

Choice for the Future

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

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Council on Economic and Fiscal Policy, Expert Panel,
Committee for Japan's Future

Introduction

If no action is taken now to change the current situation, our future will be extremely tough and difficult. However, if we are able to change the system, policy and public mindset, we can change our future.

The Japanese economy has started seeing the light at the end of the long tunnel called deflation, thanks to Abenomics. While ensuring this economic recovery leads to more sustainable growth and development, it is imperative to seek a mid- to long-term policy framework in anticipation of a possible structural change in the economy and society in order to achieve a different set of outcomes from what is expected at the moment, very difficult ones that we will face if nothing is done to alter the current situation.

The Committee for Japan's Future was established under the Council on Economic and Fiscal Policy in January this year to investigate the relevant policy matters from the viewpoint mentioned above¹. This Committee has been engaged in numerous discussions to present mid- to long-term challenges and policy measures directed to address them for the next 50 years with the year 2020 to be a milestone, at the same time facing the future reality of rapidly declining and ageing population².

This interim report summarizes the Committee's basic thinking based on the past discussions. We hope that the messages expressed in this report will reach all levels of Japanese society, both the working generation who can execute the changes and the younger generations who will bear the future burdens, and become an instrument in bringing in new momentum for the "Choice for the Future".

I. Depopulation to Continue Next 50 Years

The future holds all sorts of possibilities. In the next 50 years, our daily life is likely to undergo an unexpected transformation due to the advent of new technologies and businesses. In addition, further progress in globalization and IT may alter global dynamics significantly. The future is also full of uncertainties. However, one thing is certain: depopulation will continue for the next 50 years.

¹ This Committee set up three working groups to conduct in-depth discussions from three perspectives of "Economic Growth and Development", "Human Resources" and "Prospects for the Regions". This report is compiled taking into account the discussions of each working group.

² Generally it is described as an "Aging Society" when the population aging rate (ratio of over 65 years old population to the total population) is over 7% and as an "Aged Society" when the rate exceeds 14%. The population aging rate of 2013 stood at 25.1%. In this report, a further advanced stage of aging society is defined as a "Super Aging Society" (about 30% population aging rate) or a "Super Aged Society" (about 40% population aging rate).

The total population of Japan is estimated to decline to approximately 87 million in 50 years, two-thirds of the current size, assuming the current birthrate continues. On top of that, about 40% of the population will be over 65 years old, presenting an unprecedented “Rapid aging population”. Even if the total fertility rate quickly recovers to the replacement rate of fertility of 2.07³ by 2030 and maintains that level thereafter, Japan’s total population is estimated to decline to approximately 106 million in 50 years, and it would take about 80 years from now for the depopulation to finish.

More noteworthy is the speed with which the depopulation trend advances. Japan’s population peaked at 128.08 million in 2008 and has since decreased by average 160,000 per year up to 2013. Continuation of the current birthrate will aggravate the speed of decline further with an estimated annual reduction of 500,000-600,000 between the late 2010s and the early 2020s and one million by the early 2040s. We are supposed to face the unprecedentedly rapid depopulation. This “Rapid Depopulation” will greatly affect our futures with the reduction in labor force population, lower economic growth, shrinkage of the local communities, and crisis in fiscal sustainability of both municipal and national governments, as well as social security.

Furthermore, if we fail to adequately respond to world trends such as the globalization and advancement of IT, this crisis will be even more serious.

First, we need to re-recognize that the future of the “Rapidly declining and aging population” is imminent and to share a sense of crisis. Then, we must take up and implement a bold and brave reform agenda without being too pessimistic.

II. The Future can be changed

1. Future Images When No Action is Taken to Change the Current Situation

Here, we dare to present future images of the Japanese economy and society to share a sense of crisis about the adverse effects to be caused by the “Rapidly declining and aging population” unless actions are taken to modify the current situation.

i. Negative Growth: Contraction of the Economic Scale

Recently, the Japanese economy has experienced a continued fall in the potential growth rate due to the stagnant productivity growth in addition to a reduction of labor force population. With the decline of the labor force population

³ The level of the total fertility rate that enables keeping the long-term population stable. Based on the current mortality rate, it stands at around 2.07.

expected to accelerate further in future, the Japanese economy is unlikely to maintain a positive growth trend if this stagnant productivity growth is left unattended.

A contraction in the economic scale will increase the exposure of the Japanese economy to the overseas economy and international financial markets, resulting in an escalation of the short-term volatility of the economic activity. Moreover, the relative size of the Japanese economy will diminish by international comparison amidst globalization and growth of other Asian emerging nations.

ii. Demographic Onus⁴ and Contraction Spiral: Contraction in the Economic Scale Leading to Lower National Welfare

We will face a so-called “Demographic Onus” whereby the ratio of working population to the total population falls and a relatively large number of people are supported by a relatively small working population, thus hindering economic activity⁵. Furthermore, there is acute concern that the rapid reduction in population, once set in, may also cause a “Contraction Spiral” whereby a contraction in the economic scale spawns another set of contractions, with a shrinking domestic market resulting in lower appeal as an investment destination and a lack of innovation to be generated by the amassment and exchange of various people.

When both the “Demographic Onus” and “Contraction Spiral” exert their influences strongly, real consumption per capita, and real measures of national quality and standards of life, may actually fall with the rate of increase in the public financial burden exceeding that of economic expansion.

iii. Fixation and Reproduction of Economic Inequality

The labor market is polarized at the moment, with regular employees tending to be engaged in long working hours and non-regular employees who find it difficult to form a career path with unstable job prospects. The young have currently very limited opportunities to try new careers as their career path is largely determined at the time of graduation, depending on whether they can find a full-time job or not. Women and the elderly are also underutilized. Under these circumstances, the problem of overworking hours by regular employees is exaggerated and the declining birthrate becomes more entrenched without any improvement seen in

⁴ A situation in which demographic change becomes a burden to economic growth as the productive population declines relatively due to the declining birthrate and aging population.

⁵ Ratio of over 75-year-old population to the total population stood at 12.3% in 2013, expected to rise to 20.0% in 2030. Ratio of the number of elderly single household to the total number of households stood at 9.6% in 2010, expected to rise to 15.4% in 2035. (Source: Estimate of 2013 by the Ministry of Internal Affairs and Communication, other statistics/estimate by the National Institute of Population and Social Security Research).

work-life balance. Additionally, the continued polarization of the labor market is inclined to continue and reproduce social disparities among the population, leading to an increase of the socially disadvantaged with few prospects for the future.

iv. Over a Quarter of Local Governments to Disappear⁶ and Rapidly Aging of Tokyo

Until recently, local areas have taken the lead in depopulation and aging, however, the large metropolitan area, Tokyo in particular, will experience rapid depopulation and aging from now on. Furthermore, the population influx into the Tokyo metropolitan area, where the birthrate is even lower than the local area, will spur on rapid depopulation and rapidly aging there. In 50 years' time, over a quarter of all local governments will become unable to provide satisfactory administrative services mainly in the local area. Meanwhile, the Tokyo metropolitan area will lose its energy as a global city with its rapid aging of population, with many people likely to suffer from a shortage of medical and nursing care services despite their relatively high income and asset base.

v. Risk of Financial Reversal and Lower International Standing

The social security bill, mainly for medical and nursing care, will continue to rise in proportion to the progress of the aging population. With the net savings by households and corporate sector on a declining trend, the current account surplus would structurally diminish and we will be forced to rely on foreign investment to fund our national debt without a steady reduction in the budget deficit. Consequently, not only will there be an added burden of interest payment, but also we will also become more vulnerable to any shock in the international financial markets. Unless we reduce our budget deficit steadily according to the plan set for fiscal consolidation, our fiscal credibility will be in tatters internationally, heightening a risk of financial reversal. Our national standing in the international order will be diminished as well in conjunction with a weaker contribution to the global community.

2. "Choice for the Future"

Why have we managed to invite such a grim and unattractive future?

Neither the declining birthrate nor an aging society is unique issues to Japan, but a common phenomenon being experienced in many developed nations. However, in our

⁶ In case the population migration to large metropolitan areas from the local areas is to continue at the current level, the young female population of 20- to 30-year-olds is forecast to decrease by more than 50% by 2040 in comparison with the year 2010 in 896 municipalities (49.8% of total municipalities), 523 of which (29.1% of the total number of municipalities) will suffer from the "possibility of disappearance" with their respective population dwindling down to less than 10,000 by 2040.

country, the population increased significantly between the time of poverty before the Second World War and marked economic growth after the War, and the generations born during that period have reached the retirement age exactly at the same time as the “Lost Two Decades”, when the fall in birthrate has accelerated because the young generation has not been able to enjoy affluence any more. In other words, our problem is characteristic in that a rapid depopulation and precipitous fall in the birthrate are happening simultaneously, thereby creating striking imbalances in the demographic composition. Hence, although our economic society has been undergoing unparalleled transformation at high speed, the issue is that our system, policy, and mindset, despite the need for adjustment, have not kept up with the speed of this transformation.

But it is impossible to rewrite the past now. Therefore, in order to avert the arrival of this grim and difficult future caused by the impact of demographic change on the economy and society, our only option is to implement concerted reform and change so that the youth and generations to come feel comfortable enough to get married and raise children. If we succeed in revamping the system and policy as well as altering the public mindset in a swift manner, this Committee believes we can avoid the dire path to the “Rapidly Declining and Aging Population”.

One important point to bear in mind in devising the pertinent reform agenda is to organically connect macro perspectives, such as redressing demographic imbalances, and realization of sustainable economic growth, with micro perspectives; a social structure in which everybody, including women, youth, and the regional community can display their abilities and skills without reservation and enjoy the comfort and happiness afforded to them.

Reform conceived from these two perspectives is indispensable. Can we carry on the reform with strong belief that the future is not set in concrete? That is our “Choice for the Future”.

i. Share a sense of crisis and aim to maintain a stable population structure of about 100 million in 50 years⁷.

In order to escape the negative outcomes of lower national welfares to be inflicted by the “Demographic Onus” and “Contraction Spiral”, it is imperative to maintain a certain level of population in future that would be engaged in all the economic activities as well as perform social functions. Our objective is to build and maintain a population of about 100 million with a stable demographic

⁷ If the level of the total fertility rate recovers to 2.07 by 2030, marked imbalances in the demographic structure are expected to be resolved with a more balanced ratio for each age group of the total population by 2060; 20.7% of under 20 years old, 46.3% 20-64 years old, and 33% over 65 years old.

structure of about in 50 years and thereafter by creating an environment where young couples are able to have as many children as they wish and raise them.

ii. Maintain growth by opening up the economy to the world and “creating new value by originality and ingenuity”.

Ongoing economic growth and development is essential to preserve the quality and standard of our national welfare. It is possible to achieve sustainable economic growth even under the declining population environment by way of improvement in value-added productivity⁸, higher participation rate in the labor market, and accumulation of domestic capital. The application of knowledge capital such as branding and, innovative marketing and such other measures will make it possible to produce new high-value added goods and services as well as demand, thus generating new dynamism in economic activities. Moreover, our economy should be able to attract talent, resources, funds, and information from around the world by opening itself to the world. The key to sustainable economic growth is how much we can improve our productivity by those measures. We need to shape a vibrant and competitive economic structure and keep growing while avoiding the trap of “Contraction Spiral”.

iii. Establish a system and structure in which everybody can work to his/her abilities and characters regardless of their age or gender.

For building an economic society where people can experience affluence and happiness, it is essential that all participants, including women, youth and the elderly, can contribute to it according to their willingness, characters and abilities. To this effect, we ought to shape society in such a way that people can find work regardless of their age, gender, time, and location, and feel proud and enthusiastic about their jobs. Concurrently, we have to create a work environment where diversity is respected, multiple choices of lifestyle are available, and anybody with passion can extend his/her skills and strength, and feel encouraged to try repeatedly even if she/he fails.

iv. Implementing regional strategies that take advantage of local characteristics and advancing the integration and vitalization processes in regional area, approach and create new job opportunities.

There is acute concern for the dissolution of local community and insufficient

⁸ Improvement in value-added productivity does not mean simple increase of production at lower cost, but a higher ratio of value added to the production factor.

administrative services to be offered to local residents on top of the sluggish economic activity due to the progress of declining population and aging in the regional areas. As countermeasures, we must implement individual regional strategy, taking a spatially distinctive “Consolidation and Revitalization” approach for regeneration of the region and create job opportunities for both men and women of all age groups with the goal of having attractive regions across the nation. On the other hand, Tokyo has to keep its status as a global city where diverse talent gathers and collaborates to produce innovative products and services, while making efforts to curtail population influx.

v. Valuing the social infrastructure such as public institutions, culture, civic minds, and others.

In addition to properly maintaining as sustainable the fundamental infrastructure, such as social security and public finance, as well as international credibility, we need to value Japan’s specific culture, civic mindset, and heritage of self-help and mutual help in the local community, which have been nurtured through our history and tradition, and build the foundation for a safe and peaceful society.

III. Timeframe to Change the Future and Direction of the Reform

In order for a more desirable future to materialize in 50 years from now, first we must quickly unshackle ourselves from the long-lasting economic stagnation. Then it is necessary that we focus quickly on the challenges in relation to the following issues with a clearly defined timeline with a view for the year 2020 to be a turning point of the trend and beyond; 1) population, 2) growth and development, 3) effective application of human resources, 4) prospects for the regions, and 5) trust and discipline.

Management efforts by the private sector are important, along with changing the mentality of such people as business managers and employers. The government’s role is to provide a suitable environment by way of unrelenting reform of system and policy. The following includes both new proposals and issues pointed out previously but left unattended. We must share a sense of crisis for the shortage of time left to implement the necessary reforms and changes.

<Growth and Development: Abenomics to be a springboard to jump out of the slump and get onto the path to long-term economic growth>

The Japanese economy has continued to stagnate during the so-called “lost two decades”, resulting in a sharp decline of its economic power and wealth. It is critical to promptly tackle the issues hindering economic growth and development in a determined manner so as to break free of this long lasting slump.

<Population and Regions: Turnaround of trend to be achieved by 2020>

By the late 2020s, all baby boomers will have reached 75 years of age with the elderly accounting for over 30% of the total population with the accelerated depopulation. Unless we manage to alter the trend before that time, the disconcerting pictures we discussed in the “Future Prospects when No Action is Taken to Change the Current Situation” above will materialize at once. We need to promptly change course towards carrying out the required reforms to strengthen an improving birthrate and turn around the declining population trend by 2020.

<Further Ahead: Looking beyond 2020, blaze a growth and development path of the economy>

The year 2020, when the Olympic and Paralympic games will be held in Tokyo, is only milestone, not a destination. While assessing the effectiveness of the measures and direction of the reform for the year 2020 turnaround, reform has to continue beyond the objective of a 2020 turnaround. What lies ahead should be an economy and society of solid and sustainable growth and development where people can take full advantage of their capabilities and cherish the essence of Japan and Japanese culture regardless of their age, gender, or their location; whether they are in Tokyo or in the local regions.

- 1. Population: maintain a population of about 100 million with a stable demographic structure of about in 50 years by providing a better environment to raise children.**

Mid- to Long-Term Challenges and Direction of Reform and Restructuring

- A higher birthrate is indispensable to secure a certain level of population and maintain a stable demographic composition in the future.
- Actions to ameliorate demographic imbalances of rapid depopulation and super aging will take multiple generations to take effect. As can be seen in the forecast that the population after 50 years would be further reduced by approximately three million if a recovery of the birthrate is delayed by 10 years, delayed reform will exasperate adverse impacts on the future population and demographic composition. Accordingly, all levels of society from the national and local

governments to the business sector are obliged to commit to creating a better environment for youth to marry, have babies, and raise them.

(1) Drastic Countermeasures to the declining Birthrate

As one of the reasons for the falling birthrate often cited is the fact that many youth cannot get married. The background to this circumstance is considered to be a rising proportion of non-regular employees who are poorly paid with unstable job prospects as a result of the polarization of the labor market between regular and non-regular employees. In this context, better conditions should be offered for the young generation to feel secure enough to marry with the working conditions of non-regular employees to be recalibrated.

Moreover, because many young couples are unable to have as many children as they wish in reality because of their financial constraints even if they managed to get married, it is vital to first remove the obstacles for those who want to have more children in order to improve the birthrate. To this end, the wide range of system and structure should be comprehensively examined from the viewpoint of minimizing the financial burdens caused by having children.

Married couples ideally wish to have 2.4 children on an average, but the actual figure is 1.7⁹. For the birthrate to restore to around 2, it is crucial that we provide a setting that allows them to actually carry out their wishes. To prepare an encouraging background for couples to have their second and third children, unconventional, innovative initiatives should be taken, such as a weighted support system for the birth, nursing, and education of the third child and children born after that.

We must make sure to share the understanding that support for childbirth and child-rearing is one of the important pillars of social security. By removing the pivot of resource allocation audaciously from the elderly to the juniors and doubling the support for childbirth and child-rearing, we have to follow the examples of other nations that have been successful in restoring the birthrate¹⁰. The cost of supporting childbirth and child-rearing should be absorbed by the current working generation, rather than being passed onto the future generations.

(2) Policy Initiatives for Children and Radical Change in Mentality

⁹ Source: “Japanese National Fertility Survey, Married Couples”, National Institute of Population and Social Security Research.

¹⁰ According to the Social Expenditure Database of the OECD, the ratio of family related social expenditures (sum of the cash benefits and in-kind benefits granted under the parenting support system) to GDP in fiscal year 2009 was 3.8% in Sweden, 3.2% in France, and 2.3% for the OECD average in comparison with 0.96% in Japan. According to the estimate by the National Institute of Population and Social Security Research, the same ratio stood at 1.35% in the fiscal year 2011.

Besides expanding the scope of the countermeasures to the declining birthrate from support for childbirth and child-rearing into a broader, more coherent support system, policy in the various areas should be reviewed from the perspective of the benefits of children and be actively augmented as an investment in the future, transcending the traditional framework of the countermeasures to the declining birthrate.

Separately, we really have to share widely this sense of crisis so that our mindset and concept of value (for instance, think of our habit of calling a fixed-term contractor as “non-regular employee”, corporate culture in which male staff have implicit advantages, or a climate in which women feel hesitant to ask for maternity leave even if their companies have the available systems) become more accommodating since they have been impediments to those who want to have more children.

2. Medium- to Long-Term Economic Growth and Development: Continue growth by opening up the economy to the world and “Creating New Value by Originality and Ingenuity”.

Mid- to Long-Term Challenges and Direction of Reform and Restructuring

- Even in the rapidly depopulating and super aged society, it is critical to keep economic expansion for upholding the national welfare. With little prospect for labor force growth and increase in capital injection near term, continuation of economic expansion requires construction of a dynamic economic society where the participants can extend their abilities and strength, display them freely, and are encouraged to repeatedly face challenges. Consequently, the total factor productivity (TFP)¹¹ would be boosted.
- We must strive for the realization of a nation where companies, investors, and highly skilled professionals who are both Japanese and foreign can play active roles more easily than in any other country through opening up our economy to the world, and take relevant actions to respond to international trends such as globalization and progress of IT.
- Social security systems such as medical and nursing care and the public finance of both national and local governments, have to be made sustainable as the basis for economic growth and development.

(1) Innovation - Key to the Improvement in the Productivity of Value Added

¹¹ One of the productivity indicators, showing the effectiveness at the time when productive factors of labor and capital generate value added. It is measured as the residual that cannot be explained by the increase in productivity factor input in the economic growth.

The key to sustainable economic growth should be improvement in the total factor productivity (TFP), including the qualitative improvement of productive factors of labor and capital; that is, to boost the productivity when labor and capital produce value added. Innovation, recognized as “creation of new value by originality and ingenuity”, is the most powerful instrument in lifting valued added productivity and achieving sustainable growth. Not limited to technological revolution based on scientific knowledge, innovation can happen in diverse industries and businesses in various forms, such as the development of new manufacturing methods, establishment of new sales networks, introduction of original procedures at the factory, marketing office, or back office, and brand strategy or marketing strategy of corporations, any combination of which can be innovation as well. In this context, we need to shift our mindset from one centered on “manufacturing” to “Mono-Kotozukuri (value added manufacturing)”¹².

We must take into account not only the supply side viewpoint but also that of the demand side. Such efforts as informing consumers of the advantages and merits of products and services (branding) or exploiting potential market through aggressive IT investment and its application (marketing) would produce competitive products and/or services as well as attain higher value-added productivity. Furthermore, higher non-price competitiveness would also boost our terms of trade. Consumers should be attracted through the effective and active use of branding and marketing in the area of service economy in particular due to its larger multiple effects on the economy.

The role played by “Knowledge Capital”, such as branding, business skill, and intellectual property rights is becoming more and more important as the knowledge intensity of products and services increases further. Ongoing innovation should be secured by way of transforming the economic infrastructure into a more open and flexible one where diversity is respected and human contacts are warranted, with investment in “Knowledge Capital” to be lifted to the level of that in tangible capital.

(2) Encourage “Regeneration and Rejuvenation” of Industry and Business

Potential demand is forecast to climb exponentially in the following areas: health and life science related medical/bio fields with keen national interest, and energy/environmental fields that demand global action for growing problems. What is required is not to support the specific industry but to promote the “regeneration and rejuvenation” of industry and business by executing a dynamic transformation of the industry structure through bold and fundamental structural reform.

¹² 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.

Enhanced financial functionality is crucial as well in order to promote the “regeneration and rejuvenation” of industry and business through entrepreneurship, business closure, and a better discipline of corporate governance by investors. By improving competitiveness of the financial service industry through such measures as boosting relatively small Japan’s emerging and venture capital market compared with the US, steady funding for fast growing business, business restructuring, and other corporate efforts ought to be facilitated. Since Japan’s net external assets are the largest in the world, a better management of its financial assets is imperative while establishing itself as a unique international financial hub in the Asia by making our market more attractive.

(3) Open country

Confronting a rapidly expanding and increasingly diversified world market owing to the growth of emerging countries, we must secure its growth and development opportunities. Outward globalization of SMEs as well as large business in both manufacturing and service sectors has to proceed simultaneously with internal globalization such as the accelerated FDI into Japan including M&A activities.

So as to lift the growth potential under the decreasing population, while it is important to heed the national debate, a commitment should be made to accept strategic immigration of a highly skilled foreign labor force and apply the mutual exchanges with them to complement economic growth and development¹³.

Since the establishment of the global manufacturing chain and development of the emerging nations have dramatically altered the structure of added value creation in the international economy, Japan has to strategically participate in the divisional opportunities of the global market and maximize added value created by us in the global value chain¹⁴. With the corporate sector being ever selective as to its operational location, we need to make sure to offer and retain attractive incentives so that added value and jobs are created within the country, while ensuring to play a critical role in the formation of a wide trade and investment bloc in the global economy.

(4) Sustainable Social Security System and Public Finance

With the advance of the aging society, a “top-heavy society”¹⁵ will arrive, and on the back of the expected widening of the economic and social disparity, a sustainable social

¹³ This is not an immigration policy to promote the settlement of general foreign nationals.

¹⁴ System of the international division of labor in such industries as manufacturing where the production process is divided between multiple countries and points out the situation in which added value is being created transcending national boundaries.

¹⁵ A society in which the population of the elderly roughly equals that of the working generation that supports them.

security system and public finance will become even more indispensable together with the economic growth that underpins them.

Achieving a sustainable social security system and public finance demands addressing the imbalances between the benefits and burdens of the social security system. The first challenge is to put a brake on rising medical and nursing care costs. While the public should be made aware of the burden and effectiveness of medical and nursing care, efforts should be made to restrain them through the better usage of IT and technological innovation. At the same time, preventative measures, especially for illnesses requiring expensive medical care should be encouraged such as changing non-desirable lifestyle habits. Besides, a system needs to be put in place for the efficient and effective services to be provided in both aspects of human resources and technology while correcting the regionally uneven distribution of medical and nursing care services, which are insufficient in the big cities but excessive in the countryside.

Under the extremely tough fiscal conditions, with our debt-to-GDP ratio exceeding 200% and with the possibility of the current account falling into deficit in a long-term trend, we must persevere with steady fiscal consolidation for building the foundation of stable economic activities and daily lives of people with a clearly defined objective, such as a lower debt-to-GDP ratio once the current fiscal balance is fixed in a swift manner.

3. Human Resources: Talent Utilization Regardless of Age and Gender

Mid- to Long-Term Challenges and Direction of Reform and Restructuring

- The goal is to construct a society in which both men and women can fulfill their potential by way of changing the working patterns of both genders and creating a backdrop that allows them to manage both raising a family and working. The M-shaped curve of the female participation rate to the labor force also needs to be rectified.
- Society should allow the participants to try finding work as many times as they want at every phase of their lives. In addition, society should encourage the healthy elderly to take advantage of their experience and skills to contribute through working or being engaged in social activities.
- Develop children’s gift and educate future talents.

(1) Gender, Regular and Non-Regular: More Working Opportunities in Accordance with Ability and Motivation

Because of the polarized labor market of non-regular employees and regular employees who are assumed to work long hours, workers’ potentials have not been fully

exploited and working commitments still make it very difficult for many youth to get married and/or raise children. Consequently, an M-shaped curve appears in the female participation rate in the labor force in which their participation dips between their late 20s to early 30s. To this end, a new mechanism should be devised for permitting labor market participation in accordance with the individual's skills and wishes as well as having family and raising children through drastically changing the work-life balance, basic labor market structure for both genders, customary practices, and people's mindset (especially that of men's).

Indeed, improved visibility of the countermeasures to the declining birthrate and a better work-life balance, to be adopted by both business and governments, would help initiate changes in corporate and administrative culture to be more accommodative as well as public perception.

(2) The Elderly: Healthy Longevity as Social Energy

With the anticipated extension of both the average life expectancy and healthy life-span¹⁶, an increasing number of the healthy elderly should be encouraged to actively contribute their skills and experiences to society. Although the productive population has been thought to be between 15 and 65 years of ages in the past, it is now natural to view up to 70 years old as working generation ("new productive age population") given that the physical abilities of the elderly improved by five years over the past 10 years, and offer them more opportunities to work or engage in social activities. In this regard, it is essential that every generation is able to find an opportunity to work in accordance with the individual's ability and desire and to choose a job with pride and enthusiasm.

Moreover, support should be given to the elderly such that they can be more involved with the local communities without being isolated through the exchanges with children and the youth, and not to waste their wealth of experience and knowledge.

(3) The Youth and Children: Nurturing the Future Generations

Human resource development for acquiring life-long skills should include providing all children an education for extending creativity and initiatives from an early age, and increasing both their educational options and opportunities for re-learning. In brief, we must avoid the reproduction of economic inequality by enriching various opportunities to stretch the diverse ability of children independent from their parents' financial capability. In addition, the current situation needs to be rectified in that it is very difficult to try again for new challenges, after once experiencing a setback like the loss of employment,

¹⁶ Physical strength and athletic capabilities of the elderly have improved over the past 15 years to the level of those of five years younger compared with those of 15 years ago according to "Physical Fitness Survey (Japan Fitness Test)" by the Ministry of Education, Culture, Sports, Science and Technology.

failure in starting a new business venture or unsuccessful job change. Securing multilayered and multi-track opportunities for the retrial in people's working careers, the labor market environment should be so structured as to allow the individual to display his/her capabilities fully.

Considering the possible future technological advances and change in industry structure, many new types of jobs will be generated, with the working patterns and required skills of workers likely to be different as well. Therefore, what is essential is to develop future talents who can produce added value and easily adapt to the new technology and industry. We have to put in place a mechanism designed to develop human resources capable of acting as global players, a mechanism in which educational endeavors such as foreign studies are actively encouraged and their outcomes are properly evaluated.

4. Prospects of the Regions: Regional strategies that take advantage of local characteristics and “Integration and vitalization” in regional area

Mid- to -Long-Term Challenges and Direction of Reform and Restructuring

- Besides the realistic concern that more than a quarter of the local governments will suffer from the "possibility of disappearance", the continuing influx of population, mainly that of the youth, into the Tokyo metropolitan area from the local areas is causing a vicious cycle in the regional economy. On the other hand, over concentration of the population in the Tokyo metropolitan area makes it vulnerable to natural disasters together with making for a high cost structure, causing concern about losing its competitiveness as a global city.
- Diversified bodies active in the region, such as local residents, local administration, and others have to put forward individual regional strategies and “Integration and Vitalization” measures under the “new kizuna (bond)” motto simultaneously toward the goal of regional regeneration. The national government should play a role of setting up a flexible and effective system framework for regeneration of the region while presenting a clear picture for the regions.
- As for the Tokyo metropolitan area, its competitiveness as a global city must be reinforced and further population influx restrained.

(1) Implementing regional strategies that take advantage of local characteristics

So as to create jobs in the regions and carry out the “attractive regional development” embedded in the characters specific to each region, a strategy to

enliven the regions should be implemented with the concentrated investment of resources after making necessary choices. Innovative creation (renovation, reengineering, etc.) should be promoted by the application and utilization of the regional resources through lateral thinking, usage of information and communication technology (ICT), and the construction of a wide ranging network generated by cooperation and collaboration with diverse people and bodies including the “outsiders”¹⁷. These initiatives should make the regional economy circulate smoothly while making the regional society more sustainable to maintain and grow.

In the agriculture, forestry and fisheries industry, for example, we can hope for interesting collaboration in diverse areas such as healthcare and the ICT industry, by human resources including those relocating/returning to the regions. In the tourism and exchange sector, initiatives should be taken to prepare infrastructure to receive human and/or goods flow and to directly connect to overseas markets since the Tokyo Olympic and Paralympic games to be held in 2020 will trigger a wide range of human exchanges. In the medical sector, a visionary model should be presented such as building an international base for innovation.

As for the problem of excessive concentration in Tokyo, we should appoint competitive strategic core cities in the local areas where business can safely locate their headquarter functions, and actions to reverse the population flow, from Tokyo to the local areas, should be taken by way of providing medical and nursing care services in the local areas and support for “relocation” to the local areas of people with rich job experience, along with the efforts to curtail population influx in Tokyo from the countryside. Meanwhile, in the Tokyo metropolitan area to make it an intellectual creative hub, an urban regeneration project should be pursued, providing an environment that foreign talents find it easy to work in and working parents find facilitating.

For achieving genuine recovery from the Great East Japan earthquake, the suggestions and proposals for problem resolution made in this report should be trialed in the Tohoku region. Initiatives to build a “new Tohoku” region, should give us a useful indication in our investigation of the medium- to long-term regional development strategy, as well as being an advanced practical example of the efforts to fully utilize human resources inclusive of the elderly, youth, and children. This experience should be applied to the future regional development program across the nation. Furthermore, learning from the lessons of the Great East Japan earthquake, regional development plans should include those for food security issues with a

¹⁷ Human resources from another region to lead planning and implementation.

higher productivity as its core objective and resilience to the risk of large-scale disasters.

(2) “Integration and vitalization” for Regional Regeneration for Regional Regeneration

Regeneration of the regions requires a “Integration and Vitalization” approach in which the township is consolidated in the central area by contracting and withdrawing from the peripheral part with a view to converging administrative services and revitalize economic activities. At that occasion, heads of local governments, local residents, and other stakeholders must share the same level of sense of crisis. Promotion of housing and town planning should have a clear vision for the future urban structure well in advance and examine how to provide the residents the appropriate administrative services as well as how to respond to the residents’ relocation cost, in the aspects of the initiatives for a compact city¹⁸, utilization of public transport, development of the regional core urban areas¹⁹, and allocation of responsibilities and cooperation among different regional areas.

Judgment on the manner to reflect in the policy residents’ choices regarding housing is critical during consolidation and revitalization attempts. In this regard, leadership should be exercised in forming a consensus based on sufficient discussions and making political decisions after sharing with local residents the information concerning the adopted objective indicators, procedures and rules.

At the time of consolidation and revitalization efforts, public assets²⁰ such as the civic hall and library should undergo consolidation and reorganization from the peripheral part to the central area and lengthen their life span under effective management²¹, making use of such instruments as public private partnership (PPP) and private finance initiative (PFI). As for abandoned houses and idle lands in the city center, effective use ought to be promoted from the perspective of “utilization rather than ownership”, taking advantage of structures such as fixed-term leasehold and asset securitization.

(3) Regional Development Based on “New Bond”

¹⁸ To form a high density city in which residential area and various services are concentrated in the urban center. The urban center can be multiple locations including former bases of local administration prior to the merger of municipalities.

¹⁹ The area closely connected area socially and economically with core cities such as the prefectural capital or other important cities in the local areas.

²⁰ This report targets fixed assets like land, buildings, facilities, equipment owned by public bodies like national or local governments for administrative purposes.

²¹ Optimization on both hard and soft aspects of the asset and facility management.

It is hoped that regional development based on human relationships under the “New Bond”, such as work by NPOs and social business, leads to a dynamic transformation of the regions and their growth prospect as well as help building the recycling society in the regions. Accordingly we need to cultivate regional leaders including global-local talents²² and “outsiders” who are capable of shaping regional development.

Because public funding will be insufficient to implement these measures necessary for regional development, social investment from the private sector should be widely sought. In this context, the establishment of a social investment market that underpins the regional fund flow should also be pursued in order to invest regional funds in the regional initiatives with a social impact bond²³ as one of the references.

5. Trust and Discipline: Securing a Basis for Safety and Peace of Mind

Mid- to Long-Term Challenges and Direction of Reform and Restructuring

- Both the social security system and public finances must be ensured sustainable as the foundation for future growth and development. Food security should also be ensured (restated here).
- Inherit our tradition and culture nurtured by Japan’s climate and nature, and keep our messages heard. Further, we are determined to remain a trustworthy nation and exhibit leadership participating in global framework setting activities in order to fulfill our international role and responsibility.

(1) Respect for Japan and Japanese-ness

Even though we are determined to open up our economy to the world and ride on the global tide, instead of losing our specific tradition, culture, aesthetic sense and values that have been nurtured through history by our climate and nature, we should gratefully inherit and refine them further as well as dispatch them to the world as they are highly regarded across nations, while striving to establish a brand “Japan” using our renowned aesthetic sense.

In addition, we need to accumulate social capital²⁴, such as trust, discipline, and social networks that are derived from relationships with others, kindness to others, spirit

²² Human resources who can think from a global perspective as well as participate in local activities for sustainable development of the regional economy and society.

²³ Mechanism to introduce private sector investment in order to execute social policy that was traditionally funded by the public sector. Introduced first in Britain in 2010.

²⁴ Social capital such as “trust”, “discipline” and “network” based on the notion that active human cooperation can improve social efficiency.

of self-help and mutual assistance in the local community, hence maintaining a safe and peaceful society.

(2) Remaining a Responsible and Important Nation with a Role to Play in the International Community

We must uphold our standing in the international community and keep our messages heard by joining in international contributions and global framework setting activities. Thereby, we can play a responsible and important role in the world with the benefits from our efforts to be returned to augment our national welfare.

In Conclusion

After serious discussions held over 16 meetings in total inclusive of working group sessions, this Committee has come to the common understanding that the future of “rapid depopulation and super aged society” is imminent and that the reform agenda must focus on young generations and generations following them in order to alter the course of the oncoming future.

We acknowledge that the execution of any of the reform and restructuring proposals made in this report for the choice for the future is a huge challenge. This Committee sincerely hopes that sharing this sense of crisis triggers actual action in all levels of society and we are committed to have deeper discussions in the near future on salient issues in relation to human resource development, prospects of the regions, growth and development as well as an appropriate mid- to long-term policy framework. We plan to publish our final report by the end of the year.