No Need to Fear a Fall in Population

HATT A Tatsuo – President, Asian Growth Research Institute
SAITO Shiro – Executive Research Director at the Japan Center for Economic Research

Population decline is beginning to cast a dark shadow across Japanese economy. It is considered to reduce the growth rate threatening the sustainability our social security system. But Hatta Tatsuo, President of the Asian Growth Research Institute, who is also chairman of the Government Working Group to Design National Strategic Economic Zones, has a different view. He says there is no need to fear a fall in population. So what is the basis for that? Saito Shiro, executive research director at the Japan Center for Economic Research, asked him.

Population growth and development unrelated

Saito: We hear it said a lot that one of the greatest problems facing the Japanese economy is the decreasing birthrate and aging population, and population decline. I also feel that the aging of Japan and population decline is a serious problem. But now, I hear that you have a different viewpoint. What actually is your view on the connection between population and economic growth? I think that if the population declines, this becomes a significant constraint on economic development ...

Hatta: There certainly are a lot of people who say that. But the rate of population does not affect the growth rate of per capita GDP. Here’s a scatter diagram (Graph A) for the OECD (Organisation for Economic Co-operation and Development) member countries over the last forty years showing the average growth rate of GDP per person and the average growth rate of population. This reveals that and there’s absolutely no correlation between the two. For example, in Mexico, where the average annual growth rate of population was whopping 2%, the annual growth rate for the GDP per capita was only 2%. There is even a country with a negative population growth rate having a growth rate of
per-capita GDP at more than 5%.

However, what about the view that growth rate of total GDP, if not that of GDP per capita, depends on the growth rate of population? In fact even then there is virtually no relation. Graph B shows the growth of Japanese GDP and population over years. It shows that there are periods when the population was growing but GDP was not, and periods when the population was not growing but the GDP was.

The growth rate of population, therefore, should not be seen as a decisive determinant of the growth rate of GDP.
Saito: Yoshikawa Hiroshi, a professor at the University of Tokyo, says the same kind of thing in his economic class column in the *Nikkei* newspaper. He says that in Japan’s period of rapid development the real GDP base rose every year at around 10% but the population growth rate was around 1%. The remaining 9% has to be explained in terms of other factors.

Hatta: That’s right. Graph B is an updated version of that is Professor Yoshikawa’s book.

Of course if the productivity growth rate is the same, then the higher the growth rate of the working population the higher is the GDP growth rate. However, the degree of variation in the productivity growth rate is far greater than the variation in the growth rate of the working population. Thus, the key determinant of the growth rate of GDP is the productivity growth rate. Indeed, even when population declines, the GDP will grow as long as there is technological development.

**Graph B: Population, GDP, and Per Capita**

1870-2008

*Source:* Angus Maddison

| GDP: 1990 International Geary-Khamis dollars |

It is possible to succeed by increasing productivity

Saito: What you are saying is that if we think along the lines of the production function, growth is determined by (1) Productivity (technology etc.), (2) Capital, (3) Labor (population). Population is one factor among three, so when you say that the GDP growth rate is not much influenced by the
population growth rate, do you mean that the influence of the other two factors is greater?

**Hatta:** Yes. If productivity grows, it makes up for low population growth. The annual growth rate has been close to zero recently. Even if it falls to minus 1%, that can be easily made up for by a sufficient growth in productivity.

**Saito:** At the presently assumed level then, are you saying there is no fear that the Japanese economy will shrink or that Japanese national power will decline?

**Hatta:** That’s right. There’s no need to worry. Rather it is important to focus on the high potential for growth that the Japanese economy has.

Growth can be brought about from narrowing the productivity gaps among different sectors. If left to the competitive market, resources will flow in the direction of higher productivity, where the rewards are higher. Hence markets allocate resources efficiently.

However, this natural flow of resources often faces obstacles set up by incumbent firms to protect their vested interests.

As a result, sectors with varied productivity coexist. Japan is in this situation now. In this situation re-locating resources from low resource productivity sectors to high productivity sectors increases national productivity. So there is great potential for growth in Japan.

Removing obstacles to the natural flow of resources is called “structural reform,” and in Japan there is great opportunity for structural reform. It is not true, therefore, that the country with declining population must have a low GDP growth rate.

**Saito:** The government’s Committee for Japan’s Future suggests that the population should be stabilized at around the 100 million level, but do you think this proposal is unnecessary?

**Hatta:** When I was at elementary school we learned that Japan’s population was 80 million. My father, who was born in 1900, learned that it was 40 million. How can you decide whether 100 million is right or 120 million is right?

If every country employs a policy of promoting population growth, the world’s resources will run out. What we have observed all over the world is that as a country gets richer, its population growth rate is naturally moderated. Making countries rich seems the most effective way to conserve the world’s resources in the long run. This is much better than population growth being restrained by precipitously rising prices caused by scarcity of resources.

**Saito:** So then, actually you mean that the government should adopt a policy of population reduction?

**Hatta:** No. There is no reason to have artificial policy interference either to raise or to lower the
population. In case population continues to grow as a result of no interference, the price mechanism will take care of the resource issue.

What is necessary is to remove artificial barriers suppressing the birthrate. At present the low birth rate in Tokyo is caused by the shortage of childcare workers and childcare centers, which, in turn, is caused by high entrance barriers to childcare business intended to protect the vested interests of the existing childcare industry and childcare workers.

Another reason for low birth rate in Tokyo is the lack of housing floor space in city centers, which in turn is caused by unnecessary tight floor area ratio regulations in city centers. A typical example is the Otemachi, Marunouchi or Yurakucho area, where there is not one residential building. This is in contrast to the central districts of New York City where residential population density is the highest around the Grand Central Station.

Eliminating unnecessary regulations that has been suppressing child care establishments and residential floor space in the central city will help restore birth rate in Tokyo.

However, I do not think that numeric targets regarding population need to be set. They are irrelevant to policy.

Saito: Still, in many advanced countries the overwhelming discussion is about how to stop population decline.

Hatta: It is wise to plan an increase in population if soldiers are needed to prepare for war. I hear that thought was originally behind France’s attempt to increase its population. But the greater part of France’s present increase in population is taking place in immigrant families. I don’t think that was the original intention of the French government.

Economic growth is the most important national defense policy. And the most effective policy for economic growth is structural reform leading to increased productivity. A policy of population increase, however, does not necessarily increase productivity, as shown in Graph A.

Saito: A private research institute, the Japan Policy Council (Masuda Hiroya, chairman), predicts that half of the municipalities of Japan will become disappearing regional cities because of population reduction and population outflow. How should we cope with this situation?

Hatta: The council is saying this: “A lot of regional cities are disappearing as a result of population reduction, and hence it is important to put a stop on population reduction. An effective way of putting a stop on the population reduction is to restrain migration into Tokyo where birthrate is low.”

There are a number of problems with this argument. First, even if the birthrate were increased throughout the whole country, the outflow of people from many of the disappearing regional cities would still continue. I am against the government pouring money into the regions trying to stop the outflow of people from these towns. We have been doing exactly that over years. As a result Japan as a whole has been weakened. Instead of vainly trying to stop these localities from
declining, we should attempt to remove the regulations that are frustrating the sectors with growth potential.

Second, if the low birthrate in the big municipalities is a problem, the measures to increase the birthrate there should be taken. The measures include reforming regulations that cause a shortage of daycare centers and daycare workers, and removing the regulations that prevent people from living in city centers. Sending money to the regions without reforming the regulations is like trying to stop thinning of a diabetic patient by feeding him more rice at each meal.

Incidentally, this report claims that the so-called Tokyo unipolarization is the cause of the population declines. What is actually happening in Japan, however, is a multipolarization. As you can see in Graph C, there has been a great increase in the population size of Sapporo, Sendai, Nagoya, Hiroshima, and Fukuoka since Japan’s period of high growth. In fact, these cities grew much faster than either Tokyo Metropolis (Tokyo To) or the Tokyo Area Cities (defined as the sum of Yokohama City, Kawasaki City, Chiba City and Tokyo Metropolis) during this period.

Only cities where population declined are Kitakyushu and Osaka. Osaka, which served as the economic headquarters for the Western Economic Area of Japan during the railroad era, was taken over by Tokyo, as air-traffic era arrived, since air travel brought Tokyo within a day trip reach of the whole country. As a result, Osaka began to lose population after the 1970s. This may have caused some people to think that Tokyo unipolarization take place.

Graph C: Population Growth Rates of Major Japanese Cities
1965-2010

Note: Tokyo Area Cities consist of Yokohama City, Kawasaki City, Chiba City and Tokyo Metropolis
Source: Daitoshi Tokei Hikaku Nenpyo
Population loss also took place in smaller cities of 200,000 people or less, which have become in easy reach of nearby larger cities by car. The policy to cope with disappearing regional cities is to facilitate the relocation of people from these municipalities to the larger cities and minimize the pain.

To sum up, the fiscal resources should not be squandered around in country side under the slogans of “population increase” or of “fighting against unipolarization.”

The effectiveness of structural reform

**Saito:** Well, in order to increase productivity, what specifically needs to be done?

**Hatta:** There are two main ways to increase productivity.

The first is to promote innovation. This will enable the same amount of input to produce more at the industry level. After the war, technology brought in from overseas was instrumental in Japanese economic growth. In addition, producers engaging in trade were able to introduce various new technologies by taking advantage of scale economies. Thus innovation can be promoted by further liberalizing international trade.

The second is to narrow the productivity gap between sectors, i.e., to carry out structural reform. The Japanese economy has sectors with very low productivity as well as the sectors with very high productivity. An example of the former is agriculture. Labor and capital being dammed up in agriculture by protection policies should be released to the sectors of high productivity.

Natural flow of resources from the low productivity sectors to the high productivity sectors is blocked by artificial barriers. Low productivity sectors are often declining industries and regions that prospered until recently and therefore they retain political strength. Such sectors use their political muscle to block newcomer to protect the interests of incumbent. Removing those barriers is “the structural reform” referred to before. What is needed in Japan at present is structural reform in low productivity sectors where resources are being inefficiently retained.

**Saito:** Would you give two or three specific examples of where structural reform is necessary in Japan now?

**Hatta:** One example is the medical equipment field, where medium and small Japanese companies have good development and production capability, and there are lots of good ideas in hospitals too. Bringing these together would cause innovation creating new medical equipments and services. But the government lacks the ability to mediate between them and to examine its safety in a short time. But if a system of effective mediation could be set up there would be great developments of medical equipment and service.

Another example may be found in agriculture. It is often said that it would be necessary to create large-scale farmland, but even in the meso-mountainous region where large-scale farming is impossible, there is plenty of room to produce products with high value added. However it is unlikely that local people have the ability to develop this. It is by the introduction of outside commercial enterprises that innovation will occur. If free entry is allowed to enterprises limited by the existing
system, innovation in farming will begin to take place.

Yet another example is development of an international business hub city in Tokyo to compete with Shanghai or Hong Kong. For this, a relaxation of regulations of the floor-area-ratio will help. If that were done Tokyo with its excellent living environment would become an Asian business hub.

**Saito:** The Working Group to Design National Strategic Economic Zones that you chair is thinking of promoting this kind of structural reform, is it not?

**Hatta:** Yes, it is. Monetary policy and fiscal policy are both effective in reducing unemployment. But structural reform is effective in raising productivity under full employment. It is best to place structural reform as the basis of growth strategy.

**No growth without declining industries**

**Saito:** There always seems to be strong resistance to structural reform.

**Hatta:** When economy grows, some industries necessarily decline. But declining industries often retain strong political power. Protecting the interests of such industries may seem important to them, but it frustrates overall growth. Growth can be achieved only by allowing them to decline.

For example, just until the opening of Japan at the end of the Edo period (1603–1867) the raw cotton consumed in Japan was domestically produced. But within ten years of the opening of Japan all the raw cotton consumed was imported. This may be viewed as an archetype of structural reform. The farmers who grew the cotton lost their livelihoods, and they had to turn to other crops or move off to the towns. It was because of reforms like this that the outstanding growth of the Meiji period occurred. Also it maybe noted that Maejima Hisoka was able to introduce the postal services to Japan only after overcoming enormous political resistance from the association of traditional express messenger service workers.

After the war, under the “priority production system,” the government gave a lot of support to coal production, and the coal industry achieved great prosperity. But the government then liberalized the import of cheap Middle East oil, which became available in late 50s. As the result, the coal industry collapsed, causing widespread unemployment and impoverishment in coal-mining towns. Despite an enormous political resistance movement, the Ministry of Trade and Industry stuck at the oil liberalization policy. The high growth in the 1960s could not have attained without this policy.

If there is no mechanism to let failing industries fail, the economy as a whole will not be able to grow.

**Structural reform and income redistribution are complementary**

**Saito:** This will bring pain, won’t it?

**Hatta:** Indeed it will, and hence Reagan-type liberalization without safety net will meet resistance. If there is a safety net, however, a competitive society can be created with less pain. Structural reform and safety net reform should be carried out together. It is particularly important to improve the
welfare system and job training system for the unemployed people of the collapsed enterprises as a result of competition. They can then prepare for the second chances of employment.

In addition, it should be possible for the government to tax on high income earners to secure revenue necessary for improving safety net. The more society provides for second chances, the bolder restructuring can be carried out and the more growth is possible.

**Saito:** These measures to soften the effect of sudden changes, aren’t they?

**Hatta:** Yes. It is important to have measures to help workers relocate to high production sectors. For example, at the time of liberalizing oil imports, the government did not pour money into coal producing areas; rather, it provided assistance to former coal miners to help them find new work.

For example, government gave subsidies to the employment of former coal miners. It also built new homes in Tokyo and Osaka, for the former coal miners. The point is that the subsidies were given to the areas which hired ex-coal miners and not given to coal producing areas, which would have hindered the relocation of resources. This is very different from the current farming policy.

**Removing factors restricting the work force**

**Saito:** Going back to the start of this discussion, do you mean that raising productivity through structural reform is the best policy to counter the labor shortage?

**Hatta:** Yes, as we’ve seen, the labor shortage can be overcome by raising productivity through more efficient allocation of workers.

Also, structural reform that removes the institutions artificially suppressing the labor supply can increase labor supply itself. Especially, women’s participation in the work force can be promoted by changing tax and salary systems as well as child care regulations.

For example, removing the income tax deduction for non-working wives given in the salaries of their husbands will reduce the cost of starting to work for housewives. Besides, the tax proceeds can then be used to reduce basic rate of income tax. Also removing the allowance for non-working wives in the salaries of the public servants will encourage their wives to work. Proceeds from this reform could be used to raise the basic salaries of all public servants.

There is also a problem with day care centers. The distribution of subsidies is extremely unfavorable to the centers run by corporations. Regulations prevent day care centers from setting the service charge based on the price mechanism. The result is a serious shortage of day care centers, hindering women participation in the labor market.

**Saito:** Could you suggest any structural reforms that are effective in countering the labor shortage other than the reform of the labor market for women?
Hatta: Yes. Labor market overall can be made less rigid. The labor market is rigid in the sense that once a person drops out of a large company no other large companies will employ him again. That is because basically a large company is virtually obligated to continue employment until their retirement, and a job vacancy cannot easily come around. If a company could dismiss a low productivity person, it could easily give the vacated position to a person of ability.

In the 1980s Salomon Brothers in the U.S invented mortgage bonds and introduced derivative products to the financial world. The employee who invented this was a high school dropout who worked in the mail dispatch room. Will it be possible also for Japan to put the right person in the right place in this way?

The current Japanese employment laws protect the vested interests of workers with low ability, but take away employment opportunities from workers with outstanding ability. If this situation is reformed, someone who happens to graduate from a good university but has low productivity will no longer be able to retain employment in large enterprises. As a result, able women and workers with high potential productivity will find it easier participate in the labor markets.

Productivity can be improved by invigorating the labor market even when work force is not increased.

Saito: What do you think about immigration?

Hatta: At present the Japanese government policy towards immigration is to welcome highly educated individuals but to decline those without skills. I think this policy is sound.

In regards to welcoming educated individuals, I believe Japan is ahead of the United States. Visas are given to any graduates of universities who are employed in Japanese companies. In the United States, even those gaining doctorates cannot readily acquire permanent residence.

However, graduates from vocational technical schools for apparel or IT in Japan have to return home straight away. The country is not making best use of them. If these people were allowed two or three years of practical training, they could become familiar with Japan's commercial and employment practices and could build up valuable work experience. When they return home they could put their experience to work and be very effective in disseminating Japanese culture. Incidentally, their practical training would alleviate the labor shortage in Japan a degree.

On the contrary, unskilled immigrants are controlled tightly in Japan. This policy is generally justifiable, since otherwise income inequality would be widened in Japan. For example, although the shortage of nursing workers is acute in Japan, foreign workers should not be brought in to fill this shortage. If they are brought in, the remuneration level for Japanese nursing care workers will fall behind that for other workers even further, expanding the disparity of income within Japan.

Immigrants into the industries where wages are very high due to labor shortage, however, should be viewed differently. In the construction industry, for example, the demand for labor has suddenly risen because of post-earthquake restoration work and the upcoming Olympic Games. As a result there has been a sudden surge in wages. But the training of new workers will take time. Thus, until trained workers start to flow into the market, the wages will be kept at an unnecessarily high level. In this case I believe that within, say, five year period, skilled- workers should be accepted from the overseas provided that the number of immigrants is controlled to keep the wage rate in this area at a sufficiently high level so as to maintain the incentive for Japanese workers to get training in this
job. When the time limit is reached, immigrant workers should be asked to return home. Also when
construction demand eases in Japan, new visas should not be issued.

Immigration policy should be formed from the stand point that the liberalization would not
jeopardize the living standard of the Japanese workers who currently earn below 3 million yen per
year.

Inbound foreign direct investment is too low

**Saito:** There is one more element to growth and that is investment. How should we keep investment
rate high?

**Hatta:** The growth rate of capital is related to aging.

In their younger years people save for retirement, for their children’s education, and for purchase
of house. Thus, young people’s consumption is less than their income. In contrast, senior citizens are
using up their pensions without earning. Accordingly younger people have a high propensity to save
and older people have a low propensity. This explains why national savings rate was high in the 1960s
when there were many young people, while it is much lower now when aging has advanced.

So if the savings rate and the investment rate relative to GDP are the same, it might appear that
there could be no advance in the accumulation of capital in an aging society. But fortunately, even if
domestic savings rate is low, capital can flow in from overseas.

However, in the case of Japan the level of inward foreign direct investment is very low. So it is
important to relax the regulations for inbound foreign direct foreign investment in Japan, to promote
capital accumulation in Japan.

**Saito:** Certainly foreign direct investment in Japan is very low.

**Hatta:** It is. The rate of FDI related to GDP in Japan is lower than that in North Korea.

Pay-as-you-go scheme of social security and population decline

**Saito:** Professor Komine Takao of Hosei University says in *Population Burdened Society* (published by Nikkei Publishing Inc.) that the change in
population structure is the problem rather than population decline. I think this
is the issue that when the population structure changes, pensions and the like
that make up the social security system cannot be maintained.

**Hatta:** It is true that when the population structure changes, income transfer
between generations takes place under pay-as-you-go scheme of social security,
under which the working generation bears the burden of paying the
contemporary senior citizens’ pensions. It is a system where all gain if the
population is continuously increasing. But if the population increase stops,
subsequent generations are big losers, and the burden on future generations
increases to the point that it is difficult to bear.
Countries with pay-as-you-go scheme try to maximize their population increase. But if this scheme prevailed throughout the world and policies of maximizing population growth were carried out, global resources would soon be depleted. So pension systems need to be changed to a scheme that is neutral to population change, which is the "fully funded scheme." If it is difficult to change in one go there should be a reform towards it.

The pension system should be designed so that the relationship between the premiums and the expected benefits is based on the market rate of return in each generation. In this way the tug of war between generations can be eliminated. In effect, the premium payments and the benefits later received are designed to match for the person with an average lifespan. Such a system is called the "fully funded scheme." Under this scheme the ratio of younger people to older people would not be a problem. With this system, the conflicts between generations would completely disappear.

Unfortunately, however, the Japanese pension system was started as the pay-as-you-go system. The generation that created the pension system did not pay the premium sufficient for their pension benefits but made a system where they will receive large benefits dependent on the next generation. As the size of the younger generation decreased a problem emerged.

(Note) Pay-as-you-go pensions and the funded scheme
The pay-as-you-go scheme is a system where the source of revenue for pensions paid to senior citizens is paid by the current working generation. In contrast, the "fully funded scheme" is a system where pension benefits a cohort receives and its premium payment are related by the market rate of return. This scheme does not burden the contemporary younger generation even at the time of a population decrease.

The two characteristics of the pay-as-you-go scheme are as follows: (1) The pension budget is balanced every year. (2) The rate of return from pension has nothing to do with the market rate of return and fluctuates depending upon the demographic composition of the participants in the pension system. For example, the scheme gives particularly heavy burdens to the cohort with a large population of their parent cohort. The two characteristics of the fully funded scheme are: (1) The pension budget is balanced for every cohort. (2) The rate of return from pension is equal to the market rate of return and is independent of the demographic composition of the economy.

Assessing the Safe 100 Year Pension

Saito: At any rate, there is a lot of dissatisfaction and unrest among younger people.

Hatta: I think that the reform of the pension system in 2004 was a fundamental reform that moved the pension system toward the fully funded system.

Saito: Is this the rather poorly received the 100 Year Plan for Safety and Security (SS100 Plan)?

Hatta: Yes. The reason why it was poorly received was that “macroeconomic slide” necessary under deflation was not carried out. This was a mismanagement on the part of the administration of the
Democratic Party of Japan administration motivated by popularity-seeking. But I believe that the basic concept of the SS100 Plan is sound.

Up until this reform, the premium rate was adjusted every five years so as to make the revenue from premium equal to the pre-determined benefit payment during the five years. This was the pay-as-you-go system itself. But with the revision of 2004, premiums are no longer adjusted every five years to balance the revenue to the expenditure in that period. Instead, premium rate is fixed for 100 years and the benefit rate is chosen so that the balance of the pension budget is attained in 100 years instead of every five years. If the economic situation changes in the future, the uniform benefit rate is adjusted to balance the budget over 100 years, while keeping the premium rate constant. This adjustment of the benefit rate is called “the macroeconomic slide”. Even if there are sudden changes in the economic situation the amount of the benefit will be adjusted only at gradual speed since income and expenditure are to be balanced over 100 years.

**Constant adjustments are made to achieve a balance in the expenditure and income**

**Hatta:** By the way, the benefit payment rates cannot be allowed to continue to fall forever. If the replacement rate cuts below 50%, the premium payment rate will have to be gradually raised again, while the benefit payments continue to be reduced. That is to say that those working and those retired will have to jointly share the burden.

The SS100 Plan could be viewed as an approximation to the fully funded pension system, whose life time premiums and benefits are balanced for each cohort. At present there is a legacy of the pay-as-you-go days so we are now in the process of premium adjustment, but the final system aimed for is sound. Since it is impossible to move to the fully funded system in the short term, it is wise to take time to reform in this direction.

Apart from the intergenerational problem, big issues of intra-generational inequality remain. Premium collection need to be delegated to tax office rather than the social security administrations. Also free riding by full time housewives on the Basic Pension need to be stopped.

However, I believe that the problems of intergenerational unfairness were basically corrected by the 2004 reforms.

**(Note)** The SS100 Plan is a pension scheme whose introduction was decided in 2004. The basis was that an upper limit of premium rate was fixed and pension benefits were adjusted so that the revenue from premium will balance the pension benefit expenditure over 100 years. With the SS100 Plan the increase in life expectancy and the decrease of pensioner participants as well as change in price level are taken into account in the new benefit rate, and this adjustment mechanism of benefits called “macroeconomic slide” This mechanism is expected to control the amount of benefits when price level changes. But during the deflation period, this has never been put into effect.

The two characteristics of the SS100 Plan are as follows: (1) The pension budget is balanced for each hundred years, and it is not balanced each year. In years with relatively small number of retirees, for example, the government revenues from premiums would far exceed its benefit expenditure. (2) The rate of return from pension is equal to average market rate of return plus a constant, which represents a uniform burden to share the net benefits of the cohorts before the Plan started. The rate
of return is independent of the demographic composition of the economy. The SS100 Plan could be viewed a pay-as-you-go system with a 100 year rather than a year or five years as the accounting period, but in fact it could also be viewed as an approximation of the fully funded scheme.

Saito: What is your opinion about the issue of raising the beginning age of benefits?

Hatta: The existing system sets total benefits for a retired person determined. Hence, a person who opts for a delay in the beginning of pension benefits should be given higher benefits, accordingly.

Saito: With the SS100 Plan the yield on the pension fund investment is assumed to be at a high level of 4.1% annually, and there is an argument that there may be some embellishment here.

Hatta: The 4.1% is hard to justify from the view of the purpose of the SS100 Plan. The system should use the average yield rate achieved over the last twenty years and to make necessary adjustment from the long-term view.

To date it had been thought that moving to the fully funded method was impossible but the SS100 Plan shows that it is possible to move toward that direction. In that sense it was a great reform. Incidentally, the medical insurance system can be reformed in the same way as the SS100 Plan. A fund can be built up from the premium payments by youth in preparation for old age when people are more likely to get sick.

3-4% growth is possible

Saito: In concluding let me confirm once again. Many economic academics and economists, take the view that because of population limits Japan’s long-term potential growth rate is around the 1% level and that there will continue to be low growth. But in our discussion to this point we have considered the perspective that more growth is possible, and do you think for example that a growth rate of 3-4% is possible?

Hatta: It is quite possible. In Japan there are great discrepancies in productivity among various sectors. And for that much Japan has great potential for growth. There is no need to worry about population decline.

Saito: Thank you for giving us so much of your time.

HATTA Tatsuo
President of the Asian Growth Research Institute. Born 1943. Graduated from International Christian University 1966, received PhD in economics from John Hopkins University 1973. After teaching at Ohio State University, John Hopkins University, Osaka University and the University of Tokyo, he served as President of the National Graduate Institute for Policy Studies (GRIPS). He is currently President of the Asian Growth Research Institute. Since May 2013 he has also been Chairman of Working Group to Design a National Strategic Zones in the Cabinet office.

SAITO Shiro
Born 1948. Executive Research Director, Japan Center for Economic Research. Graduated Keio University, Economics Department, 1972. The same year joined the Nihon keizai shimbun (Nikkei), later becoming New York correspondent and Managing Director before taking his present post in 2013.