THEME

Despite numerous government initiatives, Japan's birthrate continues to decline, largely driven by the economic and career anxieties of the younger generation. Moving away from simple cash handouts, propose an economic or structural reform package that significantly improves the financial stability and future outlook of young adults (ages 20–30) to make family-building a viable and attractive choice.

INTERNATIONAL ECONOMIX CHALLENGE 2026

Prompt 2 — Model Response, prepared by the Economix JP Secretariat

Beyond Cash Handouts

A Structural Framework for Restoring Financial Confidence Among Japan's Young Adults

Executive Summary

Japan's total fertility rate fell to a record low of 1.14 in 2025, and the number of births fell below 700,000 for the second year in a row. Direct cash transfers, including the 2023–24 expansion of the child allowance, have not reversed this trend, because the binding constraint on a 25-year-old deciding whether to marry is not the amount of money available in the year a child is born. It is uncertainty about the next fifteen years of income, housing costs, and available time. A one-time or annual payment does not resolve a fifteen-year risk calculation.

This report proposes a three-pillar structural framework built around that longer time horizon: first, labor market reform that narrows the gap between regular and non-regular employment so that income becomes predictable rather than precarious; second, de-linking the two largest fixed costs of family life, housing and education, from the requirement of large lump-sum savings; and third, returning time to dual-income households through mandatory, quota-based parental leave and demand-responsive childcare capacity. None of these reforms promises an immediate rebound in the birth rate. Together, however, they remove the structural penalties that currently make marriage and children a financially irrational choice for a rational young adult, and they do so through mechanisms that are fiscally self-reinforcing rather than dependent on permanent transfer spending.

The framework is deliberately narrow in scope. It does not attempt to legislate values, culture, or personal choice, and it does not assume that every young adult who currently chooses to remain single or childless would choose otherwise under different conditions. It assumes only that a meaningful share of the gap between desired family size, which Japanese surveys consistently place above the realized birth rate, and actual family size is explained by financial and structural constraint rather than preference, and that closing that gap is a legitimate and tractable policy goal.

1. The Real Problem: Diagnosing Anxiety, Not Poverty

Japan is not a poor country, and its 20-somethings are not, in aggregate, destitute. Yet survey after survey finds low optimism among people in their twenties and early thirties about their own financial futures. The reason lies in structure rather than income level. As of 2025, 36.5 percent of Japan's employees are non-regular workers, a share that has held roughly steady since peaking in 2019 but that conceals a sharp gender gap: 22.3 percent of male employees and 52.4 percent of female employees are in non-regular positions. Non-regular status typically means no seniority-based wage growth, no bonus, no retirement benefit, and a real risk of contract non-renewal. For a young woman who takes maternity leave and later re-enters the workforce, this is often the only door available, converting a temporary career pause into a permanent wage penalty.

The table below maps common financial anxieties among Japanese adults in their twenties to their underlying structural cause, and shows why existing tools address the symptom rather than the source.

Everyday worry	Underlying structural cause	Current tool	Why it falls short
"I might lose my job / contract"	36.5% non-regular employment; contract renewal risk	Employment adjustment subsidies	Treats symptom (job loss), not contract structure
"I can't save for a deposit"	Reikin / shikikin deposit culture; 3–6 months' rent upfront	None targeted	No public tool addresses upfront rental cost
"Juku fees will be enormous"	Private tutoring treated as de facto mandatory	Child allowance (cash)	Cash is fungible but doesn't reduce the underlying need
"If I take leave, my career resets"	Seniority-based wage curves penalize any career pause	Childcare leave benefit (~67% wage)	Covers income during leave, not the post-leave penalty
"I'd have to leave Tokyo to afford a family"	Regional wage and housing cost gaps	Regional revitalization grants	Not linked to individual family-formation cost

Table 1 — Financial anxiety, root cause, and the policy gap

The pattern is consistent: policy has concentrated on the moment a child is born, while the anxiety that suppresses marriage and childbearing decisions is generated years earlier, by employment structure, housing finance, and education cost design. A framework aimed at reversing the birth rate has to intervene in that fifteen-year window, not just the delivery room.

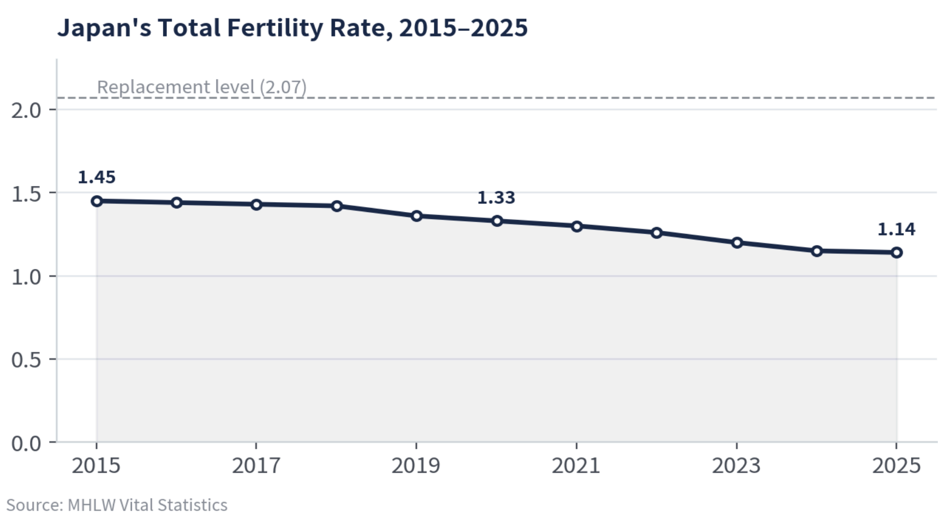


Figure 1 — Japan's total fertility rate has declined for nine consecutive years, reaching 1.14 in 2025

International comparison supports this diagnosis. France and the Nordic countries, which maintain fertility rates well above Japan's despite similarly high female labor participation, did not achieve that outcome primarily through cash transfers. They achieved it through structural guarantees: near-universal, affordable childcare that treats early education as public infrastructure rather than a private household cost, employment protection that makes parental leave a low-risk decision for both parents, and housing systems that do not require young households to save for years before qualifying for stable, family-sized housing. Japan's own experience is consistent with this pattern at a smaller scale — the increase in marriages recorded in 2025, the second consecutive annual rise, followed several years of gradually improving employment conditions for young workers, suggesting that structural stability, not a single subsidy, is the variable that moves family-formation decisions.

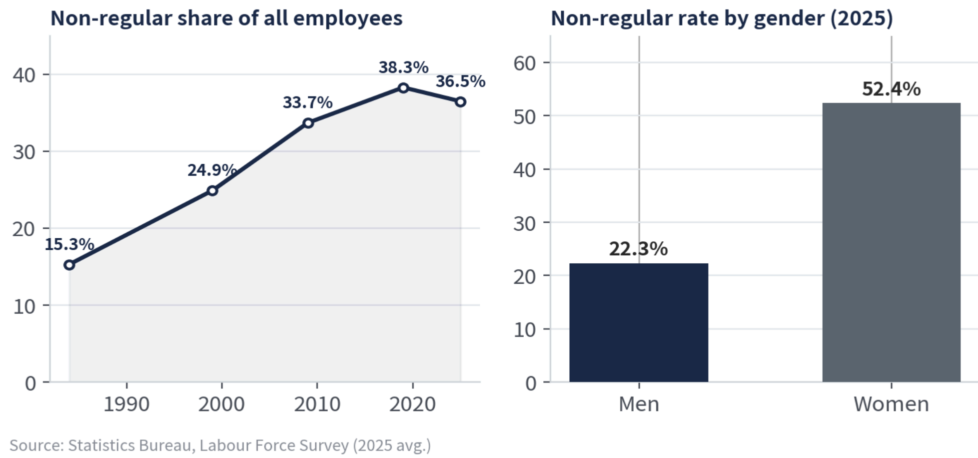


Figure 2 — The non-regular employment share has plateaued near 36–38% since 2019, with a large, persistent gender gap

2. Framework Overview

The proposal below organizes reform into three pillars that correspond to the three variables a young adult actually weighs when deciding whether family formation is financially viable: how predictable is my income, how large are my fixed costs, and how much time will I have left over. Each pillar is designed to be implementable through existing institutions — labor law, housing finance agencies, and the childcare and leave insurance system — rather than requiring new standalone transfer programs.

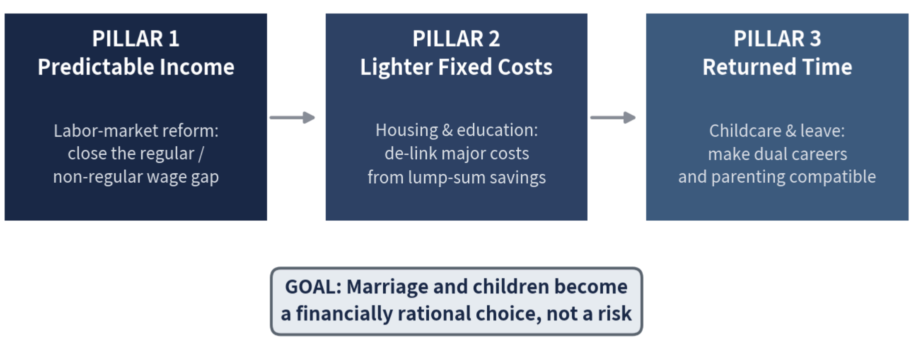


Figure 3 — The three-pillar framework

3. Pillar 1 — Predictable Income: Labor Market Reform

The core problem is not unemployment; Japan's labor market is tight. The problem is that a large share of jobs do not convert precarious income into a predictable career trajectory. Three reforms address this directly.

First, enforcement of equal pay for equal work needs teeth. The Part-Time and Fixed-Term Worker Act already prohibits unreasonable wage gaps between regular and non-regular employees performing the same duties, but enforcement relies on individual complaints. A dedicated labor inspectorate with the authority to conduct sector-wide wage audits, publish employer-level compliance scores, and levy meaningful penalties would shift the incentive from litigation risk to reputational and financial risk borne by the employer, which is far more likely to change hiring practice at scale.

Second, close the rolling-contract loophole. Under the current five-year rule, an employee on repeated fixed-term contracts can request conversion to indefinite employment after five years with the same employer. In practice, some employers rotate contract terms or briefly break service to reset the clock. Reform should count cumulative tenure across any employer-directed contract structure and shorten the qualifying period for employees over 25 who have worked continuously in the same role, closing the loophole rather than merely restating the rule.

Third, make retirement benefits portable. Japan's retirement benefit system still rewards long, unbroken tenure at a single employer, which discourages the job mobility that would otherwise let workers bid their wages up. A defined-contribution account attached to the individual rather than the employer, seeded by a modest mandatory employer contribution regardless of employment status, would let a worker move between regular and non-regular roles, or between employers, without losing accumulated retirement wealth.

Dimension	Status quo	Proposed reform
Wage progression	Seniority-based, regular-employee only	Job-based bands published for all employment types
Employment security	Rolling fixed-term contracts common	Cumulative tenure counted across contract resets
Enforcement	Individual complaint-based	Sector-wide audits with public compliance scores
Retirement benefits	Tied to single employer, long tenure	Portable, individual defined-contribution account
Regional wage gap	Left to market forces	Productivity investment credit tied to wage floors

Table 2 — Labor market reform: status quo vs. proposed

Taken together, these three reforms do not require a new ministry or a new transfer program. They require changing the incentives inside institutions that already exist — labor inspection, the tenure-conversion rule, and the retirement benefit system — so that the reward for offering an employee a stable, regular-equivalent position is at least as large as the reward for keeping that position flexible on paper.

4. Pillar 2 — Lighter Fixed Costs: Housing and Education

Even with a predictable income, two costs remain large enough to delay family formation: housing and education. Both currently require large lump-sum outlays at the exact life stage when income is least established.

On housing, two mechanisms matter more than subsidized rent alone. The first is a family-housing mortgage facility, publicly guaranteed and priced with a stepped interest-rate discount that increases with the number of children, similar in structure to schemes used in France and Hungary but scaled to Japan's fiscal capacity and delivered through existing housing finance institutions such as the Japan Housing Finance Agency rather than a new bureaucracy. The second is a public rental-deposit insurance scheme that removes the three-to-six-months'-rent upfront barrier created by Japan's reikin and shikikin deposit culture, which disproportionately burdens young renters who have not yet accumulated savings. Both mechanisms should be paired with akiya (vacant home) renovation vouchers targeted at regional resettlement, since young women are leaving regional areas for Tokyo at a faster rate than young men, worsening regional depopulation and concentrating housing cost pressure in the capital.

On education, the anxiety is less about tuition than about the informal cost of juku (cram school), which many households treat as mandatory to keep children competitive. Expanding low-cost, publicly supported after-school academic support — delivered in partnership with universities, NPOs, and municipal boards of education — would reduce the perceived need for private tutoring without eliminating school choice. In parallel, expanding the grant (rather than loan) proportion of income-contingent student aid for middle-income households, who currently earn too much to qualify for full support but too little to comfortably self-fund, closes a gap in the existing JASSO system. An employer-matched, tax-advantaged education savings account, modeled on Japan's NISA investment account but earmarked for a child's education, would let dual-income households build this fund gradually rather than facing it as a single future shock.

Housing and education costs are worth treating together because they share a common structure: both currently ask a young household to accumulate a large stock of savings years before the corresponding expense arrives, at exactly the point in the life cycle when savings capacity is lowest. Converting both into smaller, predictable, spread-out costs — a monthly mortgage discount rather than a down payment barrier, a monthly education savings contribution rather than a lump-sum juku bill — is the common design principle running through this pillar.

5. Pillar 3 — Returned Time: Flexible Careers and Shared Care

Money alone does not solve the problem if one parent, almost always the mother, must exit the workforce to provide care. Three mechanisms return time to dual-income households.

First, a mandatory paternal leave quota, not merely an encouraged option, modeled on the Nordic "daddy quota" that has proven far more effective at shifting caregiving norms than voluntary leave policies. Wage replacement should be structured to avoid an income cliff, since Japanese fathers frequently cite income loss, not company culture, as their main reason for not taking leave.

Second, demand-responsive childcare capacity. Waiting lists remain concentrated among children aged zero to two in urban wards, even where aggregate capacity looks adequate on a national basis. Allocating capacity-expansion funding by ward-level waitlist data, rather than uniform per-capita formulas, would close this gap faster and at lower cost.

Third, a certified re-entry pathway for caregivers returning after extended leave, combining a temporary government wage subsidy for employers who hire returning caregivers into permanent roles with legal protection of pre-leave pay grade and seniority credit, so a career pause is no longer treated as a career reset.

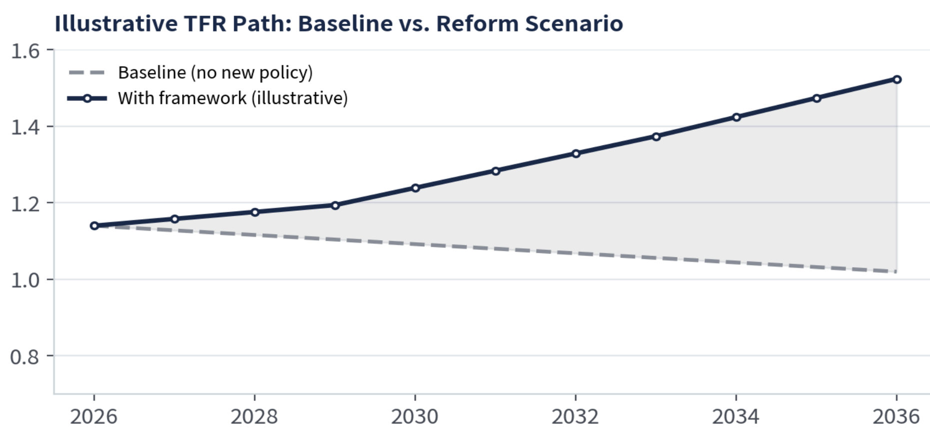
6. Implementation Roadmap

Phase	Years	Key actions
Phase 1 — Foundations	Year 1–2	Labor inspectorate mandate; deposit insurance pilot; ward-level childcare data system
Phase 2 — Scale-up	Year 3–5	Tenure-conversion rule closed; family mortgage facility launched; paternal leave quota mandated
Phase 3 — Consolidation	Year 6–10	Portable retirement accounts standard; regional akiya program at scale; outcome KPIs reviewed

Table 3 — Phased implementation over ten years

7. Expected Outcomes and Fiscal Note

The chart below illustrates, purely for discussion, how the fertility rate trajectory might diverge from the current baseline decline if the three pillars above are implemented in sequence, with visible effects concentrated in years four through ten as labor market and housing reforms mature.



Note: illustrative scenario for discussion, not an official forecast.

Figure 4 — Illustrative scenario, not an official forecast

Fiscally, this framework is designed to be partially self-funding over time. Converting non-regular workers to regular status expands the wage and social insurance tax base, since non-regular workers currently under-contribute relative to their headcount, and Cabinet Office estimates already put the lifetime income loss from unwanted non-regular employment in the trillions of yen — a loss that, once converted to regular earnings, becomes taxable income and insurance contribution rather than forgone revenue. Housing finance guarantees and deposit insurance are structured as contingent liabilities rather than upfront transfers, and can draw on the existing housing finance agency's balance sheet, with exposure capped and priced to reflect actual default risk rather than treated as open-ended spending. The primary new spending is concentrated in childcare capacity expansion and the education support system, both of which can be funded by reallocating a portion of the existing child allowance budget toward structural investment rather than annual cash payments, alongside the gradual increase in the tax base described above. This reallocation, not a net new budget line, is the central fiscal claim of the framework.

8. Risks and Counterarguments

Three risks deserve direct acknowledgment. First, tighter equal-pay enforcement raises labor costs for employers who currently rely on a non-regular workforce, and could accelerate automation or offshoring in cost-sensitive sectors; phased implementation by sector, paired with productivity investment credits, is intended to manage this transition rather than deny it. Second, the lag between labor market reform and any fertility response is long, likely a decade or more, which creates political risk if policymakers expect faster results; this is a reason to set multi-year, non-cash-transfer KPIs rather than judge the framework on annual birth counts alone. Third, an under-calibrated mortgage guarantee facility could inflate regional housing prices rather than expand access; capping guarantee volume regionally and tying eligibility to owner-occupancy would mitigate this.

9. Conclusion

Japan’s declining birth rate is not primarily a shortage of government generosity. It is the accumulated effect of a labor market, housing finance system, and education cost structure that were built for a different demographic era and now systematically penalize the choice to marry and raise children. A framework that makes income predictable, fixed costs lighter, and time available will not reverse a decade of decline overnight, but it addresses the actual decision young adults are making, rather than the year in which that decision becomes visible in the birth statistics.