

Thinking About the 2025 Problem—Part 1: Population Change and the 2025 Problem

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The Institute for International Policy Studies has inaugurated the 2025 Problem Research Group; I serve as the group's chairman. In this series of articles, I would like to relate the group's findings as they become available. In this installment, I will provide a general argument about the relationship between population change and the 2025 Problem.

A Definite Problem for a Definite Future

I am always saying, "Population change is a definite problem that will occur in a definite future." By that, this is what I mean:

All of us would like to know the future so that we can prepare for problems that may arise. However, one typically does not know what will happen in the future. For instance, consider whether someone 20 years ago could have predicted our current economy and society: The Internet has become more advanced, there was the 2008 financial crisis, and the Great East Japan Earthquake rocked the Tohoku region. None of these developments could have been foreseen.

Nevertheless, there is one phenomenon whose future one can predict with relative accuracy: population changes. Because the sole uncertain factor about the future of the population is the birth rate (or the total number of births), it is possible to predict the future structure of the Japanese population almost precisely, as long as one makes certain assumptions about that one factor. Obviously, there are considerable uncertainties concerning assumptions about birth rates, and the irregular variable of an unexpected flow of more foreign nationals into the country could also significantly affect the situation. Nevertheless, the uncertainties are extremely small, relative to other predictions. Therefore, it can be argued that the vision of the future painted by population forecasts is a "definite future."

Viewing the outlook for the Japanese population over the foreseeable future, it is apparent that what that population looks like will change considerably and that this should have significant effects on the economy and society. Changes to the population will have dramatic impacts on numerous areas—including economic growth, social security, local communities, and political decision making. This series of articles will continue to report on those impacts. The numerous problems wrought by population change will thus be definite problems that will happen in a definite future.

If one thinks about it, however, the fact that we know that there are definite

difficulties has not exactly been received as cause for celebration. This is because, although definite problems have been presented to us, we continue to think of them as “problems,” which suggests that we have not instituted effective measures for solving them. If no one knows about an issue, then it is unavoidable that it will be left unhandled. In this case, however, it is unfortunate that we have not responded, despite our foreknowledge, and this is truly a grave problem.

Considering changes to the Japanese population over the foreseeable future, it is apparent that even greater changes will start occurring in 2025 and that those changes will give rise to numerous difficulties. The year 2025 is not so far off. Given that fact, we must now take concrete measures to address the 2025 Problem—a definite problem that will happen in a definite future.

A Society with Growing Ranks of the Advanced Elderly, in Terms of Sheer Numbers

Why focus on 2025? The most important reason is that it will be around then that population changes will begin to occur in ways that present something of a new dimension to the problem. For instance, the scenarios laid out below are likely to occur.

One thing that will probably happen around 2025 is that there will suddenly be considerably more people, in sheer numerical terms, who will be classified as the advanced elderly.

A couple of distinctions here are important: One is the distinction between the *elderly* (the group consisting of people 65 and older) and the *advanced elderly* (the group consisting of people 75 and older). The other is the distinction between the aging of society in proportional terms and the aging of society in sheer numerical terms. Below, I shall refer to phenomena relating to the elderly as *aging* and to phenomena relating to the advanced elderly as *advanced aging*.

In a sociological context, the term “aging” is most typically used to refer to the proportion of the elderly relative to the total population. This perspective looks at the elderly in terms of rates. In specific terms, the elderly rate will continue to climb consistently, from 26.8% in 2015, to 30.3% in 2025, and then to 38.8% in 2050. These figures are based on the median estimates of the birth and death rates calculated by the National Institute of Population and Social Security Research in 2012 (the same source used for all figures in this article).

However, looking at the same situation in absolute numbers gives a considerably different impression. The number of elderly persons will grow from 33.94 million in 2015 to 36.57 million in 2025, peaking at 38.78 million in 2042 and decreasing thereafter. There will be 37.68 million elderly persons in 2050. This will be around the same level as in 2036, indicating that the aging of society, in sheer numerical terms, will gradually decline and revert to former levels.

Let us move on to advanced aging. The proportional number of advanced elderly will shoot up from 13.0% in 2015 to 18.1% in 2025. After continuing to rise gradually, the rate will soar again in 2050, reaching 24.6%. This pattern is attributable to the fact that the cohort born immediately after the end of World War II (the so-called baby-boomer generation) will, nearly simultaneously, join the advanced elderly around 2025; similarly, around 2050, the children of baby boomers will themselves reach an advanced age.

This change is starker looking at advanced aging in terms of absolute numbers. The number of advanced-elderly persons will grow from 16.46 million in 2015 to 21.79 million in 2025. After a temporary decrease, the size of this age group will once again grow, reaching 23.85 million people in 2050. The first peak will be 22.78 million in 2030. Between 2022 and 2024 alone, there will be annual increases of 800,000 people—a striking pace of growth.

In summary, the number of advanced-elderly persons (aged 75 or older) will rapidly increase around 2025, stay at a high level, and then decrease from around 2031. This cluster of the advanced elderly will cause the 2025 Problem.

Changes in Population Balance Viewed in Relation to Those Bearing the Costs

Another population change that will help trigger the 2025 Problem is the change in the population balance relating to those bearing the costs of an aging society.

When the absolute number of advanced-elderly persons increases, overall societal demand for health care and aging-related services also increases. Pension payouts will also grow dramatically. As a result, there will be substantial problems concerning the people who will be responsible for providing health care and nursing care services, who will pay the costs of those services, and who will bear the expense of keeping pension coffers full. The problem of those who will bear the costs will be especially severe in Japan, because its social security system is essentially a “pay-as-you-go” system in which the current working-age generation bears the costs of payouts made to the retired generation.

For the sake of simplification, I shall define the population group that will bear the costs as those aged 20 to 64, and I shall refer to this group as the *bearers*. Assuming that the trend toward lower birth rates continues for the foreseeable future, the number of bearers will decline. According to the population forecast mentioned previously, the number of bearers will decline from 70.89 million in 2015 to 65.59 million in 2025, and then to 46.43 million in 2050.

Thus, because the “supported group”—the advanced elderly—will spike around 2025 while the bearer group will continue to shrink, the balance between the two will change. For the purposes of examining the degree of imbalance, I shall refer to the

number obtained by dividing the number of people in the advanced-elderly group by the number of people in the bearer group as the bearer ratio. The higher the bearer ratio rises, the greater the stress put on the bearers. This ratio was 23.2 in 2015. It will rise to 33.2 in around 2025, and it will continue to grow after that point, reaching as high as 51.4 in 2050.

As described previously, the number of advanced-elderly persons will decline temporarily with the passing of the baby-boomer generation. One might like to think that the bearer ratio would have a similar trajectory, but it will not. The numerator of the bearer ratio (the number of advanced-elderly persons for whom the bearers are responsible) will temporarily go down, but the denominator (the number of bearers) will continue to decline. Consequently, the ratio will continue to rise.

Various Aspects of the 2025 Problem

As a result of these population changes, various economic and social issues will likely manifest around 2025. Our research group would like work to help with these issues. The following are some issues predicted with high confidence:

First, there is the issue of nursing care. As advanced aging in terms of sheer numbers proceeds, it is a near certainty that there will be a surge in the number of those requiring nursing care starting around 2025. As a result, we as a society will need to put considerable resources into nursing care.

In addition, the rise in the bearer ratio will mean that the burden on the labor force will become significantly greater. This will likely result in nursing staff turnover, insufficient numbers of nursing care practitioners, and other difficulties.

Second, there are problems relating to the social security system and fiscal policy. Social security is already the largest factor behind Japan's budgetary deficit. The burden on the labor force is growing, in the form of rising social insurance premiums. Because the progress of advanced aging in terms of sheer numbers will result in a sudden rise in social security-related payouts around 2025, the pressures of a growing fiscal deficit and rising insurance premiums will become even stronger if the problem is not addressed. If that happens, then it is likely that discontent among the public will intensify and that the sustainability of the social security system will be strongly called into question.

The debate over fiscal restructuring is currently focused on the target of achieving a primary balance surplus by fiscal year 2020. Considering the increase in social security-related payouts discussed above, it would make more sense to think of the more difficult obstacle looming around 2025.

Third, there is the problem of local communities. Looking at future trends for advanced aging in terms of sheer numbers by region, it will be in large urban areas, such as Tokyo, Osaka, and Nagoya, where the number of advanced-elderly persons will

increase around 2025. In other words, the 2025 Problem will be a problem of large urban areas.

The imbalance between advanced-elderly persons and bearers discussed previously will likely be concentrated in these large urban areas. Policy efforts—such as building nursing care facilities that transcend municipal boundaries and encouraging the elderly to move to locations that will help improve their care—have already commenced. It is imperative that we now consider ways of responding to the problems from a geographically broad perspective.

Fourth, the nature of social problems such as inequality and poverty may change qualitatively. In nearly all countries, inequality is higher among the elderly than among the young. In Japan's case, however, inequality among the elderly is especially great. In less abstract terms, the number of elderly persons in poverty will rise starting around 2025.

Furthermore, people from the “employment ice age” following the collapse of the economic bubble in the early 1990s—many of whom were unable to find regular employment and, instead, ended up as “not in employment, education, or training” (NEET) or exclusively taking odd jobs—are progressively entering middle age. From 2025, they will join the ranks of the elderly. There are concerns that this will lead to a rapid rise in welfare expenses.

Fifth, there will be changes in household consumption and saving behaviors, corporate activities, the ways in which people work, and other factors. Concerning consumption and saving, the newly elderly—healthy and with assets—will likely be the consumption leaders until around 2025. New areas of demand are apt to arise from the expansion of this “silver market.” Starting around 2025, however, when the number of advanced-elderly persons increases, there will, instead, be an increase in more “passive” services, such as those for health care, nursing care, and assisted living for the elderly living without spouses or other family members.

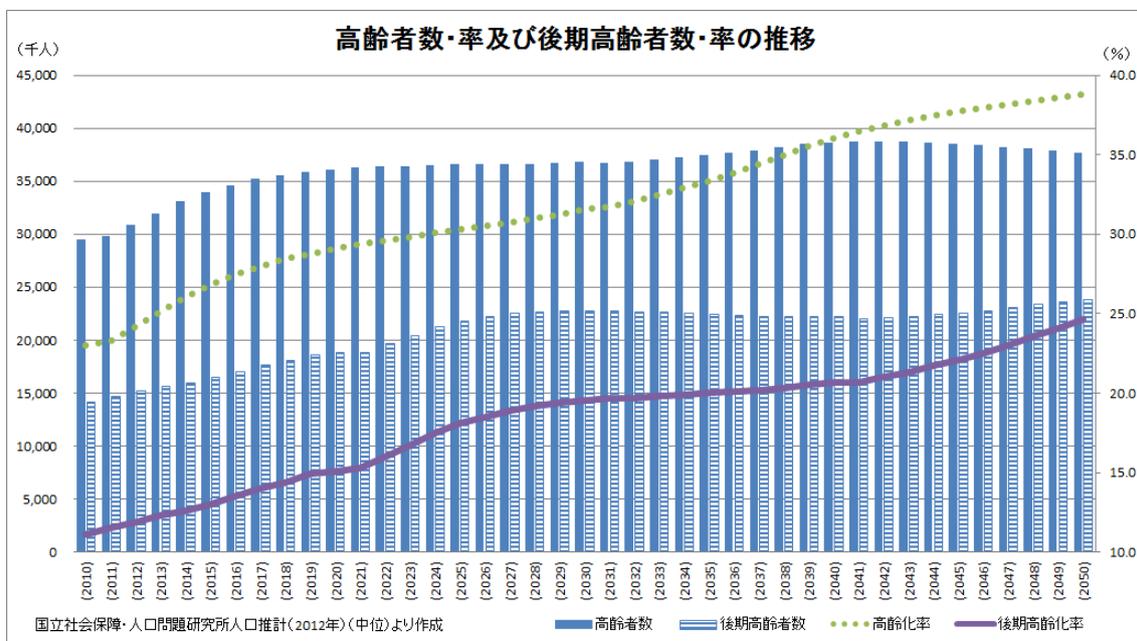
If companies leave their wage systems unchanged, then salary costs may rise around 2025, when the children of baby boomers enter their fifties. In addition, ways of working that mitigate long working hours and that permit diverse talent—including women, foreigners, and the elderly—to make full use of their skills will likely be devised.

Finally, the perspective of Japan's contribution to the international community is also important. In brief terms, the efforts to handle the 2025 Problem that this research group is to start considering will focus on such acute problems as issues of social security, economic growth, inequality, and poverty in an aging society with a low birth rate. Albeit with time lags of some duration, the Asian countries in which birth rates have already started to decline will eventually and by necessity face the same problems that Japan faces. In that sense, it will be put to the test whether Japan will be

able to serve as a model for other Asian nations in handling its population-related problems well. Thus, our deliberations of the 2025 Problem can be considered part of Japan's contribution to the international community.

As the debate continues, it is likely that many currently unanticipated problems will come to the fore. I would like to continue to research these problems as they become known.

Number and Proportion of Elderly and Advanced Elderly



Source: National Institute of Population and Social Security Research in 2012
 Number of elderly Number of advanced elderly Proportion of elderly Proportion of advanced elderly

From November 2015 IIPS Quarterly