What A 100-year Life Means for Japan’s youth

Nobusuke Tamaki
Junior College Division
Otsuma Women’s University
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Japan’s economy: An overview (1)

- Japan’s economy is not growing fast and has fallen behind China. It is now the third largest economy.
- Japan did NOT experience an asset price bubble in the few years preceding the Great Financial Crisis (GFC).
- The financial system (Japan) has been kept stable through and after the GFC.

"The Basic Facts of the Japanese Economy", Cabinet Office CY, Quarterly
Japan’s economy: An overview (2)

• Working age population has been shrinking since mid 1990s. In the recent years, it has shrunk by 5m in 6 years.

• 3.8m more people are now employed than in 2012.

• How could it happen?

“The Basic Facts of the Japanese Economy”, Cabinet Office
Japan’s economy: An overview (3)

- More women are working.
- Female labor participation is rising over a wide range of age groups.

"The Basic Facts of the Japanese Economy", Cabinet Office
Japan’s economy: An overview (4)

- More seniors are working.
- “Slack” might have been exhausted.

"The Basic Facts of the Japanese Economy", Cabinet Office
Despite the population ageing and the workforce shrinking, Japan has been maintaining current balance surpluses.

The nuclear power plant accident in Fukushima caused a sharp increase in natural gas import.

Approximately 4% of GDP is earned overseas as return on the investment in the past.
Japan’s potential growth rate (1)

Components of potential growth rate (%)

Contribution by labor input has turned positive.

Data: Cabinet Office
Japan’s potential growth rate (2)

• The minimum wage determined by the government has been rising while the low-wage labor market gets tighter.

• What’s happening next? Labor-saving technological change?

“The Basic Facts of the Japanese Economy”, Cabinet Office
Japan’s potential growth rate (3)

• It is possible that;
  —— as labor shortage pressures firms to undertake more of labor-saving investment, contribution of capital input will increase.
  —— together with labor-saving investment, TFP will rise.

• If the above holds, Japan’s growth potential will be maintained or enhanced.
Households’ behavior and sentiment

• Labor supply has changed. More women and the seniors have come to work.
  —— For women, marriage is by no means the end of her working career.
  —— For the middle aged, retirement is now an issue of their seventies, rather than sixties.

• Baby-boomers’ children have learnt since 1990s when they left school, through what they saw happen to their parents and their own experience in “the lost decade(s)”, that employment is not always secure and technological/institutional changes may anytime require profound adjustment to unexpected and deep changes.

• Japan’s youth no longer assume that their standard of living will be higher than their parents’.
Good old days of a three-stage life are gone.

“A three-stage life with education first, employment second and then retirement can only be sequenced in a single way. Many people followed these stages and the resulting lockstep of action brought certainty and predictability.”

“The 100-year Life” (Lynda Gratton & Andrew Scott <p11>)

“Certainty and predictability” is being replaced with “uncertainty and unpredictability”.

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"Uncertainty and unpredictability" inevitably causes inefficiency in allocation of resources. Most importantly, "human resource" will be misallocated.

Developed economies are all being faced with the task of transition to the 100-year life society with the risk of "uncertainty and unpredictability" damaging the growth potential. Hence a race to reduce them. How?
Flexible labor market, lifetime learning and safety net that is inclusive as well as effective

• No quick fix.

• Should give Japan’s youth;
  1) More chances to work through making labor market more flexible
  2) More chances to learn through making lifetime learning easier
  3) Better (= inclusive as well as effective) safety net

• Social division/stratification will be a long-term threat to capitalism/market economy.
Thank you.