Newsday.com

Report: Japan's Future Growth Threatened

By AUDREY McAVOY
Associated Press Writer

October 23, 2003, 9:21 PM EDT

TOKYO -- Already mired in its worst economic slump in decades, Japan may well see its growth decline even further as its citizens age and its population shrinks, the government said in an annual economic assessment released Friday.

The report suggested Japan needs to take stronger measures to encourage people to have more children, and to make its domestic markets more attractive to foreign investment.

"Japan is experiencing aging unprecedented in history," said Jun Saito, the director of economic policy and analysis at the Cabinet Office, which authored the report.

Addressing the aging problem for the first time, the annual assessment noted the country's population between the ages of 16 and 54 has already started to slide and added that growing numbers of retirees are trimming the nation's huge savings pool.

Economists say Japan's high saving rate was a major factor driving the country's rapid growth in the decades after World War II. The savings households deposited in Japanese banks provided a ready supply of capital that industry borrowed to invest in new plants and equipment.

But today, Japan is a net creditor to the world and attracts little in the way of foreign savings -- one source of funds countries often turn to when there is a shortage at home, Saito said.

Along with attracting overseas capital and raising labor productivity, the report stressed the need to help women have careers and children, instead of choosing one or the other. Saito said one option would be to set up more day-care centers, a step the government pursues now.

The report said the average Japanese woman now faces incentives not to have children: She loses 85 million yen ($772,000) over her lifetime if she quits her job to give birth -- even if she returns to work afterward.

The current statistics are ominous.

Japan's birthrate -- which measures the average number of times a woman gives birth during her lifetime -- dropped to 1.32 in 2002, the lowest on record, and after peaking in 2005, the population is on track to shrink by nearly a fifth by 2050, the government says.

The changing demographic is already straining the country's pension system, with the government forecasting those now in their 20s through 40s will pay more into the system than they will receive due to the large numbers of elderly the country will support in coming years.

This is causing more young people to opt out of paying into the system, creating an additional burden on government coffers.