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Key Perspectives for Japan's Comprehensive Population Strategy

-A Realistic Strategy, Not an Unrealistic Push for Population Growth-

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This is an English version of the Japanese report "AIに関する経済・社会的な考察～短期的には電力・データセンター不足と金融逼迫が普及の壁に。長期的には雇用・教育・経済思想が変容する可能性～"

■Work on the Comprehensive Population Strategy Gains Momentum Toward Year-End

Prime Minister Takaichi has stated that the government will develop a "Comprehensive Population Strategy" by the end of 2026. The government held the first meeting of a council of relevant ministers on the 28th October. Discussions on the details of the strategy are expected to intensify in the coming months. This paper outlines the key perspectives that should guide the strategy.

■A Realistic Strategy Premised on Population Decline

The plan to develop a population strategy is already included in the government's Basic Policy on Economic and Fiscal Management and Reform (the "Honebuto Policy"). The policy states that the government will "promote measures on two fronts—reversing the declining birthrate and rebuilding the economy and society to respond to population decline—so that Japan's growth potential and the public's sense of security are secured even as the population shrinks." This can be read as a dual approach. The government aims to reverse the declining birthrate. At the same time, it will also adapt to population decline. Japan's population has been shrinking for many years. Fertility rates in advanced economies now generally stand at around 1.5. Many emerging economies have also fallen below 2. Against this backdrop, setting population growth as a target runs against the global trend and is hardly realistic. Instead, the strategy should take population decline as a given. It should focus on how to keep Japan's economy and society sustainable.

Measures to address the low birthrate should also be assessed in terms of both policy effectiveness and fiscal cost. I examined data from OECD countries, and the analysis shows that government cash benefits have had only a limited effect on raising fertility rates, including in other countries. Hungary is a case in point. To counter its low birthrate, it introduced income tax exemptions and generous housing subsidies. These measures drew wide international attention. However, the rise in the fertility rate proved only temporary. Instead, side effects such as inflation have become more visible. By contrast, the author's analysis finds that two factors had a larger effect on fertility. One is higher disposable income, driven by factors such as wage

growth. The other is shorter working hours for men. Japan should therefore not rely on expanding cash benefits. It is more effective and more important to pursue three measures: raising wages through higher productivity, reducing the tax and social security burden on the working-age generation through social security reform, and shortening working hours through work-style reform. Through these efforts, Japan needs to improve its fertility rate and number of births while containing the rise in fiscal burden.

Efforts to secure the labor force should also go beyond simply increasing the number of workers. The priority should be raising productivity and allocating human resources more effectively. The Ministry of Economy, Trade and Industry (METI) released a revised projection of Japan's employment structure in 2040 in March 2026. According to this projection, "if sufficient domestic investment and industrial restructuring are achieved by 2040, the number of employed persons will decline from about 67 million (2022) to about 63 million due to population decline. However, labor demand will become more efficient through the use of AI, robots, and reskilling, and no major overall shortage will arise." This projection suggests that, under certain conditions, a smaller workforce does not necessarily lead to a severe labor shortage across the economy. However, labor shortages will persist in certain industries. Efforts to reduce labor market mismatches through education, reskilling, and mechanization are therefore essential.

The goal of the population strategy should not be to maintain or expand the size of the population itself. Rather, it should be to improve the well-being of each individual. Japan should aim to become a society in which young people who wish to marry, and people who wish to have children, can realize those hopes. One reason young people hesitate to have children is that they find it difficult to envision their future. Expanding access to stable employment and building a society where people can feel hopeful about the future are likely, in turn, to help halt the decline in the fertility rate.

■Foreign Worker Policy Should Reflect Long-Term Labor Demand

Based on the population strategy, the government plans to present its policy on accepting foreign nationals by the end of March 2027. As the population continues to decline, foreign workers are a valuable source of labor. They are already active in a wide range of sectors in Japan. In Europe and the United States, however, immigration has become a deeply divisive issue. In Japan, the number of foreign residents is currently rising by about 300,000 per year. Against this backdrop, a well-designed policy framework is needed. Drawing on the experience of Europe and the United States, Japan should not simply expand overall intake. Instead, it should take a carefully targeted approach so that foreign workers can be secured in the sectors that truly need them. In addition, technological progress such as AI may push future labor demand below earlier expectations. For this reason, the future scale of intake should be assessed even more carefully than before. In particular, permanent residency allows people to stay indefinitely. It should therefore be administered more strictly than other residence statuses. Some companies call for accepting more foreign workers to address current labor shortages. However, it is important to design the system with a view to building society over the long term, not just to meet short-term labor needs.

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