense of ownership, and “originality” and “human capital.” Local governments of regions and people living there should play a leading role, and rather than modeling on something, they should rely on their own originality to take advantage of local resources. Development and implementation of a strategy requires human capital, which should be raised from far and wide, both within and outside of the region itself. The national government should offer them as much support as possible when they work on such initiatives, a role the state should have to play, and refrain from distributing resources indiscriminately all around the country.

3) Regional strategies based on “selection and concentration”

Quite different conditions regions find themselves standing in require of them “selection and concentration,” selecting a strategy that helps them take advantage of the unique characteristics they each have, and concentrate resources they have into selected fields. As effort is needed to arrange the optimal match between fields that helps offer attractive products or services beyond the existing framework of industries to enhance added value, progressive initiatives should be spread around the country and applied to other fields.

- (a) Application of agriculture, forestry, and fisheries for regional revitalization: Rediscovery of local resources, especially in agriculture, forestry, and fisheries; effective use of ICT for development of markets, including direct sales from producers to consumers; application of logistics technologies, such as transport of fresh vegetables and fish; and provision of opportunities to exchange with urban people and promote health.
- (b) Application of tourism and interaction for regional revitalization: Development of institutions that accommodate international and broad-area flow of people and distribution of goods; pursuit of initiatives helping regions open up and interact directly with parties overseas; discovery of local resources and enhancement of attractiveness regions have; obtainment of people working for the tasks; new types of interactions between regions, including long-term stay; etc.
- (c) Cooperation between industry, academia, government, the financial sector, and labor for regional revitalization: Initiatives carried out through cooperation between industry, academia, government, the financial sector, and labor for development of regions that lead healthcare and medical services responding to rapid population aging, and application of biotechnology, ICT, and other cutting-edge technologies for regional development.

4) Know-how of regional development learned from efforts for reconstruction after the Great East Japan Earthquake

Efforts that have been made to build a “new Tohoku” indicate a general perspective for discussing medium- and long-term development of regions, and practical experience obtained from work for development of new neighborhoods in areas damaged by the earthquake should be used effectively for regional development in the rest of the country. Meanwhile, people feel concerned about global food crises and abnormal weather that might be caused by global warming and other factors, as well as a probable Great Nankai Trough Earthquake and other large-scale disasters. Based on lessons learned from the Great East Japan Earthquake, efforts should be made all around the country to make regional communities more resilient to disasters.

(2) Integration and vitalization for revitalization of regions

1) Significance of integration and vitalization

The progress of rapid declining and aging of population may cause not only a decline in growth potential but also collapse of communities. With tightening constraints on public finance, it is feared that there might be difficulty in providing necessary administration services, or maintaining and replacing public assets. As part of effort to revitalize regions, work must be done for “integration and vitalization,” concentrating administrative services in the central part of a city, so that it will serve multiple functions, for making the lives of people living there more convenient while revitalizing economic activities.

Among the possible alternatives for “integration and vitalization” are compact city, an initiative for effective use of public transportation, and integration and consolidation into built-up areas in a city; cooperation agreements concluded between several cities; and policy programs to connect several cities through a transportation network, in such a manner that they will share functions between them and work in cooperation on a broad-area basis. Rural areas should also form some cooperative relationships with neighboring cities, and consolidate public facilities.

2) Policy programs for pursuing “integration and vitalization,” and a setup for the pursuit

For “integration and vitalization,” local governments are required to share a sense of crisis with residents and other stakeholders, and, while setting an order of priority based on a forecast of the future structure of a city, prepare medium- and long-term plans. The national government should suggest to them models of housing and town development, and work to disseminate them, as well as provide support for local governments engaged in advanced initiatives.

What is especially needed includes enhanced abilities of local government employees, as it is they who deal with practical business. Analysis and study of cases of leading local governments, and education and training based on them would be helpful. The existing systems and their operation should be subject to constant review, including reforms in the way of thinking among government employees.

3) Shift “utilization rather than ownership”

Central parts of cities, which should work as places of integration, have many houses

and land estates left vacant and unused, with little progress seen in effective use. Application of fixed term land lease right, use of special purpose companies for medical service, development of elderly housing with nursing service, and other measures to increase liquidity of properties are needed. Cooperation with private-sector entities should also be promoted to develop some arrangements for facilitating removal of, or renovation and sale of, vacant houses.

4) Appropriate management of public facilities and other assets

With anticipated changes in demand for use of public facilities, facility management is needed to encourage consolidation and reorganization of public assets into central areas, and efficient maintenance and replacement for extending their lives to deliver optimal administrative services with limited costs.

5) Rule making for forming consensus

Possible declines in the level of administration service and burden of moving from the suburbs may result in cases of residents refusing to give consent. Information on procedures and alternatives for finding solutions should be shared with them, and citizens council²² and other methods should be applied to facilitate consensus building under the principle of resident autonomy, while, ultimately, policymakers should be prepared to determine the direction and take the lead to get things done.

(3) Form “New Kizuna (bonds)” in regions for developing resilient communities

1) Significance of “New Kizuna (bonds)”

Effort should be made to develop a region, with participation of residents there themselves, as a sustainable and recycling society they feel proud of. What is expected for this purpose is to use players for regional development effectively and enable them to exhibit their abilities for encouraging individuals in a region, regional communities, businesses, non-profit organizations, local governments, and other stakeholders to form “New Kizuna (bonds),” or a new network open outwards, between them, in such a manner that they will share a vision of development of a sustainable and affluent regional society, as that should help the region solve social challenges it faces and facilitate reform and growth.

2) Effective use of human capital as players for regional development

To obtain players for regional development, opportunities for experience should be offered to people with know-how of regional management, those with know-how for connecting a region with external parties, or “glocal”²³ human capital, and younger people eager to get involved in a region, among others, so that they will be trained as “leaders of a region.”

²² This is a method of consensus building. Representatives are selected from residents in a random manner, so that little bias will remain among them in terms of age, address, or other aspects, and they are offered enough information, such as data concerning a policy issue, to conduct meaningful discussions for reaching some consensus and having it reflected in a policy program.

²³ The term, coined by combining “global” and “local,” represents the idea of “Think globally, act locally.”

Local governments should play a central role in a systematic manner in exploring human capital and supporting startups to help people with aspiration and/or abilities smoothly settle into a region. For that purpose, the idea of human resource bank and other initiatives designed to take advantage of experience of middle-aged and elderly people from urban areas should be materialized.

As an effective way to explore external human capital, regions may need to define types of people they need for their development and invite relevant people, a change in their way of thinking and an important alternative viewpoint.

3) Promotion of social investment

Social investment should be promoted to supply financial resources, both from within and outside of a region, for solving social challenges it faces. Adoption of social impact evaluation, a way of quantitatively measuring social revenues an investment produces, and effective use of savings left in dormant bank accounts would be worth considering.

NPOs, expected to play an important role in solving social challenges, need to do more for public relations and disclose more information for obtaining more endorsement for their activity from people in society, and more donations, as a result. Greater availability of loans offered by regional financial institutions for social business²⁴, broader use of cloud funding²⁵, and greater recognition and awareness of the “hometown tax payment” system and preferential tax treatment for donations for NPOs and others would also be desirable.

3. Develop “people” and care for them to promote diversity that allows them to play more active roles

[Key points]

- Amid changes, the economic society as a whole can increase their vigor and realize sustainable development into the future only when “people,” each one of them, have power for this. What is necessary is to enable all the people, including the youth, women, and the elderly, to bring their abilities into full use and play some active part for increasing productivity. “Grass-roots knowledge” among a diversity of people serves as soil in which innovations are produced.
- Laying emphasis on importance of “people” helps realize environments where people feel confident in having and bringing up children. This also helps overcome rapid decline and aging of population, and the maintained size of population should deliver more innovations, which in turn facilitates sustainable growth and development.

²⁴ Social business is conducted as a project to address challenges regional communities face, such as environmental protection, nursing and welfare for the elderly and people with disability, childcare support, town development, and tourism, by residents, NPOs, companies, and various other entities, working in cooperation and using techniques of business management.

²⁵ This is a type of financial transaction that connects startups or growth companies and investors with potential investors on the Internet to raise a small amount of funds from each of a large number of people. In Japan, the revised Financial Instruments and Exchange Act and related laws were promulgated in May 2014, and are set to come into force within a year.

(1) Human capital development: Train people to obtain abilities they need in order to play active roles

1) Develop comprehensive abilities characteristic of human beings.

Given drastic changes anticipated in society in the future, people should be trained to perform some role that none other than human beings can play, and for that purpose, they should be offered, from their childhood, opportunities to have various experiences that touch their heartstrings, such as outdoor activities that allow them contact with first-hand information, and exchanges with a diversity of people who have different values, to bring out the best in them for their “mental” growth, and develop comprehensive abilities characteristic to human beings.

2) Develop general-purpose skills.

To make flexible response to uncertainty in the future, encourage innovation, and deliver added value, people need to acquire leadership and communication skills, abilities of problem finding and solving, and other general-purpose skills they need to respond to various situations, as they are helpful in a cross-sectional manner.

Education at junior and senior high schools and universities should be reviewed in terms of their ways of training to take necessary action. They may need to adopt, for instance, the method of design thinking²⁶, or leadership education. The system of admission to university should also be reviewed to evaluate candidates from many perspectives, as well as in terms of knowledge and skills as basic criteria. Given the importance that actual work experience has as people are trained while struggling to solve actual problems in the workplace, initiatives for offering students more opportunities for work experience, including expansion of trial employment, are critically important, as well.

3) Develop professional skills.

Innovation and added value can be delivered only by people who have some professional skills required for each specific field. Therefore, rather than giving people uniform training at a specific phase of education, some system should be developed to allow them to acquire any skills they need, ranging from industry-specific or company-specific skills through those at a level high enough for them to compete globally, whatever choices individuals may make, at various points of their lifetimes, both as part of education curriculum and after starting to work.

On the premise that universities will have different functions between them based on choices each of them make, taking into account their own uniqueness and characteristics, they should enhance their function to train students to develop professional skills. In addition, as practice in the workplace is quite helpful, study should also be conducted on the way to offer students more opportunities to have actual experience in the workplace longer than a specific period of time while learning

²⁶ Design thinking is a method for developing products by applying the sense of designers and their skills to understand challenges and find solutions.

at an educational institution, such as internship and the dual education system²⁷, to design and introduce specific policy programs.

4) Prepare environments for human capital development.

From the viewpoint that development of people should be supported by the entire society, they should be provided with career education in a strategic manner to help them feel work as their own affair and live a fulfilled life. At the same time, teachers should be trained to have enough creativity to cope with globalization. In addition, social infrastructure should be developed in a manner to accept diverse human capital, offer them opportunities to play active roles, and bring their abilities into full play to take advantage of them. For instance, children should be guaranteed opportunities for development and education, regardless of economic conditions of their families.

(2) Styles of working, and working environments: Design and build a structure of a society that allows everyone to play an active role.

1) Construct an employment system that allows everyone to play an active role.

It is critical for everyone to secure a job that allows one to show one's ability and provides great motivation to work. Instead of the current state of polarization between regular and non-regular employment, an employment system that rewards work appropriately should be constructed.

The ideas of "post-based personnel management" and "equal pay for equal work" should be adopted, while preserving the advantages of Japan's conventional employment system, to find what you may call the "best mix" of employment systems.

First, the "job" of an employee, which is often left unspecified in employment practices in Japan, should be clearly defined, so that "post-based personnel management," a system that enables companies to find and hire someone qualified to perform the job, either from within or outside of a company, will become more prevalent. A defined job should be paid an appropriate reward based on the principle of "equal pay for equal work," regardless of the type of employment, either regular or non-regular. Appropriate rewards should desirably be set at a level that allows a couple to have and bring up children.

With that, we should aim at, rather than regarding wages of workers merely as cost to be reduced, bringing the polarization between regular and non-regular employment to an end. Replacement of low-paid work practices with a system for appropriate evaluation of work is expected to bring about greater motivation of workers and, with that, higher productivity. Once everyone can work with great morale, soil for innovation would be enriched. Ensuring couples, when both have a job, a sufficient level of income to have and bring up children, provided with enhanced support for families at the same time, would form a part of environments that should be developed to counter a rapid decline of population.

Once, with an aim to bring to an end polarization between regular and non-regular

²⁷ This is a dualistic system that allows students to learn theories at a vocational school while learning practice in a company.

employment, a system is adopted for paying employees wages based on clearly defined jobs, the wage curve should form a flatter shape. That should help reduce disadvantages employees may suffer in moving between companies, and lower barriers they may face in actively searching for a job, even outside of a company they belong to at the moment, that allows them to bring their abilities into full play, bringing in increased liquidity of employment.

Increased liquidity of employment would in turn help people design a diversity of career paths and choose a way of working suitable for them, encouraging women and elderly people to have more active roles to play, a source of innovations. From the viewpoint of the labor market as a whole, this should also enable transfer of labor between industries in a manner to cope with changes in the industrial structure in the future.

Through the process of constructing an employment system described above, industries and companies that fail to achieve higher productivity may be forced out. Society as a whole should be prepared to accept such possibilities with “resolution” as a result of a “choice” they must make in adopting a new employment system to achieve sustainable growth.

2) Achieve a work-life balance.

People assume some active role to play only when they achieve a work-life balance as a prerequisite for that. Long working hours must be regulated to secure people sound and healthy lives. Some action must be taken to prevent death from overwork caused mainly by long hours of work, and regulate employers that virtually force their employees to work long hours, well beyond the statutory upper limit, or what may be called “black companies.” With personnel management based on defined jobs becoming more common, fewer people will have to work without any specified scope of responsibilities, and further, both men and women are expected to have enough time to spend taking care of children or old parents while working, which should lead to greater productivity.

Among initiatives that should be carried out to form the foundation are support to be provided for efforts to reform organizational culture, positive evaluation of advanced companies, and effective use of ICT, such as telework, for enhancing efficiency of work.

3) Offer youth, women, and the elderly active roles to play.

Amid a decline of population, everyone should be offered opportunities to have some active role to play according to their own conditions, so that they can bring diverse abilities they each have into full play. Some of the important initiatives to take are to offer young people diverse opportunities to find a job for helping them have more active roles to play; to change society’s awareness of women and realize diverse career paths for them for helping them have more active roles to play; and to enable elderly people to participate in society and work in diverse ways, regardless of their age, and rather according to conditions of their own, for helping them have more active roles to play.

(3) Affluent life and its foundation: Achieve mentally and physically affluent life.

In a sense, people need to achieve affluent lives, not only in an economic sense, but also mentally and physically, in good health and with fulfillment in social relationships, to have some active role to play. The elderly can take part in society and work in diverse forms, in their own way, regardless of their age, only when they succeed in extending their healthy life expectancy by improving their lifestyles and taking other measures to maintain health.

With a view to supporting elderly people in the super-aged society and helping them spend the last chapter of their life without anxiety, medical information and other data should be centrally managed for analytical purposes to design and construct some mechanism or arrangements for effectively applying ICT to combine information about home medical care and nursing services and various types of day-to-day life information, and offer new types of comprehensive services.

With conventional bonds in neighborhoods and between blood relatives getting thinner in society, new styles of community are required, and it is important to see things from a standpoint of how communities for mutual support between members should be reconstructed.

III. Attitude toward the world, new relationship between the private and public sectors, etc.

(Presence in the world and contribution to the world)

Japan's share in the global GDP stood at 9.8 percent in 1980, and rose to 17.6% in 1995, before falling to 8.5% in 2010, almost the same proportion the country accounted for 30 years before. With the current state of things going unchanged, an international organization forecasts declines to 5.3 percent in 2020, 3.8 percent in 2040, and 3.2 percent in 2060. In the total population of the world, Japanese people accounted for 2.6 percent in 1980, 2.2 percent in 1995, and 1.9 percent in 2010, also showing declines. The United Nations has published a forecast that Japan's share will continue falling to 1.6 percent in 2020, 1.2 percent in 2040, and 0.9 percent in 2060²⁸.

We must exert effort to make a different future from what they forecast to come "with the current state of things going unchanged." At the same time, it is critical for us to hold on to the intention to keep the country wide open to the world, contribute to the international community, and maintain our presence on the globe as one of the leading nations.

Japan has presence of its own for its history, culture, and geopolitical position, and roles of its own to play. The presence and roles should be highly esteemed in working strategically for growth and development of all of Japan.

Japan should also assume active roles to play in international finance. Despite the maturity of its economy, and transition to the phase of lower growth as a result, which

²⁸ See Reference Material 10, "Japan's Positions in the World (Population) (Economy)."

may cost Japan some presence seen in the size of GDP compared with emerging nations showing rapid growth, they cannot easily catch up with us in terms of stock, which takes many years to accumulate. Another advantage Japan has lies in financial techniques. There will be not a few opportunities for us to demonstrate our capabilities in finance, such as investment in infrastructure in Asian countries.

The greatest contribution Japan can make to the world is to present a model of growth and development that transcending rapid depopulation and super aged society. Falling birth rates, aging population, and slowing growth are challenges all the developed country are faced with. None of them has succeeded in stemming the aging of population and restoring the demographic structure to youth. We aim at creating a pioneering model that leads the rest of the world.

(Respect for Japan and Japanese-ness)

At the same time, we need to pursue something beyond economic growth and monetary value. Richness of nature through four distinct seasons, the diversity of culture you find, for instance, in indigenous cuisines and traditional craftsmanship, sound ties between people, and communities with great safety and security maintained by bonds between people at a high level rarely seen in the world - they are all what we must cherish and pass down to coming generations, so that they will feel happy to be born in Japan and to be Japanese. While trying to achieve something new, we must remember to respect what has been built up for a great many years. We must strike a good balance between them.

(Success in the Tokyo Olympic and Paralympic Games in 2020, and initiatives beyond them)

To make a jump start by 2020, the Tokyo Olympic and Paralympic Games to be held that year is a national project that must be taken advantage of for the purpose. Taking into account the future in 50 years, the project has three key points we must keep in mind in carrying it out.

First, we must prevent further acceleration of unipolar concentration into Tokyo. As work has already started to form a host city plan, interaction between the Tokyo metropolitan area and the provinces should be promoted, both in terms of people and economy. Second, there should be no significant rise and fall taking place in the economy before and after 2020. From the 2030s onwards, there will be some inevitable downward pressure on the economy brought by shrinking population, and we must avoid any further factors that may cause significant negative effect. Third, new social capital must be developed with its maintenance and use in the future taken into account. Environment-friendliness, compactness, and long life expectancy must be among what we keep in mind.

Japan has no surplus strength or time left to see another economic bubble emerge and collapse. We must be clever and shrewd enough to avoid any slump after 2020, and rather act proactively, making preparations for growth and development for years to come.

The Tokyo Olympic and Paralympic Games are expected to produce positive effects

on the economic society, such as increases in the number of foreign tourists, stimulation of culture and sports, and evolution of donation culture. We should remind ourselves of the attractions Japan can offer and make them known around the world, in such a manner that active interaction of people, things, money, and information between those in and outside of Japan will be made sustainable into the future.

(Ensured sustainability of social security and public finance)

Even with success in stemming a rapid demographic decline, Japan will see its population continue to decrease, leaving tough conditions for sustainability of social security and public finance. Into the 2030s, Tokyo will suffer further progress of super-aging and increasingly serious shortage of labor for nursing care service, a possible bottleneck for Japan as a whole in its growth and development. It is critical to take quick action to address these issues.

Even when the economy and population keep going almost at an ideal level as referred to before as a guide, social security-related expenditure is expected to continue increasing as a percentage of GDP. Amid tough conditions of public finance, as evident in a more than 200 percent proportion of public debt outstanding to GDP, turning the primary balance into surplus, and achieving stable decline of public debt outstanding as a proportion of nominal GDP are far from an easy task to accomplish. Nonetheless, we must make steady progress in fiscal consolidation and avoid leaving liabilities to the next generation²⁹. For that purpose, study of radical system reform must be conducted for restructuring, including review of the balance between benefits and burdens. Given possible current account deficits, the study must assume tougher fiscal conditions, including the risk of rising interest rates.

However, if we succeed in stemming a rapid decline and super-aging of population, and enhancing Japan's potential of growth near the level presented before as a guide, we will have brighter prospects than otherwise, despite remaining difficulties, in terms of sustainability of social security and public finance. To turn such an outlook into reality, effort must be exerted to build a consensus across all segments of people. The standpoint makes all the more important the pursuit of initiatives to address in an integrated manner challenges that have been described in the preceding chapters concerning population, economy, and regional community.

(New relationship between the public and private sectors, and the state and regions: Regional affairs should be left to them to look after themselves.)

Many of the challengers in population and regional community, as well as innovation, cannot be left to market mechanisms, and, the government sector is expected to play active roles there. However, such challenges are so multi-layered and complex that they require complicated and fine-tuned solutions. None of them is simple enough that any general-purpose policy programs can work on them effectively. That leads us to turn to primary local governments, or municipalities, as entities expected to play central roles for such solutions as they are placed to recognize realities of regions.

²⁹ With the current state of things going unchanged, the aging of the Japanese population is forecast to reach its peak around 2060, and reform of the social security system and fiscal consolidation are pointed out as pressing challenges to address (The Fiscal System Council, "The Basic Approach to Fiscal Consolidation," May 30, 2014). Japan needs to exert effort to overcome rapid decline and super-aging of its population.

Here, local government should do more than thinking of mere development of environments as their basic roles, and work themselves as innovators, when necessary.

That will help establish a new style of regions, where local governments work with businesses, non-profit organizations, and other regions in coordination, cooperation, collaboration, and even competition between them to carry out fine-tuned and effective initiatives, and look after their own affairs.

The national government must correctly understand what they work on at the ground level to set up support programs for them, which must not be uniformly designed. General public purposes, pushed to the front too hard, may ruin the potential of such new initiatives.

What is required here is, free from conventional division of work between the public and private sectors, and the state and regions, to seek some new relationships between them, and develop new policy programs or strike out in a new direction in policy for delivering policy innovations.

IV. Conclusion

This summer and early autumn, the Committee for Japan's Future conducted a public-opinion poll based on the Interim Report, published midyear and subsequent discussions, conducted a questionnaire survey, accepted suggestions and recommendations, invited opinions from the general public, and held symposiums, among others, to listen to people broadly across all segments and recognize what they call for and what opinions they have. They delivered us a variety of information that allowed us to find some promise for the future.

The opinion poll, designed to cover a broad range of the general public, asked questions about the future of Japan, and challenges it faces in population, economy, and regional community³⁰.

Asked about the future of Japan, more than 60 percent of the respondents answered "Bleak" or "Rather bleak," while not more than 30 percent of them said "Bright" or "Rather bright." However, among younger respondents, those in their 20s, more than 40 percent chose "Bright" or "Rather bright," suggesting that less pessimistic opinions about the future are a little more common in younger age groups. To a question about rapid decline of population, eight out of ten respondents said it is undesirable and that some measures should be taken to counter the phenomenon, a common tendency between the younger, middle-age, and older generations. They were then presented with two statements, "Policy programs for the elderly should be restrained to expand those for younger generations," and "Policy programs for younger generations should be restrained to expand those for the elderly," and asked which they prefer. More of them chose the latter rather than the former, more so when they belonged to younger age groups. The survey offered nothing that demonstrates any confrontation between the generations, and rather suggested that people tend to set a high value on mutual

³⁰ "Opinion Poll on Future of Japan: Population, Economy, Society, Etc." (August 2014)

support.

At the symposium, participants, after being given explanations about the Interim Report and related issues, were asked the same questions as presented in the opinion poll. Some differences were observed.

Comparison between the opinion poll and the symposium participants in questions about population decrease shows that a smaller proportion of the latter said "Population decrease is inevitable," while many more, six out of ten participants, answered "Population decrease is undesirable, and effort should be made to lower the pace of decline." Asked about the future of Japan, more than 60 percent of the poll respondents said "Bleak" or "Rather bleak," while fewer than 50 percent of the symposium participants said so, and "Don't know" accounted for much more than in the opinion poll. This suggests that with a deeper understanding of the issues, people recognize that the future is yet to be determined, and that it is a choice they make that determines their future, which makes all the more important what they will choose.

We must prevent rapidly declining and aging population that should drag the entire economic society of Japan into a negative cycle, causing decline of regional communities. More of the people will recognize that we desperately need change, and that we must make choices for that, one by one, and a heap of choices we make will enable Japan, which has done nothing more than piecemeal changes, to begin making significant strides toward reform and change - That is what we would like to believe will take place.

What is critical here is that it is now that we must start working for reform and change. With the end of deflation coming into sight, now is the best opportunity to successfully turn a cycle around for the better. If we should fail to catch this opportunity and put off taking action, that would cost us a lot, and the price would probably be immense. As this report has shown, we face enormous challenges in large numbers. However, if you work to achieve what you hope for and try addressing issues we have avoided so far -once you realize you have to and take action - you will find they are anything but challenges that are too tough to overcome.

There are only a few years left before 2020. To make sure that in the years after 2020, the future 50 years from now, we will also be able to have a future bright and open to possibilities for coming generations, we must make a start now.

Committee for Japan's Future: Committee Meetings

1st Committee Meeting (January 30, 2014)

- Agenda of the Committee

2nd Committee Meeting (February 14, 2014)

- Items to be considered at the Committee
- Potential growth rate, people's feeling of well-being and income, demographic movement

3rd Committee Meeting (February 24, 2014)

- Future to be aimed at
- Economic growth and development, issue of declining birthrate

4th Committee Meeting (March 12, 2014)

- Prospects of the regions

5th Committee Meeting (April 7, 2014)

- Human resources

6th Committee Meeting (April 21, 2014)

- Discussions considering reports from working groups
- Interim draft summarizing points

7th Committee Meeting (May 13, 2014)

- Reports from chiefs of working groups
- Interim summarization

8th Committee Meeting (July 18, 2014)

- Agenda for coming meetings
- The current state of population decline, regions, and industry, and challenges to address

9th Committee Meeting (September 12, 2014)

- Presentations of Committee members on regional regeneration
- Hearings with the National Governors' Association
- Summarization of principles of discussions on major issues

10th Committee Meeting (October 1, 2014)

- Joint meeting with the 6th meeting of the Working Group on Growth and Development
- Joint meeting with the 8th meeting of the Working Group on Human Resources

11th Committee Meeting (October 17, 2014)

- Joint meeting with the 7th meeting of the Working Group on Future of Regions
- Presentations of Committee members on prevention of rapid population decline and promotion of innovation

12th Committee Meeting (October 28, 2014)

- Summarization of discussions so far
- Outlines of the Committee report
- Overview of findings from surveys and analyses, including an opinion poll, questionnaire survey, hearings at a symposium

13th Committee Meeting (November 14, 2014)

- Reports from working groups
- Committee report