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**Prospects and Policies on the Economy and Society  
in the Post COVID-19 Pandemic “New Normal” Era**

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## Key Points for Future Policy Direction

Economy and Society Study Group Summary Report

FY2020–2022

The Economy and Society Study Group at Nakasone Peace Institute conducted a three-year study on the subject of “The Transformation of Japan’s Economy and Society after the Outbreak of the Novel Coronavirus Pandemic” for FY2020–2022. The research findings revealed that the Novel Coronavirus pandemic triggered several major changes in Japan’s economy and society, including accelerated population decline, the diffusion of digital technology, and the impact on cities and regions. How to respond to this “new normal” will be a major point in considering post-pandemic socio-economic policies.

These issues and their prospects from the discussions by the study group, as well as the direction of future policy responses, are summarized as follows.

### **1. Work to review population policy with new ideas, aiming to achieve the nation’s desired fertility rate in the short term and raise it in the long term.**

- The government’s “Outline of Measures for a Society with Declining Birthrate” (decided by the Cabinet in May 2020) calculates the nation’s desired fertility rate as 1.8 and sets this rate as a policy goal to achieve. However, there is another estimate based on the latest statistical survey that indicates that the nation’s desired fertility rate is approximately 1.6. The nation’s desired fertility rate can be interpreted as the short-term upper limit for the fertility rate, but for the time being, it will be necessary to set that rate as a goal and take all possible measures to address the declining fertility rate within a certain period of time.
- However, in principle, it is impossible for the fertility rate to exceed the nation’s desired fertility rate, and, in the long run, some kind of breakthrough is needed to raise the nation’s desired fertility rate itself. Along with the economic burden of raising children, people are becoming aware of the magnitude of the psychological and physical burden. If the decline in the nation’s desired fertility rate is a reflection of this tendency, then the socio-economic framework in Japan is not necessarily an environment that is child-rearing friendly, and the cultural background of the country may also be an issue.
- In light of this situation, the government is required to take unprecedented measures to cope with the declining fertility rate. The remaining tasks require further study and discussion, including international comparisons, on how population policy should be implemented as a countermeasure against declining fertility rates in a different dimension in the post-pandemic era.

**2. Build momentum to “give it a try” and “adjust as necessary” throughout the economy and society, and skillfully apply digital technology to solve various issues in the economy and society.**

- The digitization of the economy and society is based on a kind of standardization in the sense that certain common software and services must be used to be effective. Given these characteristics, it would be impossible to promote digitization without bringing about some changes in the way people behave in their daily lives, just as, for example, in the employment and labor field, it would be necessary to review work flows to accommodate digital technology.
- Digitalization is often pointed out to be lagging behind in Japan. However, in terms of the digital foundation as an infrastructure, Japan is not inferior to other countries. Further, in the wake of the pandemic, telework and online conferencing have already taken root to a certain extent in Japan. If the convenience of digital technology is recognized by users, there are sufficient grounds for its diffusion in Japan as well.
- The risk associated with the diffusion of fast-evolving digital technologies may lie in the decision-making process and its speed in government and business. In Japan, the emphasis on process has made each decision to “do something” or “change something” too weighty, making it difficult to respond flexibly to changes in the environment. It is necessary for the entire economy and society to share and practice the concept that even if something is not perfect, it should be introduced to society as soon as possible, used by everyone, and improved and evolved into something better and better.
- It is difficult to discuss the digitization of the economy and society as a whole based solely on individual technologies and the experiences of their use. The remaining challenges for the future are, for example, to make efforts to understand the digital industry based on objective data and evidence, and, at the same time, to discuss its ideal form and the direction of its future development.

**3. Combine inter-regional cooperation and “sympathetic” creation of cities to realize a “smart shrink” that aims to maintain and improve people’s well-being even under a declining population.**

- Measures to address a declining fertility rate are palliative policies against a declining population, and they do not have immediate effects. For the time being, it is necessary to consider “smart shrink” as an adaptive policy that changes the economic and social framework while maintaining and improving people’s well-being, based on the premise of a declining population. The

compact city concept as a sustainable creation of cities concept that also takes population decline into account will continue to be a viable option. Based on the premise of inter-regional cooperation, it is desirable to maintain and improve the well-being of residents by sharing and mutually accommodating the functions necessary for cities and regions.

- In an era in which the assumptions underlying creation of cities can change rapidly, such as accelerating population decline and the diffusion of digitalization, it is difficult to indicate *a priori* what the right form is for a certain city or region. It is necessary to combine not only the “normative” process, in which compact cities and inter-regional cooperation are regarded as norms and presented as policy goals by policymakers and experts, but also the “sympathetic” process, in which residents themselves participate in consensus building based on the assumption that they can feel the effects of policies.
- What could be the new driving force behind the process of “sympathetic” creation of cities in the future may be the soft power of the “land,” including, for example, common history, traditions, and culture, regardless of administrative boundaries. Making the best use of the individuality and strengths of each “land” will respond to the diversification of households’ and companies’ location choices in the post-pandemic era and will ultimately organically link multiple cities and regions, both at the resident level and the administrative level. This approach can be the source of strength to solve social problems together in the city or region and improve the well-being of the residents.