

# SOCIAL SECURITY SYSTEM IN TRANSITION

SHIGEYOSHI JINUSHI

## I. SIGNIFICANCE OF SOCIAL SECURITY POLICY

**I**N AN ECONOMY IN which rapid growth is led by the activities of private enterprises, it is well known that welfare services for the benefit of the general public usually lag behind, causing a social imbalance. A low level of social security and a deficiency of public goods and services are typical manifestations of such an imbalance. The market mechanism does not have the function of automatically increasing the supply of public goods and, similarly, it does not insure a fair distribution of income.<sup>1</sup>

It is clear that the welfare of the people will be enhanced by an increase in public goods and services to correct the inappropriate allocation of resources, and also by a tax structure and social security system to correct the unfair distribution of income. In that sense it is not an overstatement to say that social security is at the core of today's welfare program. Social security is a public system with the objective of correcting the defects of the market mechanism and of realizing a fair distribution of income. Therefore, social security policy is a part of the economic policy that aims at "equity" through public intervention in the income distribution set by the market mechanism. Social security brings about a redistribution of income through transfer payments. The role of such redistribution, however, differs from that of redistribution through taxation.

The essential purpose of social security is to guarantee all citizens the right to a national minimum standard of living. This point is clearly stated in Article 25 of the Japanese Constitution, which declares that all people have the right to maintain the minimum standards of wholesome and cultured living.

Saying that the policy objective of social security is to realize social equity by ensuring a national minimum standard of living implies two things. Firstly, it requires that no one should be left in economic distress, that all people should be ensured of a minimum standard of living. Let us tentatively call this the humanitarian objective. Secondly, in view of the fact that an inequitable distribution of income, whether its cause be unemployment, sickness, or retirement in old age, is an obstacle to realizing social equity, a fair distribution must be realized through redistribution of income. Let us call this the equity objective.

These two objectives implied in the principle of a national minimum standard of living are closely related to one another. While the humanitarian objective is stressed in the statement that all citizens are guaranteed a national minimum standard of living, the equity objective is stressed in the policy of adhering to

<sup>1</sup> For a theoretical analysis of this subject, see [4, Chapter 10].

horizontal equity in the sharing of expenses. In actual social security policy, it is difficult to make a distinction between the two. The content of such policy, however, differs according to which objective is stressed. In the health and medical field, for example, there will be a decisive difference in terms of the income redistribution effect, not to mention other effects, depending on whether a health insurance system, or an English type of public service scheme in which all expenses are paid by the government, is adopted.

Relief of economic distress is considered to be the chief goal of social security policy. Some causes of this economic distress are: (1) low lifetime income, (2) a difference in the time profile of needs and the time profile of lifetime income, and (3) unexpected contingencies. Low lifetime income is a problem that has the greatest priority for the social security policy. In fact, the relief of poverty is the prototype of social security systems of all countries, and Japan is no exception. A national consensus has been formed with regard to full coverage by taxes of the expense of public assistance to those who are unable to maintain the minimum standard of living for themselves. Causes (2) and (3), however, are quite different in character from cause (1). Some economic problems of old people are the result of nonsynchronization of their time distribution of income and their needs. Economic worries about unemployment, sickness, and the like are due to the fact that it is difficult to predict the occurrence of such misfortunes. The economic distress due to causes (2) and (3) is different from that due to cause (1), and preventive measures can be taken.

Among such preventive measures are personal savings and private insurance. There are limits however to such private countermeasures. Firstly, since private countermeasures depend solely on personal initiative, not everyone is necessarily prepared for the risks ahead. Secondly, even when preparing for the future is made obligatory, private insurance is not an effective method for spreading risks. This is because the private insurance system is based upon a one-to-one correspondence between benefits and premiums so that those in the low income brackets with higher risks are either excluded from the insurance or paid insufficient benefits to cover their needs. Thirdly, people have very limited ability to predict economic changes in far future. It is a well-known fact that after retirement many old people most probably become unanticipated financial burdens upon their relatives and friends. Such a burden should be considered a kind of social cost.

Therefore an attempt is being made to guarantee a national minimum standard of living against the economic distress due to causes (2) and (3) by means of compulsory savings. This effort is known as social insurance, which is compulsory to all citizens and has the objective of preventing poverty. In this sense, the national minimum is one type of public goods. Such compulsory insurance is necessary in order to prevent free riders from enjoying a national minimum standard of living without providing for it.

Social security consists of two important systems, as mentioned above, public assistance to mitigate poverty and social insurance to prevent poverty. Such policy is mainly aimed at income maintenance, but there is more to it than that. The provision of various social welfare services for the aged and the mentally

and physically handicapped, and of general public services such as medical care are other areas of social security. Because of market failure government intervention becomes inevitable for the supply of these services.

Today, this idea of ensuring a minimum standard of living, whether by income or services, has wide currency in most developed countries. The reasons may be that in developed countries the idea of basic human rights is firmly established, and also that economic conditions make such programs possible. Japan is no exception in this respect. There remain, however, many problems, the first of which is the question of whether or not the objective of the social security policy—a national minimum standard of living—is in actual fact realized. A second question is whether or not social security expenditures are effectively allocated. Still another question is whether or not the system enables the redistribution function to work effectively.

Although rapid economic growth is making it increasingly possible to improve the social security system from an economic point of view, on the policy side little is being done to take advantage of this possibility. On the other hand, such economic growth is making a policy of income maintenance and expansion of public services even more necessary. A drastic reform of welfare policy is needed in order to make social security responsive to the needs of society and to accommodate economic growth. Social security policy is assigned an important social role today in changing the growth-oriented allocation of resources to a welfare-oriented allocation of resources. The present state of social security, as well as ideas about what it ought to be like, will be important criteria when reexamining the content of Japan's present economic policy.

## II. PRESENT SITUATION OF SOCIAL SECURITY IN JAPAN

Japan's social security system had its beginnings in the Relief Ordinance of 1874 in the period when capitalism was first emerging in this country. With the enactment of the health insurance law in 1922, when capitalism was maturing in Japan, social security was established in a primitive form. But it was not until after the Second World War that it became a modern system. At this time, with an impetus from the Beveridge's social security plan, a radical plan was conceived based on universalism and equality. But owing to conflicts of interest and economic distress, a compromise plan quite different from the ideal was adopted. This compromise plan forms the basis of today's social security system. It must be pointed out that this patchwork policy lacking a uniform principle and a universal objective has been a great obstacle to the development of social security. It was later to become the major cause for weakening, from within, the effectiveness of social security policy.

The history of the development of social security after the Second World War can be divided roughly into three stages. The first stage is the period of postwar poverty up until 1955, during which time the national income was recovering to the prewar level. The ratio of social security expenditures to GNP was then only around 3.8 per cent, and about 17 per cent of such expenditures

were for public assistance. The second period is from 1956 to 1971, which corresponds to the period of rapid economic growth. During that period social security, especially social insurance, expanded rapidly, and coverage was extended from employed people to all citizens. Also the number of insurable types of accidents were increased, making that period literally one of expansion of social security. In 1958 a sickness insurance program for the whole nation, and in 1959 a pension insurance program for the whole nation were established. In 1971 the child allowance system was established. As far as the formal structure of the system is concerned, Japan's social security incorporates all the systems of the developed countries of the West. The expansion in form was completed during this period.

A third period is just beginning. This will be a period of transition between the previous period and the future. In a word, this will be a period of qualitative deepening, as opposed to the quantitative widening of the preceding periods. This does not mean that there is no longer demand for quantitative expansion. It does mean, however, that more attention will be paid to the effectiveness of social security, that is, to the question of whether or not the system is functioning effectively. To state the conclusion first, the security function of the present system is rather poor, and this has been a great obstacle to the improvement of welfare. We will consider this matter in more detail later on.

Table I shows the changes in social security expenditure in the period 1955-70. This table makes the following points clear with regard to the development in the second period and presents situation of social security in Japan.

(1) The total benefits of social security have increased more than sevenfold. This is equivalent to an annual growth rate of 15 per cent. After 1960 the annual growth rate, which had previously been 10 per cent, increased to 18 per cent. During the period of rapid economic growth quantitative expansion of social security proceeded very rapidly, assisted by greater economic potential.

(2) During this period the ratio of social security to GNP has not improved. It has stayed almost constant—4.58 per cent in 1955 and 4.96 per cent in 1970—and is far below the level of other developed countries. Moreover, in other developed countries this ratio has been steadily increasing during this period. This stagnancy in Japan's case is a unique phenomenon, as a result of which the imbalance between private spending and social security expenditures, as social consumption, has hardly been straightened out at all.

(3) The percentage of social security expenditures for social insurance has increased rather rapidly, making the Japanese social security system one of the social insurance type. Social insurance is made up of health insurance, pension insurance, and unemployment insurance, as well as workers' accident compensation insurance. Together, these programs have accounted for an increasing percentage of total social security expenditures—51.2 per cent in 1955, 58.7 per cent in 1960, and 72.3 per cent in 1970.

(4) The social insurance system gives priority to health insurance. While the EC countries—France, West Germany, Italy, etc.—have the same type of social security system centered on social insurance, they place emphasis on pension and

TABLE I  
JAPAN'S SOCIAL SECURITY EXPENDITURE (BENEFITS), 1955-70

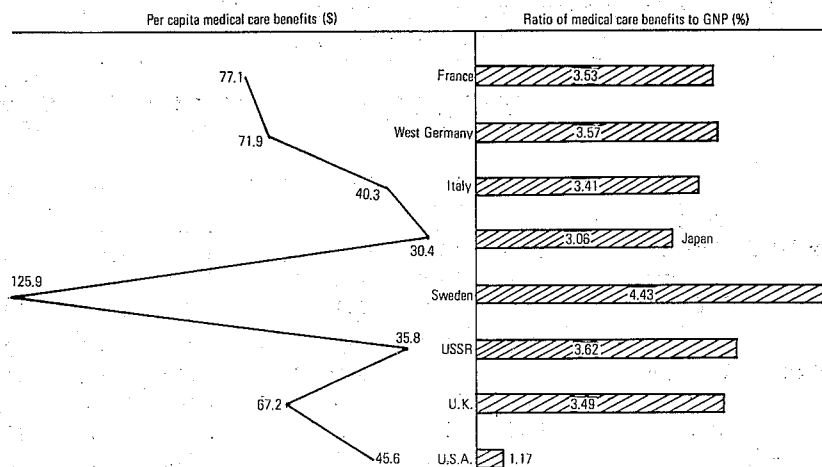
	(¥ million)			
	1955	1960	1965	1970
Total	406,359	657,432	1,603,743	3,523,413
Health insurance	143,573	258,856	774,981	1,781,047
Pension insurance	15,259	58,832	154,165	476,638
Unemployment and workmen's compensation insurance	49,204	68,464	175,643	289,423
Public assistance	46,598	62,844	135,836	274,293
Social welfare	8,228	14,022	48,388	133,356
Public health service	15,834	25,372	99,341	180,210
Government pension	112,147	146,930	197,542	342,589
Assistance for war victims	15,516	22,112	17,847	45,857
Ratio of social security benefits to GNP (%)	4.58	4.06	4.91	4.96
Percentage Breakdown				
Total	100.00	100.00	100.00	100.00
Health insurance	35.33	39.37	48.32	50.55
Pension insurance	3.76	8.95	9.61	13.53
Unemployment and workmen's compensation insurance	12.11	10.41	10.95	8.21
Public assistance	11.47	9.56	8.47	7.78
Social welfare	2.03	2.13	3.02	3.78
Public health service	3.90	3.86	6.19	5.11
Government pension	27.60	22.35	12.32	9.72
Assistance for war victims	3.82	3.36	1.11	1.32

Source: The table is based on Ministry of Health and Welfare, *Kōsei hakusho*, 1972 [White paper on health and welfare, 1972].

other income maintenance or security than on health insurance. As a reflection of this fact, the ratio of health insurance expenditures to total national health expenditures in Japan increased from 43.7 per cent in 1955 to 67.8 per cent in 1970. This does not mean, however, that in Japan health security is more advanced than in other developed countries. An international comparison of the ratio of public medical care benefit expenditures to GNP makes this point clear. Japan ranks lower than any of the other developed countries shown in Figure 1, except the United States. Even in the area of public medical care benefits, Japan has not yet reached the standard of other developed countries.

(5) Japan is lagging behind in the income maintenance, especially in its policy for the two age groups at either end of the life cycle. Pension insurance, which is the core of social security in the developed countries of the West, amounts to only 14 per cent of total benefits in Japan. Also, the child care allowance, which was only established in 1971, accounts for expenditures of an insignificant amount. Therefore, in the field of income security, Japan's social security has made a slow start, and is very inadequate in providing income security for old people who no longer have the ability to earn their own living, as well as for children, who lack the ability to earn. This shortcoming arises from the fact that,

Fig. 1. International Comparison of Medical Care Benefits, 1966



Source: [9].

in Japan, social security policy was first applied to employees, the age groups lacking the ability to work being considered of secondary importance. It is these old people and children, however, who have the greatest need for welfare. Social security that cannot fulfill its function of providing security for those groups fails to take into account the life cycle, and is not truly lifetime social security.

(6) In Japan the pension insurance system applies in principle to all citizens, as provided for by the pension insurance program for the whole nation, which was inaugurated in 1958. However, the number of beneficiaries are still very small, allowing the pension reserve fund to swell to the colossal sum of about \$20.8 billion by the end of 1971. This fund has provided an important source of capital for the public investment which has been indispensable in promoting the policy of industrial growth. At present one-fourth of the necessary funds for the government investment and loan program are raised by this means.

The use of public pension reserve funds as industrial development funds can also be found in the developing countries of Latin America. The use of the pension system reserves has some merit as a means of raising funds for economic development [11]. Among countries where the economy is already highly developed, however, there is no case other than Japan of using reserve funds for the purpose of financing public investments rather than for improving old-age income payments.

What, then, is Japan's comparative position in the world regarding social welfare?

(1) The ratio of Japan's social security expenditure to GNP is about one-half to one-third of that in developed countries of the West, as shown by Table II.<sup>2</sup> Here social security systems in the developed countries are classified into two

<sup>2</sup> Tables I and II may not be strictly comparable because of minor differences in definition of social security benefits.

TABLE II  
RATIO OF SOCIAL SECURITY BENEFITS AND CONTRIBUTIONS TO GNP  
IN EUROPEAN COUNTRIES AND JAPAN

	Fiscal Year	Ratio of Benefits to GNP (%)			Per Capita GNP (\$)			Ratio of Contributions to GNP (%)
		1958	1963	1966	1958	1963	1966	1964
Income-related system	West Germany	16.8	15.3	16.5	1,015	1,639	2,014	17.9
	France	12.9	14.6	14.7	1,107	1,745	2,191	15.7
	Belgium	13.0	13.8	14.8	1,155	1,502	1,918	17.4
	Italy	11.1	12.8	15.1	617	988	1,226	15.8
Flat system	Sweden	11.5	13.5	15.2	1,520	2,230	2,918	19.1
	Denmark	11.2	12.3	12.8 <sup>a</sup>	1,101	1,689	2,325	13.6
	Norway	9.9	10.6	10.9	1,139	1,564	2,040	12.4
	U.K.	10.1	11.2	11.8	1,254	1,606	1,953	13.1
	Japan	4.5	5.2	5.3	350	709	1,027	8.2

Source: [9].

<sup>a</sup> For 1965.

types. In the income-related system, benefits and contributions are proportionate to income. In the flat system benefits and contributions are only slightly related to income, and there is a strong tendency for the principle of equality to prevail with regard to benefits. The continental European countries have mainly adopted the first type, while the United Kingdom and the Scandinavian countries generally use the latter type. Generally speaking, the ratio of social security benefits to GNP is higher under the income-related system and relatively lower under the flat system. Also, in the income-related type (excepting West Germany) this ratio improved considerably in the period between 1958 and 1966. In Japan, the ratio not only lags far behind that of other developed countries, but also improvement was very slight during this period.

One of the causes for such a low ratio has been a low percentage of old people in the total population. Another major cause, made clear in Table III, is that Japan has had a slow start in the area of income maintenance, especially as regards pensions and child allowances. Some seek the cause of such backwardness in the low level of income, but this is far from the truth, as can be concluded from Table II.

(2) Japan's social security policy is just opposite to the social security policy of the developed countries of the West, which puts emphasis on the age groups at both end of the life cycle. As is shown in Table III, the percentage of expenditures for pensions and child allowances is about 50-60 per cent in West European countries, in contrast to 8.6 per cent in Japan. It has already been pointed out that one cause of economic distress lies in the difference between the time distribution of income and needs during life time. In the aged group and the children's group, this difference is the greatest, and therefore, these are the groups that need social security the most. In West European countries, the majority of

TABLE III  
BREAKDOWN OF SOCIAL INSURANCE AND OTHER BENEFITS  
IN EUROPEAN COUNTRIES, JAPAN

		(%)				
		Medical	Workmen's Compensation	Pensions	Unemploy- ment	Children
West Germany	1958	28.8	5.7	58.9	4.4	2.2
	1966	31.9	5.4	56.2	1.3	5.2
France	1958	24.6	7.0	31.9	0.1	36.4
	1966	32.2	7.9	33.2	0.1	26.6
Belgium	1958	28.4	7.4	31.2	11.0	22.0
	1966	35.5	4.7	30.9	6.5	22.4
Italy	1958	22.9	4.3	40.3	4.4	28.1
	1966	27.7	4.9	48.7	2.3	16.4
Sweden	1958	42.8	1.5	40.0	1.9	13.8
	1966	46.5	0.8	40.4	1.0	11.3
Denmark	1957	35.8	1.9	43.3	12.5	6.5
	1965	40.6	2.0	43.1	2.4	11.9
Norway	1957	51.3	3.0	31.2	3.4	11.1
	1966	42.9	2.4	47.5	1.5	5.7
U.K.	1958	47.4	2.5	39.8	3.0	7.3
	1966	47.4	2.6	42.2	3.2	4.5
Japan	1958	70.8	9.0	3.6	16.6	—
	1966	75.6	5.3	8.6	10.5	—

Source: [9].

Note: The benefits include those for social insurance, child allowance, health service, but exclude those under the systems for government workers and public assistance programs.

social security expenditures are for adjustment of this difference, and in this sense the system is very effective in solving the problem of insecurity in daily life and contrasts sharply with the system in Japan.

The important thing, therefore, is not just the ratio of social security to GNP, but rather whether social security expenditures are effectively allocated in reference to the objective of social security, that is, whether resources are appropriately allocated among the different divisions of social security. It is on that point that there is a distinct difference between Japan and other countries.

(3) As for the sources of funds for social security expenses, in the Japanese system a relatively high percentage of expenses are paid by the person insured. The major sources of funds are taxes and contributions by employers and employees. Aside from these sources, there is the interest income from investment of the pension reserves. Also, there is some transfer of funds from other systems to the social security system. It is evident from Table IV that in the income-related system of social security contributions account for 60-70 per cent of the funds, while in the flat system 50-70 per cent of the funds are obtained through taxation. This difference in the method of raising funds shows the most remarkable characteristics of these two types of social security.

The Japanese social security system differs from the flat system of social security in that the percentage of public expenditure is not very high. Further-



TABLE IV  
BREAKDOWN OF FINANCIAL SOURCES FOR SOCIAL SECURITY EXPENDITURES  
IN EUROPEAN COUNTRIES AND JAPAN

		(%)			
		The Insured	Employer	Government	Others
West Germany	1958	23.3	41.5	27.0	8.2
	1966	24.7	37.8	28.2	9.3
France	1958	14.6	58.8	22.7	3.9
	1966	16.1	58.5	19.4	6.0
Belgium	1958	18.4	42.2	31.3	8.1
	1966	21.1	45.2	26.9	6.8
Italy	1958	10.3	63.3	16.5	9.9
	1966	13.3	54.6	18.2	13.9
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Sweden	1958	16.7	11.3	70.9	1.1
	1966	13.0	26.0	56.8	4.2
Denmark	1957	14.2	12.5	72.8	0.5
	1965	16.5	11.1	72.0	0.4
Norway	1957	33.9	19.7	45.2	1.2
	1966	27.9	31.0	38.1	3.0
U.K.	1958	20.0	18.2	57.0	4.8
	1966	20.7	26.1	49.8	3.4
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Japan	1958	25.0	44.3	24.1	6.6
	1966	26.9	30.1	31.0	12.0

Source: [9].

Note: Social security taxes are included under government.

more, the Japanese system is rather similar to the income-related system in that 60 per cent of funds are collected from contributions. In the allocation of expenses, however, the practice in Japan is quite different from the income-related system; the percentage of cost borne by the person insured is high, whereas that borne by the employer is low. Pointing to the fact that through forward shifting or backward shifting, the person insured may eventually bear even the employer's share of contributions, some people say that there is little sense in discussing the percentage of contribution by the employer or the employee. The shifting and the incidence of contribution by the employer, however, depends on the market structure,<sup>3</sup> and its effect is not uniform. Therefore, there is some sense in taking into consideration the relative contributions of employer and employee, and in making a distinction between the two.

### III. PROBLEMS OF SOCIAL SECURITY IN JAPAN

For an economic policy the objective of which is social equity, social security policy should be of the first priority. In reality, however, this is one of the weakest areas in Japanese economic policy. It is possible that our feeling of economic insecurity due to such a situation has led us to further promotion of the policy of economic growth. In fact, from the point of view that there is no

<sup>3</sup> On the shifting and incidence of contribution, see [5, pp. 110-25].

welfare without economic growth, the policy of economic growth has been promoted, but only slight improvements have been made in the all-important area of welfare.

#### A. *The Low Ranking of Social Security Expenditures*

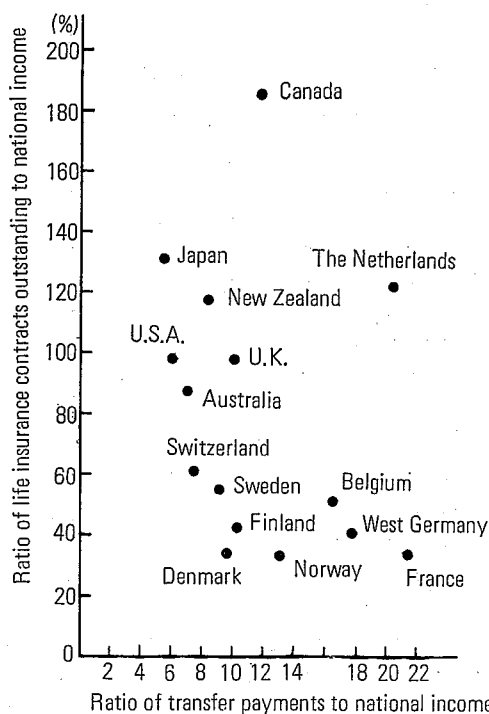
Japan's rank in the world with regard to the ratio of social security expenditures to GNP is unexpectedly low considering its rank with respect to per capita GNP. According to some international comparative studies, the ratio of social security expenditures to GNP is closely correlated to the number of years since the establishment of the social security system [1, pp. 13-48]. Those countries where the system has been established for a long time are the countries in which industrialization already reached a mature stage, and the idea of the right to survival was firmly established relatively early. In these developed countries public expenditures are generally large, and the outlay for social security sizable, with a resultant high social security expenditure-GNP ratio. Also, there may be some kind of substitution between social security expenditures and personal savings.

In Japan the social security system was established much later than in other advanced nations, and therefore the system is relatively immature. This is one of the reasons that account for the low ratio of social security expenditures to GNP. After the Second World War, however, GNP increased because of rapid economic growth, and as a result, Japan can now afford to spend nearly the same percentage of GNP for social security as other advanced nations. Therefore, the present backwardness in this area is due not only to the immaturity of the scheme, but also to the way of managing economic policy that neglected allocation of resources to this area.

Personal savings reveal more clearly the problems that are peculiar to Japan. In Japan, the family system was the traditional type of security system, individual problems of economic insecurity being solved in daily life within the family. With the modernization of the employment structure, however, there has been a rapid decline in the number of households with self-employing businesses. Also, with nuclear families accounting for an increasing percentage of households, the manner of supporting old people has changed. This has led to a weakening of the family function of providing security. Taking the place of the family is personal savings, Japan's average personal propensity to save being very high. As of 1970, it stood at 20.4 per cent. This was much higher than the 8.1 per cent of the United States, the 8.2 per cent of the United Kingdom, the 9.8 per cent of Sweden (1968), the 15.5 per cent of West Germany, which also has a high economic growth rate, the 12.7 per cent of France, and the 16.8 per cent of Italy. A complex combination of factors accounts for such a high propensity to save. One of the major factors, as has been proved by various researches, is the low level of social security expenditures.

Figure 2 demonstrates the relationship between public security and private security by comparing the ratio of total private life insurance coverage to national income and the ratio of transfer income (which is a variant of social security

Fig. 2. Public Social Security and Private Insurance:  
An International Comparison



Source: This figure which appeared in [7, p. 142], is in turn based on United Nations, *Yearbook of National Account Statistics*.

Note: The figures for the ratios are for the year in which each country reached Japan's 1970 per capita income of \$1,583.

expenditure) to national income. Supposedly, in countries that have a high percentage of transfer income the ratio of total private life insurance coverage to national income is low, and, conversely, in countries with a low percentage of transfer income the ratio of private insurance coverage to national income is high. Japan ranks second in the world after Canada in terms of life insurance coverage, and the ratio of social security expenditure to GNP is one of the lowest for developed nations, as is the case in the United States.

Private savings, however, not only decline in value because of rising prices, but also suffer a relative decline in value because of rising real income. Especially with rapid economic growth accompanied by spiralling prices, private savings against old age are rapidly losing their function of providing for personal economic security. This indicates that there are some limitations to the capacity of private security. These circumstances have made the problem of old people, and especially the income-security aspect, an increasingly serious social problem.

### B. *The Ineffectiveness of the Social Security System*

The objective of social security, as has already been mentioned, is to guarantee the national minimum standard of living for the whole nation so as to free people from economic insecurity. Therefore, the effectiveness of the system is determined by the extent to which this objective is realized.

First of all it should be noted that in Japan the principle of a national minimum standard of living is not firmly established and the effectiveness of the social security system is rather limited. We are not yet free from the possibility that those of us who have been maintaining a standard of living above the minimum level fall below it to a level of poverty because of unemployment, old age, or sickness. Social security has the objective of preventing a lowering of the standard of living by economically controlling the causes of poverty in advance. But because of the inadequacy of income-security policy, economic security for old people who have lost the ability to make a living has not yet been achieved. This is why approximately 31 per cent of households that receive public assistance are households made up of old people.<sup>4</sup>

The same applies even to medical care, which is considered to be somewhat better than other aspects of social security. Those suffering from incurable diseases or serious illness are forced to incur very large expenses under the present health insurance program. A considerable number of people have been reduced to poverty under such circumstances. As of 1970 the recipients of medical aid accounted for 52 per cent of all those receiving public assistance, and medical aid expenditures amounted to approximately 62 per cent of total public assistance expenditures. This speaks for the fact that the health insurance program is not functioning effectively in the prevention of poverty. A minimum standard of living cannot be maintained with the level of benefits guaranteed by social insurance, and, consequently, supplementary benefits in addition to social insurance benefits become necessary.

As social insurance is weak in its function of preventing poverty, public assistance shares the responsibility of guaranteeing a national minimum standard of living to the needy. Therefore, even though people may often be reduced to poverty by the defectiveness of social insurance, the system is fulfilling its expected function if those people are in the end relieved by public assistance. Not all households that are in need of public assistance, however, receive it. A considerable number of poverty-stricken households are neglected by the public assistance program.

The "low-consumption households" in Table V are households that have the same, or lower, level of consumption as the recipient households under the public

<sup>4</sup> As of 1972 the national pension amounted to \$16.20 per month, which is far below the public assistance standard (for single persons) of \$58.10 per month. This is a good illustration of the fact that the principle of a national minimum standard of living has not been achieved by the social insurance system.

TABLE V  
 RECIPIENT AND LOW-CONSUMPTION HOUSEHOLDS IN JAPAN

Year	Number of Low-consumption Households (Thousand) (A)	Number of Recipient Households (Thousand) (B)	(A) and (B) Combined (Thousand) (C)	Percentage of Low- consumption Households	
				By Number of Households (%) (A/C)	By Number of Persons (%)
1955	2,042	661	2,703	76	84
1960	1,579	611	2,190	72	80
1963	1,482	649	2,131	70	75
1964	1,387	642	2,029	68	73
1965	1,531	644	2,175	70	75

Sources: Ministry of Health and Welfare, *Kōsei gyōsei kiso chōsa hōkoku* [Report on basic survey of welfare administration], 1956, 1961, 1964, 1965, 1966; and *Kōseishō hōkoku-rei* [Sample Ministry of Health and Welfare reports], 1966.

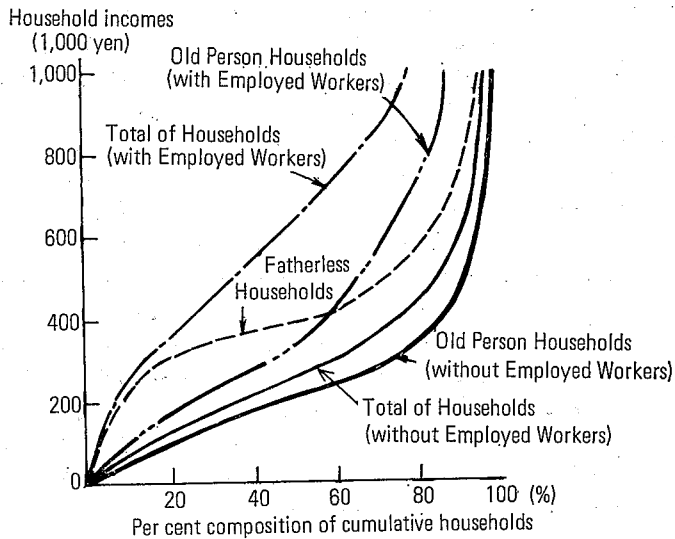
Note: Here "low-consumption households" refer to those households which have the same, or lower, level of consumption as the households covered by the public assistance program, and yet excluded from the program.

assistance program, yet those who are excluded from the program. In spite of the fact that the number of such households declined from about 2 million in 1955 to about 1.5 million in 1965, it was still 2.5 times as great as the number of households receiving relief. Herein lies a grave problem confronting the present public assistance program. Approval for receipt of public assistance is based on application by the prospective recipient himself, so that even households qualified for assistance hesitate to apply because of a sense of humiliation due to the stigma of being on welfare. On the administrative side, strict terms for qualification are applied to those who have the ability to work. Also, in areas where poor households are in a majority, so-called "insular poverty," the terms for qualification for public assistance program are stricter than elsewhere, taking into account the necessity to strike a balance with the average standard of living in the area. Such discretionary administrative power is one of the reasons for the existence of such a large number of low-consumption households. In any case, under the present system only some of the qualified recipients are guaranteed even the standard of living provided by such assistance, what might be called a national minimum in a limited sense.

Such conditions exist not only in Japan but in other countries as well. For example, in Great Britain only about 40 per cent of the poor below the minimum standard of living are receiving public assistance [3]. In the United States, 25 per cent of all households are considered to be poverty households, while only an estimated 5.8 per cent receive public assistance [8].

A second problem is that social security policies are not sufficiently responsive to various welfare needs. This is pointed up best by the underdeveloped state of income security for the most needy, that is, old people and children. Figure 3 shows the cumulative distribution of households by income in 1970. The distribution of households of old people, fatherless households, and households

Fig. 3. Cumulative Composition of Income Levels, Classified by Types of Households in Japan, 1970



Source: [7, p. 133].

Note: The definition of an old person household is one composed of only men over 65 and/or women over 60, with any other members being under the age of 18. In either case, members of an old person household should be limited to one or two.

without an employed person are much more strongly inclined toward low income brackets than households with one or two breadwinners. This is especially true of households of old people without a single breadwinner. This is because the fruits of economic growth have gone mainly to those currently making a direct contribution to that growth, i.e., to those who have the ability to earn their living, and have not been shared fully with those unable to work.

In Japan it was just at a time when the family system was collapsing and family ties between the generations were weakening that the government promoted a policy of rapid economic growth. An important facet of economic growth during this period should therefore have been improvement of the welfare of old people by means of income redistribution among the generations. In fact, however, just the opposite was done. The problem of old people has become especially acute not only because of rapid social and economic changes but, more decisively, because of the slowness of the political response of the social security system to their needs.

A third problem is the frequent imbalance in medical care and assistance between the need for assistance and the amount of assistance given. Japan has not been able to overcome this problem, in spite of the rapid increase in its national health expenditures, because the distribution of such expenditures has been very

inefficient. First of all, Japan's health insurance program follows a system, whereby a fixed ratio of medical expenses is covered by the insurance. Therefore, when the absolute sum of medical expenses is large, the person has to pay out of his own pocket a sum large enough to reduce him to poverty, even when the benefit rate is 70 per cent or 80 per cent. In such a case, it is impossible to put a stop to the vicious cycle of sickness and poverty. Furthermore, the same benefit rate is applied without distinction between the seriously ill and the slightly ill, with the result that medical care institutions are crowded with those who are only slightly ill. Adequate medical care services are not given to the seriously ill who need it most. These people are not only troubled with economic insecurity from having to pay a large sum out of their own pocket, but also are prevented from receiving adequate medical care free from anxiety.

In order to reduce anxiety, it is necessary to change the present fixed-ratio system to a fixed-amount-pay scheme. Under such a system the amount that the patient has to pay for medical care is fixed, considerably reducing financial anxiety. Also, as the fixed-amount scheme would be of the nature of a congestion tax, the indiscriminate use of benefits by the slightly sick would be checked, allowing limited medical care resources to be used for the care of the more seriously ill.<sup>5</sup>

The worst examples of the ineffective distribution of medical care resources are the existence of areas without doctors and the inadequacy of the emergency medical care system. Under the present unrestricted medical practitioner system, the geographical and spatial arrangements and the time schedules of doctors and medical institutions are left to the free choice of doctors. With this setup, provision of the necessary medical care whenever and wherever it is needed cannot be expected. For this reason it is often said that "there is health insurance but no medical care." Since health, just as compulsory education, is a "merit want," it is necessary that the government administer or adequately control medical care services. Health insurance that does not guarantee adequate medical care services is no better than an income redistribution policy that fails to furnish public goods. Ultimately this is not a system that insures welfare.

### C. *The Diminishing Income Redistribution Effect*

Let us examine the problem of redistribution from two angles. First, we examine the vertical redistribution effect of the benefits and contributions of the entire social security system. Then we study the ranking of the various programs within the social security system and their significance with regard to income redistribution.

The effect of vertical redistribution has not been great in spite of the rapid increase in social security benefit expenditures. Table VI shows the effect of redistribution in the period 1955-64 by using the Gini concentration coefficient.

<sup>5</sup> Professor Arrow makes an interesting analysis of the fixed-amount benefit system, which is the optimal insurance from the point of view of the insurer, but does not take into consideration the welfare of the insured [2, pp. 941-73] [10, pp. 62-75].

TABLE VI  
INCOME REDISTRIBUTION EFFECT OF SOCIAL SECURITY IN JAPAN

	1955	1958	1961	1964
Gini coefficient before income redistribution (A)	0.3653	0.4061	0.4402	0.4007
Gini coefficient after income redistribution (B)	0.3190	0.3606	0.3917	0.3516
Redistribution power coefficient [(A-B)/A]	12.68	11.22	11.01	12.26

Source: [6].

As is evident from the lack of clear improvement in the redistribution power coefficient, social security does not function as an effective policy for the vertical redistribution of income. The first reason is the rapidly increasing importance of social insurance. While all expenses of public assistance and social welfare are covered by taxes, social insurance aims at the redistribution of income within the same income brackets and therefore both contributions and benefits are oriented toward horizontal redistribution rather than vertical redistribution. Secondly, although contributions are in principle supposed to be proportionate to income, extra income such as that from bonuses is not counted in when calculating the contribution to be collected. Therefore, people in high-income brackets, whose bonuses are high in both absolute and relative terms, contribute at a relatively lower rate than people in lower income brackets. The scheme is therefore regressive. Thirdly, even when extra income is not considered, a ceiling has been set to the income that forms the basis of collection. This means that the contribution rates are regressive with respect to the income above that ceiling. If the ceiling is not revised along with rapid economic growth, the regressive effect of contributions is strengthened. This fact is made clear in Table VII. Considering benefits and contributions separately as to their redistribution effects, the effect of benefits is overwhelmingly stronger, especially since the effect of contributions has been negative since 1961, increasing the effect of benefits to that extent.

Two aspects of the effects of benefits and contributions can be considered apart from one another: the effect from an increase in their total amounts, and the effect from changes in what might be called the distribution structure, that is, changes in the benefit and contribution rates for different income brackets. If the

TABLE VII  
RELATIVE CONTRIBUTION OF BENEFITS AND CONTRIBUTIONS  
TO INCOME REDISTRIBUTION EFFECTS OF  
SOCIAL SECURITY IN JAPAN

	(%)			
	1955	1958	1961	1964
Benefit	72.2	86.2	103.9	138.3
Contribution	27.8	13.8	-3.9	-38.3

Source: [6].



total amount of social security payments is small, there is little sense in expecting a sizeable redistribution effect. However, even if the amount is not so large, the redistribution effect will be heightened to the extent that the distribution structure of benefits and contributions promotes a levelling of income. As shown in Table VIII, the redistribution effect of social security is due mostly to increases in the amount of social security expenditures and social insurance contributions, while the net effect due to changes in the distribution structure is very slight.

When considering the redistribution effect it is impossible to ignore the second angle: the existence of large differentials with respect to both contributions and benefits between different programs in the social insurance system. First of all, the health insurance system is divided into nine independently financed systems, including those for employees, community residents, self-employed people, etc. In Table IX, the differentials between three systems are compared: approved-society-managed health insurance, covering mainly employees of large firms; government-managed health insurance, covering employees of smaller businesses; and national health insurance, covering community residents on a national scale. When an insurance system in which the insured have a high average income is detached and managed independently from an insurance system in which the insured have a low average income, it is only natural that there should be differentials between the two with respect to contribution and benefit rates. Furthermore, considering the fact that a system that insures a large number of people with low incomes also insures a large percentage of old people and vice versa, it is only natural that a strong correlation between the contribution and benefit rates on the one hand and average income on the other should weaken the vertical income redistribution effect of health insurance.<sup>6</sup>

The same applies to the pension insurance system. At present, of the nine independent social insurance systems, the mutual aid association insurance system for government employees has the highest pension, followed by that of the welfare

TABLE VIII  
ANALYSIS OF THE FACTORS CAUSING FLUCTUATIONS IN THE  
GINI CONCENTRATION COEFFICIENT, JAPAN

	1955	1964
Gini coefficient before income redistribution (A)	0.36537	0.40068
Gini coefficient after income redistribution (B)	0.31903	0.35156
(A)-(B)	0.04634	0.04912
Effect of scale		0.0472 (96.1%)
Effect of redistribution structure		0.0019 (0.8%)

Source: [6].

<sup>6</sup> Approved-society health insurance is managed independently by the numerous health insurance societies, and therefore the premium rates for the insured differ according to the size of the society. Generally, the premium rate is inversely proportional to the size of the society.

TABLE IX  
DISPARITIES WITH REGARD TO CONTRIBUTIONS AND BENEFITS  
BETWEEN DIFFERENT INSURANCE SYSTEMS IN JAPAN

Health Insurance, 1969					Pension Insurance, 1970		
Scheme	Yearly Family Income (1,000 Yen)	Contribution Rate for the Insured (%)	Average Benefit Rate <sup>c</sup> (%)	Ratio of the Insured of Age 55 and over <sup>d</sup> (%)	Scheme	Yearly Pension (Yen)	Replacement Ratio <sup>e</sup> (%)
Approved-society-managed health insurance	651 <sup>a</sup>	2.8	86.6	5.26	Mutual aid association	333,198	45.7
Government-managed health insurance	520 <sup>a</sup>	3.5	75.3	10.35	Welfare pension insurance	171,191	22.0
National health insurance	471 <sup>b</sup>	2.8	70.0	21.00	National pension insurance: Contributory	60,000	11.6
					Noncontributory	24,000	4.6

Source: [10, p. 70].

<sup>a</sup> Annual average of standard remuneration.

<sup>b</sup> Assessable income for insurance tax.

<sup>c</sup> Average benefit rate per person weighted by average size of family, inclusive of the additional family benefit in the case of Society Health Insurance.

<sup>d</sup> Only the insured are included here. If other members of the family are included, the result will be different.

<sup>e</sup> Ratio of amount of pension to income.

pension insurance system, for people in non-government employment. The pension is the lowest in the national pension insurance system, for self-employed people and other residents. In the case of national pension insurance, because of its late start, many old people do not have pension rights with respect to that part of the pension based on the contributory system. As shown in Table IX, they merely receive \$6.50 a month as the noncontributory pension.

Thus, Japan's social insurance systems form separate clubs in a sense, and although there is redistribution within the clubs, there is no redistribution between the clubs. These clubs are the closed institutions, based on business firms or other places of employment as their main units. Under this system the redistribution function of social insurance is weaker than in cases in which the whole society pools resources to provide for contingencies.

#### IV. FUTURE DIRECTIONS

To solve the problems facing social security in Japan, we must first of all sharply increase social security expenditures. In national economic plans the government has on several occasions aimed at such a sharp increase in expenditures. The target ratio of transfer income—as a dummy of social security expenditures—to the national income has been as follows.

	Actual Ratio at Base Year	Target Ratio at the Terminal Year	Actual Result
Doubling national income plan	4.8% (1960)	7.0% (1970)	5.3% (1970)
Medium-term economic plan	5.3% (1963)	7.0% (1968)	5.3% (1968)
Economic and social development plan	5.5% (1965)	7.5% (1971)	5.4%*(1971)
New economic and social development plan	5.2% (1969)	7.2% (1975)	—

\* estimate.

It is clear from the table that the actual results are all below the target values, indicating that the policy of improvement of social security has not been successful. One of the causes is probably the low contribution rate. In 1968 the ratio of social insurance contribution to GNP was 13.8 per cent in West Germany, 19.1 per cent in France, and only 4.4 per cent in Japan. A sharp increase in social security expenditures cannot be expected without raising this ratio. In Japan, however, it should be remembered that government expenditures have been directed mostly towards increased productivity and consolidation of the base of industry, while the welfare of the people has long been neglected. As a result, the people distrust any increase in their share of contribution for the improvement of welfare. This has created a vicious cycle in which augmentation of the size of the public sector has been blocked and improvement of welfare has been stymied. If the public sector is to be enlarged and welfare is to be improved through an increase of the contribution by the people, it is necessary to seek a national consensus by presenting to the people a clear plan for the future and indicating where the necessary funds will come from.

Secondly, in order to heighten the effectiveness of social security, a scheme of negative income tax must be considered. The negative income tax plan, as compared with the present public assistance program, has various merits. For example, no stigma would be attached to this type of public assistance, and there would therefore be little hesitation to apply for it. Furthermore, unlike public assistance, the beneficiaries would be entirely exempt from taxation on earned income, and this would stimulate their willingness to work. The plan also would be comprehensive in the sense that it would apply to all people in low-income brackets whose income is above the public assistance qualification cutoff line.

For those who are ineligible for the negative income tax, social insurance should guarantee a national minimum standard of living so that all members of society will be free from poverty. In addition, a system of additional benefits proportionate to income should be considered. Also, pension insurance should adopt the pay-as-you-go scheme of financing. A dynamic pension system that is responsive to economic growth and encourages income redistribution among different age groups must be promoted. The redistribution effect of social security can be greatly improved by measures such as the introduction of the negative income tax and correction of disparities between the different systems of social insurance.

Attention must be paid, however, to the fact that social security is not merely a policy of redistribution. In order to guarantee a healthy and civilized minimum standard of living, there must be improvement in a publicly determined manner of public services the supply of which cannot be left to the market mechanism. Without adequate supply of such public services as medical and welfare services, which the market mechanism has failed to supply, the objective of social security cannot be fulfilled. The inadequacy in Japan of manpower for the supply of social services in the broad sense is apparent from the single fact that the ratio of the number of bedfast old people to the number of home help is 2 : 1 in the United Kingdom and 70 : 1 in Japan. The most important problem for Japanese social security policy is development of adequate manpower for social services.

In the EC countries the idea that a balanced social load factor, i.e., the ratio of social expenditures to GNP, is a precondition to fair international competition is a generally accepted idea. Already there is pressure on Japan from the EC countries to raise its social load factor. This policy must be followed if we want to promote international cooperation. If, such an increase in social expenditures causes a rise in the cost of export goods, it may also represent a solution to the yen revaluation crisis that has arisen from Japan's excessive accumulation of foreign reserves. If the policy of rapid increase of social security expenditures can accomplish these two objectives, i.e., bring progress in terms of national welfare and resolve the imbalance in international payments, promotion of this policy must be considered as a means for the Japanese economy to make an important breakthrough in a period of transition.

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