Reform opportunity in light of the new population projections for Japan

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**Japan’s population projected to fall below 100 million in the 2050s**

The National Institute of Population and Social Security Research (IPSS) announced the new Population Projections for Japan in April 2017. Japan’s population in 2015, the basis for the latest projections, stood at 127.10 million, down only about 1 million from the 2010 population of 128.06 million, but the decline in population is likely to accelerate going forward. According to the projections based on the medium fertility and medium mortality assumptions, the population is likely to fall below the 100 million-mark in 2053 for the first time since 1967. As the previous projections forecasted the decline below 100 million in 2048, the latest projections indicate a somewhat slower pace of population decline. This resulted from a rise in the birthrate among women aged 30 or over in recent years. However, the decline in population between 2015 and 2065 is expected to reach 39.02 million, a large decrease that outstrips the 2015 population of the Tokyo region (Tokyo, Kanagawa Prefecture, Chiba Prefecture and Saitama Prefecture).

Japan in 2015 was a populous nation, ranking 11th in the world. According to the population projections for the world’s countries by the United Nations, populations of emerging economies in Asia and Africa will likely overtake Japan’s, with Japan’s ranking slipping below 20th place by 2065 with a population of 88.08 million. In its auxiliary long-term projections with the assumption that the fertility rate in 2065 remains constant beyond 2066, the IPSS forecast that Japan’s population in 2115 will stand at 50.15 million, equivalent to just about 40% of the 2015 population. As the first Population Census taken in 1920 put the nation’s population at 55.47 million, the projected population in 2115 would fall below the level seen at the time of the first census.

**Populations in three age groups falling to half or one-third of peak levels**

Looking at the population trends by the 3 major age groups from 2015 through 2065 (Chart 1), the population in the young-age group (up to the age of 14) is projected to decline by 6.97 million and the working-age group (aged between 15 and 64) by 31.99 million, while the population in the old-age group (aged 65 and over) is expected to rise by just 60,000. The fall in the working-age group population stands out as the main characteristic of Japan’s population seen by the three age groups.
In particular, the period of 2055-2060, when the decline below 10 million of the young-age group population and the fall below 50 million of the working-age group population are projected to occur simultaneously, is likely to mark a major milestone for Japan’s population. The young-age group population, which stood at 20.42 million in 1920, the first year of the Population Census, peaked out at 29.80 million in 1955 and is projected to dwindle to one-third of the peak level in over about 100 years by 2055-2060. The working-age group population, on the other hand, reached the peak of 87.17 million in 1995, and is expected to be roughly half of the peak level of 45.29 million in 2065. The group’s projected population in 2065 is close to 46.78 million marked in 1947 shortly after the end of the war. Meanwhile, the old-age group population is expected to increase in the aging society. But the uptrend is only mild, and the old-age group population is likely to start declining after hitting the peak of 39.35 million in 2042. This peak population is only 16% larger than the 2015 level of 33.87 million. The old-age group population in 2065 is projected at 33.81 million, almost the same as the 2015 population.

The 2020s present opportunity for reforms to prepare for depopulation, aging society with falling birthrate

Given the slow rise in the fertility rate despite long years of countermeasures and the deep-rooted hesitation among the Japanese people to accept a large rise in foreigners coming to live in Japan, it seems difficult to place great expectations on measures to combat the falling birthrate or on an immigration policy to expand an inflow of foreign nationals.

Under such circumstances, we look at the population trends from another angle and focus on the age dependency ratio, which represents the number of young-age and old-age people supported by 100 working-age people. The age dependency ratio had been largely stable from the 1960s through the 1990s. During this period, policy measures related to the elderly were put in place one after another, including the public pension system. Then, the aging of the Japanese population gained speed in the 2000s and the 2010s, and the age dependency ratio rose sharply as the baby boomer generation, or those born between 1947 and 1949, grew older. The uptrend
of the age dependency ratio will become moderate in the 2020s, but the upward tendency of the ratio will gain traction again and rise further in the 2030s as children of the baby boomer generation, born between 1971 and 1974, move into the category of the elderly. Thus, the 2020s will likely be the period that presents an opportunity for reforms toward building a sustainable socioeconomic system.

In retrospect, the 1964 Tokyo Olympics and Paralympics fell in the period when policy measures related to the elderly began to be implemented. And now, the 2020 Tokyo Olympic and Paralympic Games will mark an opportunity to take the first step toward the next round of reform initiatives. What a coincidence? As one example of the reform measures, we consider the policy of asking the 65-74 age segment of the old-age group to become the working generation, or the working-age population, to support the young-age and older-age group populations. Under this assumption, the uptrend of the age dependency ratio will definitely become more moderate (Chart 2). What is being called for now is the initiative to turn the 2020s that begin with the Tokyo Olympics and Paralympics into a decade of reforms to prepare for a full-fledged aging society with a falling population.

[Chart 2 Changes in Age Dependency Ratio]

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