

# How Policymakers Are Responding to An Ageing Workforce in Japan and South Korea

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**Abstract:** The global decline in fertility has prompted countries to reassess their socio-economic strategies. Specifically, Japan and the Republic of Korea are at the forefront of demographic change, with the ageing of the labour force becoming a growing concern. This study delves into the fertility policies of both countries, aiming to understand the complexity of policy shifts between them. Using a combination of literature review and secondary data analysis, the study reveals the nuances of policy making in the two countries. A thorough exploration of the social consequences of these policies provides a holistic view of their real-world implications. The analyses reveal commendable strengths and apparent weaknesses in the strategies employed by Japan and South Korea. Based on this, the study presents viable recommendations for effective policy transfer, incorporating best practices from both countries. Finally, the study provides a succinct summary of its findings, highlighting the inherent limitations of the research conducted. It also highlights the need for future investigations in this area, laying the groundwork for a more comprehensive study of fertility policies and their long-term social impact.

**Keywords:** Fertility, Socio-economic strategies, Demographic change, Labour force ageing, policy shifts, Japan, Korea, Literature review, Secondary data analysis, Policy formulation, Social consequences, Strengths, Weaknesses, Recommendations, Best Practices, Limitations, Future investigations.

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## 1. Introduction

What is the ageing of the workforce? As the name suggest, the ageing workforce is part of the workforce that has reached or exceeded a specific age. This is usually defined as people aged 40 or over. (Verlinden, 2018) Of course, in a time of increasing technological advancement, unlike in the past, people are still at an energetic age in their 40s. So it is too early to talk about retirement at this age, so our definition of an ageing workforce at this stage has to be at the age of 55 or even older. There are a number of reasons why the workforce is ageing. Firstly, as mentioned above, life expectancy has generally increased due to technological developments and people are living longer and healthier lives, which gives them the physical conditions to work longer. Secondly, there is the issue of wealth, which forces them to work due to the lack of retirement plans and adequate pensions. In fact, two other very important reasons were the post-World War II 'baby boom' and the low birth rate that began in the 1980s. (Ilmarinen, 2001) The countries affected by the war saw a wave of babies being born after the war, and this translated into a large labour force around 1975-1980. But it was also the same period that began to see rapid economic growth but also a gradual decline in birth rates. And the low fertility rates around 1980 have become the cause of the current shortage of young labour as we move into the 21st century and into the present. When it comes to how to deal with an ageing workforce, the most fundamental thing is to improve the country's welfare system, especially the pension and health care system. In fact, policymakers also need to be aware of the declining fertility rate, which could have a huge impact on the country's labourdemanding industries, such as manufacturing, if there is a population reversal. And there is also the current and very important aspect of the ageing workforce, which is also known as age discrimination in another sense. As the government works to reduce the age

cohort of the workforce, it must also be mindful of the older workers who are still in the workforce. And about the two countries mentioned in this paper, Japan and South Korea (Hereinafter referred to as Korea). Firstly, they are both East Asian countries with a similar cultural background due to their geographical proximity and long history. Secondly, the demographics of both countries are very similar in that they are both at a stage of rapid ageing of their societies and their fertility rates are both well below the world average. Although the proportion of people aged 65 and over in Korea is currently 15%, still lower than Japan's 28.4%, it is expected to triple within 20 to 30 years. (Klein and Mosler, 2021) At a national level, both countries are highly industrialised and have a huge demand for labour. And due to historical and cultural influences, older people have a much higher social status in society than younger people. Even older people are able to wield more power and have more opportunities for promotion within the company than younger people, even if the latter have higher qualifications or better management skills. (Mensik, Grainger and Chatterjee, 2011) This actually contributes to the ageing of the workforce in both countries, as workers do not want to retire when they are at the top of the corporate hierarchy, even when they are in their old age. But this phenomenon is very perverse at the level of the age structure of the workforce. It also leads to a lack of motivation for younger members of the workforce, and the lack of access to higher salaries for young people who lack promotion opportunities leads to a generation with very little enthusiasm for getting married and having children. This in turn affects the fertility rate of society. This paper will analyse the policies of South Korea and Japan on mitigating the ageing of the workforce through a methodology of literature reading and secondary data collection and analysis. By examining their policy formulation processes and analysing the social repercussions of their policies, the paper will critically evaluate the policies and propose some recommendations or

lessons for policy transfer based on the strengths and weaknesses of the two countries. The paper concludes with a full summary and some limitations of the research and suggestions for further research.

## 2. Methodology

### (1) Introduction to Methodology

The purpose of this section is to describe the methodology used in this paper. As stated above, the question examined in this paper is how policy makers can adopt policy adjustments in the context of the increasing ageing of the labour force in Japan and Korea. And the purpose of this paper is to make relevant recommendations for both countries. This paper uses a secondary research methodology to answer the research question and achieve the research objective by collecting and collating existing data and critically discussing the views in the relevant literature.

### (2) Data collection methods and literature sources

The data used in this paper are derived from the OECD's "UK Date Service" for the labour force as a proportion of the total population in Korea and Japan since 1975, as well as comparative data by annual frequency. And the literature used in this paper was obtained from the University of Birmingham Library's 'finding' search engine and the Google search engine.

### (3) Methods of data and literature processing analysis

When collecting data, a cross-sectional comparison is made between the proportion of the young labour force to the total population and the proportion of the older labour force to the total population in the same country over different time periods, and conclusions are drawn. The data are then compared longitudinally for similarities and differences between the two countries under the same period. The literature is used to ensure that it is relevant to the topic of the paper, and to compare the literature with the data collected in this paper to avoid misrepresentation.

### (4) Limitations of Methodology

As the data used in this paper and the literature are mostly from the internet. The data and the literature used in this paper are mostly from the internet and are not current, most of them are from statistics before 2019, so some of the conclusions and recommendations drawn in this paper may be different from the latest social situation in Korea and Japan.

### (5) Challenges of doing comparative analysis.

In a comparative analysis of the two countries, although their cultural backgrounds are similar, their geographical locations are similar and the nature of the countries is very similar. However, the two countries have slightly different strategic approaches, with Japan's strategy to deal with an ageing workforce being more oriented towards continuing to allocate jobs to the older workforce and still playing their part. South Korea, however, has responded to the problem by increasing its fertility rate and encouraging a younger workforce. And in terms of data collection, Korea lacks data on the proportion of the labour force aged 55 and over in the 1975-1980s as it is currently in a period of national division for internal reasons.

## 3. Literature Review

### Introduction to literature review

This paragraph focuses on some of the strategies and approaches adopted by Japan and Korea in dealing with the ageing of the workforce. This paragraph will cover aspects of welfare system theory and the mixed economy of welfare and

social enterprises. The structure of the paragraph will be divided by country, starting with the origins and development of the country's welfare system, followed by the different aspects that the Japanese and Korean governments have focused on in response to the ageing of the labour force, and concluding with a critical analysis of the advantages and disadvantages of the two differently-focused policies in response to the ageing of the workforce.

### (1) Japan

Before further analysing Japan's ageing workforce, we first need to understand the system of welfare systems created by the Japanese government in modern times. Japan began to develop a strong welfare system after World War II, and they first introduced the German model of the welfare system: the conservative corporatist. This system is characterised by the fact that the provision of welfare is linked to occupation - entitlement is based on contribution, i.e. income. But unlike the traditional corporate welfare system in Germany, as Takuji Tanaka puts it "a feature of post-war Japan was the low rate of unionisation (1/3 of all employees; only 1/3 of unions joined the national centre) which went hand in hand with the unique organisational form of corporate union formation. This feature has led to workers not being able to wield political influence, which has resulted in their elimination from the political decision-making process." (Tanaka, 2019) This has left Japan's welfare system in the hands of consortia in conjunction with the government, while labour lacks their place in it. In the 1990s Japan's bubble economy shattered and overnight the Japanese market and indeed the entire social order was rapidly shaken up, at which point the Japanese government gave the Japanese welfare system the opportunity to develop freely, and this has led to the development of what is today a typically mixed welfare system country, with both traditional conservative corporatism and liberalism with reduced government intervention. But because of the aberrant development of the welfare system in the earlier period, Japan today is not exactly a welfare society state, even though it is included in the OECD countries. (Holliday, 2000) Secondly, let us understand how the ageing of the labour force is currently manifested in Japan. In 1975, 12.64% of the total labour force was between the ages of 25 and 29, while 5.07% of the total labour force was between the ages of 60 and 65. In 2016, the labour force aged 25-29 accounted for only 5.8% of the total labour force, while the labour force aged 60-65 accounted for 7.37% of the total labour force, even surpassing the share of the younger labour force. The current strategy of the Japanese government to deal with the problem of an ageing workforce is related to the country's mixed welfare economy. We can identify three main conceptual approaches to explain the emergence of social enterprises in Japan: the income-earning non-profit approach; the non-profit co-operative approach; and the social enterprise approach. The not-forprofit co-operative, on the other hand, offers some jobs to the elderly as well as housewives in Japan, and it is the main policy direction of the Japanese government to include the elderly still in the labour force. (Defourny and Kuan, 2011) Although we can learn that the older age structure of the workforce is not a good direction for development, it is not a bad thing for a country like Japan with a low fertility rate and a rapidly ageing society to continue to offer jobs to the elderly as appropriate. Japan, however, has not been so effective in dealing with its low fertility rate. To encourage more births, the Japanese government has introduced a series of measures over the years, including the "Angel Plan", a five-year

programme to assist couples in raising children, launched in 1994, the "New Angel Plan" in 1999, and the subsequent Plus One programme. "in 1994, the New Angel Plan in 1999, and the subsequent Plus One policy in 2009. Both the Angel Plan and the New Angel Plan aim to make having a child an easier and more attractive option. This included strengthening childcare services, enhancing maternal and child health facilities, and improving housing and public facilities for families with children. In practice, however, as mentioned earlier, the traditional Japanese corporate culture prevents young people from having opportunities for advancement, and the smaller salaries discourage them from getting married and having children, and instead continue to work. (Centre for Public Impact, 2017) This closes the loop between the low fertility rate and the ageing of the workforce, affecting each other. This is one of the reasons why the Japanese government has been slow to improve the fertility rate.

## (2) Korea

The establishment of the welfare policy system in Korea, on the other hand, was even later than in Japan. As Powell and Kim put it: "Elements of the modern Korean welfare state were first introduced in the Third Republic (1961-72), eight years after the end of the Korean War truce (1950-53) and a year after the military coup led by General Park Chung-hee. Park's authoritarian regime implemented a series of social security schemes. However, the minimal role of state welfare, the strong emphasis on self-reliance, near-full employment and a deep-rooted tradition of family support made it difficult to play its protective role in the face of the economic crisis of the late 1990s, and as a result, public social spending as a proportion of gross domestic product (GDP) in the country jumped from 2.8% in 1990 to As a result, public social spending as a share of GDP jumped from 2.8% in 1990 to 9.3% in 2012, although it is still well below the OECD average of 21.8%. By comparing Korea's total social security expenditure and total tax burden as a share of GDP with other welfare states, it is possible to categorise Korea as a liberal welfare system. However, the family-centred welfare structure in Korea suggests that the fundamental source of solidarity in the Korean social welfare system is the family, and therefore the welfare system is conservative. "(Powell and Kim, 2014) and because of the nature of the state and its feudal traditions, the Korean welfare policy system is more 'mixed' than that of Japan. However, because of its late start and its inability to borrow fully from other countries' welfare policy systems, Korea's social welfare policy system is less well developed than Japan's. This has contributed to the ageing of the Korean workforce. The ageing of the Korean labour force is reflected in the fact that (due to a lack of data, comparisons of the labour force in Korea will start from 1990), 14.36% of the total labour force was aged 25-29 in 1990. This compares to 3.59% of the total labour force for the 60-65 year olds. By 2019, the labour force population aged 25-29 accounts for just 9.54% of the total labour force. In contrast, the labour force population aged 60-65 makes up 7.96% of the total labour force. Again a reversal of the younger labour force share has been achieved and it looks a little more serious than in Japan. But unlike Japan's rigid age suppression, there are opportunities for advancement for all, although Korea also has a severe age hierarchy. So this more serious problem of an ageing workforce than in Japan is due to the inadequacy of the welfare policy system. And like Japan, the current approach of the Korean government to the problem of an ageing workforce is also related to the welfare mixed

economy, but the Korean government is more focused on the development of social enterprises. And Korean companies will make partial redundancies around the age of 50-55 and provide financial compensation for those employees who are laid off. These employees will use the money to start their own businesses and other re-enter the workforce, but in a family-oriented social enterprise, or what the Korean government calls "unpaid workers". They will earn enough money to survive through their social enterprises. (Defourny and Kuan, 2011) And compared to Japan, Korea has been more effective in raising fertility rates, in fact, the Korean government has transferred some of the Japanese government's policies in raising fertility rates, including strengthening childcare services and improving housing and public facilities for families with children. Unlike the Japanese government, however, the Korean government has also increased its policies on cash subsidies and subsidies for materials needed for childcare. (Jeong et al., 2022) This is a lesson learnt from Japan where the government introduced those policies and they did not work very well. In fact, another reason is that Korea does not have the same rigid hierarchy as Japan.

## Conclusion to literature review

As shown in this section, Korea and Japan are currently facing the same problem of an ageing workforce, while the causes of the current phenomenon are similar and different. The causes are the same: the war baby boom provided a large labour force at one time and the fertility rate declined afterwards. And although they are both developed countries, they do not have the full welfare system that other countries have. The difference is that Korea's welfare system is less complete than Japan's and is moving in a newer direction. This is one of the main reasons why Korea is facing an ageing workforce. Japan, on the other hand, has a rigid age hierarchy that has resulted in a lack of desire among young people to marry and have children, while older people in high positions are reluctant to relinquish their power. Exacerbating the closed loop between low fertility rates and an ageing workforce population.

## 4. Recommendations

Based on the above analysis of the literature and data, this paragraph will make recommendations for Japan and Korea in dealing with the ageing of the labour force. Firstly, in Japan, the main thing is to improve the national welfare system, so that when older workers or those in senior positions are provided with their corresponding retirement benefits, they will be less resistant to retirement. And secondly, there is a need to relatively abolish some of the strict age hierarchy restrictions. While it is good behaviour to respect your seniors, it is a feudal traditional thinking that age is a major assessment factor for promotion. This is the dross that needs to be abolished. And when young people are given the opportunity to be promoted, they will be more motivated to work and will revive the idea of marrying and having children. This will also help to increase the fertility rate. But in terms of actual social implementation, the change could start with some of the big businesses or government-controlled companies. It is not necessary to require all businesses to participate in the policy change from the outset. Finally, in terms of raising the fertility rate, a reverse policy transfer could be made from South Korea, whereby policies that have been improved and replicated in South Korea could be reintroduced back into the country for continued use, thus

helping to reduce the trial and error costs of policy replication. In the case of South Korea, there is a need to focus more on improving the national welfare system than Japan, and this could also be done by transferring policies from other countries in East Asia, such as Singapore and China, to build up their welfare systems. For the East Asian countries, their welfare systems are more similar than those of the European countries. It might be a way forward for the East Asian countries to work together to develop a new welfare policy system. In terms of increasing fertility rates, Korea needs to maintain its current achievements and expand on them, for example by focusing on subsidies for infants while also listening to the needs of pregnant women and enhancing the status of women in society. For traditional Korean families, women are expected to quit their jobs after pregnancy to take care of their children and to educate them. As Haub puts it: "This trend has been observed among Korean women, although much less so among parents and men. The cost of raising children, especially education, and the increase in employment opportunities for women have made marriage less routine than it used to be. In a 2005 survey, 49% of single women said they did not want to get married." (Haub, 2010) At this stage, however, it is clear that Korean women are not willing to sacrifice their jobs to take on these responsibilities. The government could speed up the construction of childcare centres around the country, so that Korean women can give birth to their children without quitting their jobs, and hand over the care and education of their children to local childcare institutions. And it could also increase subsidies for pregnant women, such as longer maternity leave and higher pay levels for pregnant women. The aim is to simultaneously address the problem of an ageing workforce, both in terms of improving the welfare system and increasing the fertility rate.

## 5. Conclusion

In summary, this thesis takes as its main topic how two countries, Japan and South Korea, have responded to the ageing of their labour force populations. Through secondary research methods, policies enacted by relevant policy makers in different references are critically analysed. It was found that both Japan and Korea share the same problem of an ageing workforce due to an inadequate welfare system, with the difference being that Japan has an overly restrictive hierarchy and ineffective policies to increase fertility, while Korea has a relatively short period of time since the welfare policy system was established and the system is currently in disarray. Therefore, the most important recommendation for both countries is to speed up the improvement of the welfare system, followed by the need for Japan to transfer the Korean policy of increasing fertility from Korea back to Japan, and also to reduce the strict restrictions on age classes in domestic companies. After all, the aim is not only to increase the dynamism of young people in the Japanese workplace, but also to break the reluctance of young people to marry and have children as a result of such restrictions, thus breaking the closed loop with the low fertility rate. Korea, on the other hand, could further increase its fertility rate by strengthening

subsidies for women and improving its childcare system. However, there are some limitations to this paper in terms of further research due to limited references and the absence of some relevant data. For example, the latest labour force shares and the latest fertility rates are not available. As a result, some of the policy recommendations made in this paper may differ from those actually implemented by policy makers in both countries. Further research in this paper could be directed towards analysing the latest data for both countries and developing ways to maintain labour force age balance in the future as well as ways to further increase fertility rates.

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