

Japan's Population Decrease Calls for a Paradigm Shift from Growth to Quality

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The Ministry of Health, Labor and Welfare recently released the *Annual Estimate of the Vital Statistics of Japan 2008*, which is compiled from preliminary monthly data through October 2008.

According to the estimates, the number of live births increased by 2,000 from the previous year to 1.092 million, while the number deaths increased even more by 35,000 to 1.143 million, resulting in a natural decrease of -51,000 persons for the year.

Exhibit 1 tracks the vital statistics on live births, deaths, and natural increase of population from 2004 to 2008. The year 2004 is significant in that it marked the end of an uninterrupted population growth spurt spanning Japan's postwar era. In 2005, the population dipped for the first time due to the secular trends of aging and declining birth rate. Although a spike in live births caused a brief natural increase in 2006, the population resumed a natural decrease in 2007 as the number of deaths mounted, and the natural decrease is expected to widen to -51,000 in 2008.

Japan's Vital Statistics (2004-2008)

(Thousand persons)

Year	Live births	Deaths	Natural increase
2004	1,111	1,029	82
2005	1,063	1,084	- 21
2006	1,093	1,084	8
2007	1,090	1,108	- 19
2008 est.	1,092	1,143	- 51

Source: MHLW

To see what the data holds for the future, we can make simple assumptions and roughly estimate the steady-state population. Starting with the 1.09 million persons born in 2008, if we assume that the total fertility rate somehow recovers to $2+\alpha$ (the rate necessary to sustain the current population level), then subsequent generations would also consist of 1.09 million persons. Next, assuming an average life expectancy of 80 years at that point, the steady-state population would settle to 87.20 million (1.09 million persons x 80 years). Clearly, even this optimistic scenario results in a population far below the current population of 128 million.

Moreover, if the total fertility rate remains unchanged from the present at 1.34 (as of 2007), the population would grow even smaller because the next generation would consist of only 730,000 persons (1.09 million persons x 1.34 x 0.5). But whatever the actual numbers may be, the point is that the population is already declining and will continue to do so. As a result, the society will be fundamentally different from the past. For the economy and corporate sector, this essentially means that contraction—not growth—will be a natural condition of the domestic market.

The decreasing population will also give rise to many new phenomena in the economy and society. For example, income growth will be possible on a per capita basis, but far more difficult to achieve on an aggregate basis. In this and many other important ways, the growth paradigm of the postwar period, which pursued and measured success in terms of quantitative goals, will no longer be tenable. In the future, the paradigm of society needs to shift to one where success is defined and measured in terms of improving, or at least maintaining, the quality and efficiency of society (in the above example, per capita income).