Japanese Social Policy in Comparative Perspective

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With regard to traditional social policy or the “welfare state in a narrow sense,” Japan is not as different from Western models as is usually assumed. With Long-Term-Care Insurance, it may soon start to look distinctive in the more expansive direction and perhaps become a model for other nations (though only for the elderly). Looking at social policy more broadly, it appears that Japan has pursued welfare objectives, particularly a high level of equality of living standards across the population, more through the tax system and a set of employment-support policies (trade protection, competition-inhibiting regulations, price subsidies, building public works) than through traditional welfare-state programs. That pattern helps account for Japan’s record of low public spending on social policy, but may still represent a rather high level of costs imposed by government on society.
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Foreword

This paper was prepared for a project on Social Development in East Asia. The project was organized by the World Bank Institute under the auspices of the Program for the Study of the Japanese Development Management Experience (The Brain Trust Program), which is financed by the Policy and Human Resources Development Trust Fund established at the World Bank by the Government of Japan (GOJ). We greatly appreciate the generous support from GOJ.

The principal objectives of this Program are to conduct studies on Japanese and East Asian development management experience and to share the lessons of this experience with developing and transition economies. The experiences of other countries are often covered in order to ensure that these lessons are placed in the proper context. This comparative method helps identify factors that influence the effectiveness of specific institutional mechanisms, governance structures, and policy reforms in different contexts. A related objective of the Program is to promote the exchange of ideas on development among Japanese and non-Japanese scholars, technical experts and policy makers.

The papers commissioned for this project cover a number of important issues related to Japanese Social Policy. These issues include, among other, Japanese pension system, public health insurance in Japan, evolution of social policy in Japan, role of families, communities and government in improving socioeconomic performance, and Japanese policies towards poverty & public assistance. We hope that these papers will provide important policy findings and lessons for policymakers in developing countries and other development stakeholders.

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**Japanese Social Policy in Comparative Perspective**

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It is often claimed that there is a distinctive East Asian model of social policy, and that Japan is its exemplar. The key elements of the model are seen as:

- Low spending on what is normally perceived as the “welfare state”;
- Reliance on family, community, and corporations for welfare functions taken on by government in the West; and
- An emphasis on social policy as investment—for example, spending on education or public health to promote productivity, instead of simply providing aid for those who are unable to contribute.

This model is said to be the product of cultural, economic, and historical factors that are peculiar to East Asia. It is sometimes seen as an alternative path for developing countries so that they can avoid what is seen as the welfare-induced malaise of many Western nations.

The popularity of this notion of a unique East Asian social policy among both Western and Asian observers is quite understandable. Actually, its earlier connotations were negative—in the 1960s and 1970s, Americans and Europeans who were upset about trade imbalances sometimes explained Japan’s economic success as the offspring of “welfare dumping,” or a brutal sacrifice of its citizens’ standard of living in the service of economic efficiency. Japanese *Nihonjin-ron* theorists responded to such attacks by arguing that the unique “Japanese-style welfare society” was better for people than the bureaucratic, cold, and expensive Western welfare state. This benign interpretation was quickly picked up by conservatives in the United States and Europe.¹

Of course, during the “bubble” years when Japan seemed to be taking over the world, all its apparent secrets including social policy were touted as a recipe for success, not least in other East Asian nations. The apparent virtues of an East Asian model then came to be sustained by the rapid growth in these countries in the 1990s even after Japan had faltered. This workshop and volume themselves are a product of that era.

Today, the economic troubles in some of these nations make everything about the East Asian model look like a recipe for disaster. Indeed, some of the practices associated with the “Japanese-style welfare society” idea—for example, the alleged drag of such corporate-welfare programs as “permanent employment” on competitiveness—have been identified as key ingredients in economic stagnation. Furthermore, some virtues of Western-style welfare have been rediscovered, as noted by World Bank President James Wolfensohn, on a trip to Singapore:

> In Asia, there isn’t the sort of social welfare support that exists in the West. When you no longer have high economic growth, you fall, and there is no safety net to catch you.…

¹ Such as this line from a clearly approving Ezra Vogel (1979, pp. 185–86) in his famous *Japan as Number One*: “By the mid-1970s government and business leaders, at first quietly and then increasingly in indirect public comments, began expressing a new consensus. The essence of the consensus is that the welfare state, with ‘high welfare and high state burden’ as found in England, Sweden, and the United States, is undesirable.”
The Bank is coming in to work with governments on social sector programs that can be effective in alleviating the worst consequences of the crisis.\(^2\)

These developments provide a good opportunity to think about some of the basics of social policy, and how they might pertain to our understanding of Asia. In this paper, however, I am constrained by the limitations of my own knowledge to the case of Japan.

**Why Have Social Policy?**

Enthusiasts for an East Asian model of social policy, in their characterizations of the “other,” negative, model, sometimes leave an impression that the welfare state in the West came about either by unhappy accident or by politicians kowtowing to a greedy and shortsighted public. They also tend to counterpoise “welfare state” and “free market” as if the two were antithetical alternatives. Such conceptions are not only quite wrong historically, they make it difficult to assess what social policy may be able to accomplish in current dilemmas—which are not at all unprecedented in history.

Let me note first, by way of clarification, that the term “welfare state” as I use it refers to governmental programs aimed at socioeconomic equality, by maintaining or improving the standard of living of people who are somehow disadvantaged in the private market or within their household or community. It therefore does not refer to social policies with different aims, such as military strength (for instance, public health measures to ensure healthy soldiers) or economic growth (for example, education to improve labor productivity).

It is useful to make a distinction between what we might call the “welfare state in a narrow sense,” such as pensions, health care, unemployment compensation, public assistance, social welfare services, and so forth, and the “welfare state in a broader sense.” The latter refers to government programs that serve the same goals as traditional social policies through other institutional means, such as manipulations of the labor market, compensatory tax policy, and even protectionist trade policy. As we will see, this distinction is helpful in putting the Japanese welfare state into comparative perspective.

In any case, why did governments find it necessary to help the “disadvantaged” in this sense, in a larger and more systematic way than measures in the order of famine relief, poorhouses, rudimentary medical care, and the like that have been around since earliest history? We can posit that social policy was the response, perhaps an inevitable one, to three fundamental aspects of “progress” or “modernization” or “the great transformation.” Mainly that refers to the development of the market itself.

That is, with the growth of modern industry, three processes occurred in many places:

- More need—Less help was available within the “traditional” agricultural, artisan, or merchant households and communities for the growing numbers of people who were not equipped to succeed in factories and other modern organizations.
- More resources—With gains in technology, production increased well beyond workers’ subsistence levels, making a surplus available for other purposes; the development of modern bureaucracy also made large-scale provision of goods and services more feasible.
- More equality—With education, urbanization, the emergence of larger organizations, and so forth, people were more likely to mix and perceive their common interests, and perhaps come to view gross inequities as wrong.

It is difficult to imagine that the market and these three accompanying trends could have gone far without the introduction of welfare-state programs. We cannot ignore the point that virtually all

industrialized nations have public or state-regulated programs for pensions, health care, disability insurance, unemployment compensation, social services, and so on.³ Of course the details of those programs, their aggregate size in terms of percentage of gross domestic product (GDP), and the political processes that led to these outcomes, have all varied considerably across industrialized nations. Political scientists, historians, and sociologists have analyzed these developments in Western Europe and North America, producing a literature that is important, interesting, and voluminous.⁴ Many good arguments can be found about why social policies differ among Western nations, and about the impacts of different policies.

Unfortunately Japan—the only fully advanced large industrial nation outside the Western sphere—has not been included or at least not fully analyzed in these comparative studies. That is, there is a lot of good writing in Japanese about the substance of social policy, mostly by professors of social welfare or economics, and there are histories that provide a lot of facts and some good stories but generally not highly sophisticated interpretations.⁵ As for writings by non-Japanese on the welfare state in the postwar period, in many cases these are by people who know a lot about social policy but little about Japan, or a lot about Japan but not too much in detail about social policy there or elsewhere.⁶

In my view, it is the very lack of much good scholarship on welfare-state politics in Japan that has led to the popularity of two quite misleading impressions: first, that social policy in Japan is unique, and second, that it represents some sort of East Asian model. I do not claim that these two propositions are totally wrong or useless, but I think they are seriously misleading in terms of both substance and method. That is, assuming that Japan is both unique and somehow Asian diverts us from what to my mind is the most productive approach to analysis of Japanese (and other Asian) social policy. We should use the most powerful tools and concepts from Western scholarship to delve into what has really happened in Japan, and then figure how out it is similar and different. My own attempt to do that merely for one portion of postwar Japanese social policy required 400 dense pages of text.⁷ Here I do no more than try to sketch an argument.

**Japan as a Welfare State**

Gosta Esping-Andersen’s short and elegant *Three Worlds of Welfare Capitalism* is probably the most influential recent attempt to categorize welfare state regimes.⁸ It combines historical explication of ideologies, class relationships, and state capabilities with detailed statistical analysis of the public-private mix of social provision in advanced nations today. Based on history, Esping-Andersen finds that three distinct “ideal-types” of welfare regime emerged in the West: (a) “liberal-residual,” concentrated in English-speaking nations, which leaves all but a “safety-net” up to individuals and the market; (b) “conservative-corporatist,” as found in much of Western Europe, where originally paternalistic but now highly developed welfare states retain employment-based status differentiations in society; and (c) “social-democratic,” mainly Scandinavian, with full commitment to equality and the “de-commodification” of labor.

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³ The inspiration for many accounts of how markets come to require state interventions is Polanyi (1944). A sophisticated recent argument about the functional necessity of the welfare state in capitalism is Claus Offe (1984).
⁴ A fine short review of theories about interstate variations is Skocpol and Amenta (1986).
⁶ Again to cite examples that are significant and interesting rather than the many bad cases, see in the first category Gould (1993, pp. 17–87), and some of the essays in Rose and Shiratori Rei (1986). In the second category see fine studies by Garon (1997); Pempel and Yoshimitsu Shinkawa (1996); and Calder (1988).
Japan of course was far away from the historical lines of development that Esping-Andersen described so persuasively in his book. On the basis of statistical analysis of contemporary policies, however, he found that Japan clusters with conservative-corporatist regimes in terms of “de-commodification” and is about halfway between that group and the minimalist liberal-residual regimes on some other measures. Later, in response to queries about this analysis and claims about Japanese uniqueness, Esping-Andersen wrote a short article on Japan. The essay argued that things had yet to develop and settle down enough to be sure about what model applied, but the best characterization of Japan was a combination of “liberal-residual” and “conservative-corporatist” at a rather low level of development.

My own view is that Japan is considerably closer to Western Europe than Anglo-America, and to an extent even shares some characteristics with Scandinavian countries. The key point is that income distribution in Japan is quite flat, with a very narrow gap between rich and poor. That is an important criterion of welfare outcomes in its own right, and it groups Japan more with Northern Europe, at the opposite end of the scale from the United States and the United Kingdom. One reason for this egalitarian pattern is that Japan has long emphasized “welfare via jobs” or various policies aimed at maintaining employment and income for specific groups of people who would not fare so well in a pure market economy. This emphasis is shared with the Scandinavian countries, which (uniquely in Esping-Andersen’s scheme) take “full employment as an integral part of their welfare-state commitment.”

However one winds up characterizing Japan, the important methodological point here is that a lot can be learned by examining the Japanese experience (and by extension that of other Asian nations, though that is not attempted in this essay) in the light of developments in the West—not so much because social policy is so much more developed there, but precisely because there is so much more interesting research. In particular, each of Esping-Andersen’s three models throws some light on a different era of the development of the welfare state in Japan, as defined by the key problems of the time and the government’s responses. These three stages were followed by a period of reaction—also quite similar to Western experience—and then a new and arguably rather different stage now getting underway.

The Prewar Period—The “Conservative-Corporatist” Regime

The early development of the Japanese welfare state centered on workers, certainly not on the poor. Moreover, these were not the most downtrodden workers, but rather the relative elite of the labor force. In this respect, and in its reliance on the family to provide nearly all welfare for everybody else, Japan very closely resembles the “conservative-corporatist” welfare regime of Germany as described by Esping-Andersen. Philip Manow underlines the common factor that in both countries the state apparatus developed before parliamentary democracy, meaning less pressure for rights or equality (compared with the liberal-residual or social-democratic models), and more room for government bureaucrats to try to make the labor force stable and safe for the rapid development of capitalism.

Like their German counterparts, Japanese social bureaucrats were concerned in part with defusing the political threat of the working class. Compared with Germany at the corresponding stage, however, Japanese workers were not very well organized into guilds or unions and the government had a somewhat

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9 It is not even mentioned in the index, though New Zealand is. Japan notably lacks the Catholic tradition that is important in the conservative model, and in general the conditions for some of the class coalitions found in Western 19th and 20th century history (such as farmer-labor in Scandinavia).
10 Esping-Andersen (1990, pp. 52, 74).
12 Unfortunately, comparable statistics on income distribution are lacking for Japan because the government has refused to cooperate with the international Luxembourg Income Dynamics Study, allegedly because of legal protections of privacy. Discussions include Bronfenbrenner and Yasukichi Yasuba (1987); and McKean (1989).
13 Esping-Andersen (1990, p. 28). Later (1997) Esping-Andersen rates Japan as similar to the United States partly by emphasizing spending as a percentage of GDP, which he argues elsewhere is misleading, and partly by (in my view) misreadings of Japanese programs, particularly the health care system. See Campbell and Naoki Ikegami (1998); also compare Campbell (1992, chapter 1).
freer hand. Its policy was therefore more about attaching employees to particular firms than dealing with broader groupings of workers. That led to the practice of “corporate welfare” or provision of benefits to workers by or via private companies that even today is often seen as the main characteristic of the Japanese welfare state.

It should be noted that while “corporate welfare” is extremely important in Japan—particularly the effective guarantee of continual employment for many workers but also such benefits as unemployment compensation (which may be channeled through firms) and company housing—that does not mean that Japan is like the United States in leaving most social policy up to the market. In health insurance, although the funds are at the company level, mandatory national regulations are overwhelming and variations across companies are minor. Even with pensions, which use a “contracting-out” system that leads to substantially higher benefits for employees of large firms, the amounts for all employees, even in tiny firms, surpass American social security benefits, and all pensions are closely regulated. Health insurance and pensions are by far the most expensive and important components of the welfare state, and in these two areas Japanese policy may in fact be somewhat more egalitarian—less structured by occupational status—than in Germany or other European nations in the “conservative-corporatist” type.

The Early Postwar Period—The “Social-Democratic” Regime (In a Way)

Japan’s dominant social problem was poverty in the 1940s and this carried into the 1950s. As a result of the occupation, there was an infusion of American ideas about rights into Japanese thinking about the welfare state; the British Beveridge Plan was also influential. The most important trend, however, was the conceptualization of poverty as a problem of economic structure, and therefore something to be solved mainly through supporting private employment rather than public assistance or relief projects. This era was the beginning of the aspect of Japanese social policy that most resembles the Scandinavian model: the incorporation of labor-market policy as an intrinsic element of the welfare state.

That is not to say that Japan is in Scandinavia. Among many differences, including obviously the sheer size of the welfare state, full-employment policy in the social-democratic model included equal treatment of women—which was never the case in Japan. Still, from the early postwar period until today, three elements of Japanese social policy have been quite significant:

- Macro-level economic policies aimed at full employment along with rapid economic growth. The expansion of public day-care centers to enable female employment and other facilitating programs perhaps should be included in this category as well.
- Micro-level interventions, regulations, and subsidies for firms to hire and maintain people at a livable level. These include setting a minimum wage (in the early years), providing unemployment benefits and retraining through companies rather than directly to individuals (since the 1970s), and establishing special programs to stimulate employment of older or handicapped workers (in more recent years).

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15 As Manow (1998) notes, a big reason for this difference was that worker organizations were already far more institutionalized in Germany. For the social bureaucrats in Japan, see Gordon (1985) and Garon (1987).
17 This interpretation rests mainly on the path-breaking book by Deborah J. Milly (1999).
18 Esping-Andersen (1990, p. 28): “Perhaps the most salient characteristics of the social democratic regime is its fusion of welfare and work. It is at once genuinely committed to a full-employment guarantee, and entirely dependent on its attainment…. Neither of the two alternative regime-types espouse[s] full employment as an integral part of [its] welfare-state tradition.”
19 Ikuo Kume dates active labor market policy in Japan, which he sees as quite significant, from the 1970s rather than earlier (Personal communication and Ikuo Kume (1998)). However, that is partly a matter of definition, and Milly’s account (1999) shows how central employment policies were to social policy in the early postwar years.
• Sectoral equalization: subsidies, trade protection, and so on, to raise incomes in rural Japan and maintain incomes and employment in the small business sector via “social contracts.”\textsuperscript{20}

As will be noted below, these policies, along with other “welfare state in the broad sense” programs, are important explanations for why income distribution in Japan has been and remains among the most equal in the industrialized world.

**Rapid Growth—The “Liberal-Residual” Regime**

From the late 1950s into the early 1970s, when the Japanese economy was going through an expansion era that was beyond government planners’ dreams, a wide but relatively low-cost umbrella of social protection was opened over the entire Japanese population. The landmarks were the achievement of universal “pensions for all, health insurance for all” (kai nenkin kai hoken) in the early 1960s, and then major expansions of these two most expensive social programs in the early 1970s.

These policies can be called “liberal-residual” in Esping-Andersen’s terminology in that the benefits (and therefore the burdens on economic growth) were rather low—notably, a 50 percent copay for medical care for most people, and pension benefits that were either tiny (until the expansions of the early 1970s) or that required a long eligibility period. The result was that the “costs of social security” in Japan were way below those of other industrialized nations in this period, and today are still relatively low.

As well as these relatively low-level protections for the general population, this period also saw an expansion of what can be seen as “safety net” programs, mostly called “social welfare” (shakai fukushi) in Japan. In liberal-residual regimes, such programs are seen as applying only to special groups, to “outsiders” rather than the “normal” population as a whole. The usual definition of “outsider” is poverty, as enforced through strict means testing.

Means testing was important in Japan, but in a sense was overshadowed by a different definition of “outsider” based on the availability of family care. The moral and legal responsibility of relatives to care for children, the elderly, or the poor was pursued more enthusiastically than in other countries. For example, admission to a nursing home or provision of home-help services was often denied to a frail, old person on grounds that a daughter-in-law was available (even if she would have to quit her job). Such restrictions persisted even when means testing was relaxed for many programs in the late 1980s. This policy echoes the principle of “subsidiarity” that is common in conservative-corporatist regimes (and Catholic social thought), under which “the state will only interfere when the family’s capacity to service its members is exhausted.”\textsuperscript{21}

**The Reaction**

In the second half of the 1970s, if one looked only at the conventional measure of social spending as a proportion of GDP, Japan looked like a “liberal-residual” welfare state at best. But in fact, the obligations to workers that were incurred starting all the way back in prewar days, and the commitments to support weaker social sectors by protecting their employment from the early postwar era, had come to constitute a nascent welfare state of substantial proportions, with elements of all three of Esping-Andersen’s types. After all, Japan had universal health care, quite affordable for nearly everyone and virtually free for the elderly. Current employees were entitled to pensions that would replace most of their salary when they retired. (The proportion was higher, under the formulas in place, than in almost any other nation—indeed

\textsuperscript{20} For agriculture, see Calder (1988, chapter 5). The artificially high price paid to rice producers was established during 1949–51. Calder (chapter 7) dates the active policies to support small business to 1949–50 and 1952–54, but some were a bit later: see Garon and Mochizuki (1993).

\textsuperscript{21} Esping-Andersen (1990, p. 26).
not a few married employees would get pensions higher than their salaries!) And although shares were low, in absolute amounts social spending had actually been growing very rapidly.

Although the general public was still strongly behind social programs, conservative critics inside and outside the government were already pointing with alarm at the future burdens of social policy. They emphasized the “problem of the aging society” (kōrei ka shakai mondai), which stated that the rapid growth in the population of old people would put intolerable burdens on the entire economy and society unless current government responsibilities were reduced. Indeed by the end of the decade the Japanese budget as a whole was running substantial deficits. The main reason was the slowdown in economic growth after the first oil shock, which caused government revenues to level off after a long period of double-digit growth. Because of inertia and political pressures, the growth rate of government spending had not been leveled off to compensate. Actually other programs such as public works were as much to blame as social spending for this alarming trend.

In any case, the response was a broad austerity campaign called “administrative reform.” Along with attacks on subsidies, the proliferation of agencies and committees, overregulation, and all the other symptoms of bureaucratic bloat, the welfare state was a prominent target. Steps were taken in the first half of the 1980s to trim future pension benefits, to end “free” old-age medical care at least formally, to cap the growth in health care spending, and to rearrange social welfare burdens between the national and local levels. All these efforts were aimed at restraining spending in the short run, and at preventing the expansion of overall social security burdens up to European levels, which would inevitably occur unless drastic steps were taken immediately.

This attack on social policy was widely portrayed as uniquely Japanese. The idea was to recreate a “Japanese-style welfare society” (Nihongata fukushi shakai): Prime Minister Ōhira Masayoshi called for “retaining a traditional Japanese spirit of self-respect and self-reliance, human relations which are based upon the spirit of tolerance and the traditional social system of mutual assistance.” The idea was for people in need to rely on family and community solidarity rather than the cold and expensive bureaucracy of the Western welfare state.

In fact, the efforts in Japan were not at all unique. The protagonists were quite similar to the neoconservative coalitions that brought the “crisis of the welfare state” to a head in most industrialized countries around the same time. Certainly the goals they were pursuing were more or less the same, however clothed in the rhetoric of Japanese tradition. Actually, this nostalgic rhetoric had largely faded away by the mid-1980s in policymaking circles (although academics continued to write about the Japanese-style welfare society), and before long the urge to reform had been reduced to piecemeal attempts to implement some of what had been promised early on (for example, raising the pensionable age for future retirees from 60 to 65, established as a goal in 1980 but not passed until the mid-1990s).

What was the net effect of this conservative campaign? Some see it as a quite successful effort to “roll back the embryonic efforts at state support for social welfare.” My view is that it was more a matter of consolidation than rollback. The highly fragmented pension system was somewhat reorganized; clearly excessive formulas for future benefits were trimmed; a tiny copay and new forms of subsidies were brought into “free” old-age medical care; tough price controls on doctors and hospitals were imposed to slow the growth of health care spending; criteria for getting into the public assistance program were tightened a bit; and so forth. The impact on either the general population or particularly needy groups was

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22 In 1976, according to the regular survey of national priorities conducted by the Prime Minister’s Office, 46 percent of Japanese adults chose “completion of the social security system” as a top priority, second only to measures to combat price inflation. However, detailed reports by the Economic Planning Agency, Ministry of Finance, and Liberal Democratic Party were all calling for cutbacks. Accounts of this discussion will be found in Campbell (1992, chapters 7 and 10).
24 Campbell (1992, chapter 7) covers many of these changes; for the success in holding down medical spending (in a way that is very similar to European countries) see Campbell and Naoki Ikegami (1998).
marginal at most. In this aspect as well, Japan has a lot in common with many Western countries where the rhetoric about cutbacks in social policy greatly exceeded the results.

A New Stage?

Worries about the future burdens of social policy remain strong in Japan. The cabinet has repeatedly endorsed a long-run policy of holding total social security expenditures below European levels, and social policy has been prominently included in the budget-balancing austerity plans of the late 1990s (the ones obviated by desperate pump-priming attempts as the recession worsened). Throughout the 1990s, however, at least social policies for older people seemed to be on an independent track of quantitative expansion and qualitative new thinking. The 1980s’ view of the “aging-society problem” had evolved into the notion that the surge of old people would put intolerable burdens on the entire economy and society unless adequate preparations were made now—and those preparations included increased responsibilities for the government.

In his recent essay on Japan, Esping-Andersen observed that:

If population aging is identified as the principal cause of the impending welfare-state crisis, as is the case in Japanese debates, the obvious policy would be to unburden families of their caring obligation. This implies a radical move away from the particular welfare mix that Japan (and much of Continental Europe) has institutionalized. It implies, in other words, a regime shift.28

In writing so hypothetically, the author was not fully aware of two policy changes that do add up to such a regime shift, although mainly with regard only to the elderly—the “Gold Plan,” in effect since 1990, and Long-Term-Care Insurance, passed in 1997 for implementation in 2000.

The Gold Plan or “Ten-Year Strategy to Promote Health and Welfare for the Elderly” (Kōreisha Hoken Fukushi Suishin Jōkanen Senryaku) was an ambitious set of targeted expansions of both institutional and community-based services for elderly frail individuals. It represented a shift from the residualist stance that had limited social welfare programs (unlike pensions or health care) to “outsiders,” to the poor (as defined by means testing) or, still more important in Japan, to people who could not be cared for by their families.29 Owing more to practical problems than ideological conversion, and so with little explicit pronouncement, both income restrictions and the requirement that people must be on their own were substantially relaxed for Gold Plan programs. The expansion of home-care programs in particular was very rapid (albeit from a small base), but demand grew so much more quickly than anticipated that the targets themselves had to be raised substantially in the “New Gold Plan” approved by the Cabinet in 1994.

Long-Term-Care Insurance (Kaigo Hoken, LTCI) is a longer step down the same path. It was explicitly seen as the “socialization of care” (kaigo shakaika), transferring much of the responsibility of taking care of a frail parent from the children to society—indeed, to the state. The program has multiple roots: difficulties in operating the big new Gold Plan programs through an administrative structure that is still based on traditional means-tested policy; growing deficits in health insurance accounts owing to too many “social admissions” to hospitals of frail elderly people without real medical need; intellectual trends around the Ministry of Health and Welfare favoring less bureaucratic and more consumer-oriented social policy; and the example of Germany, which passed its own LTCI program in 1994 (though in fact serious

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27 For example, Prime Minister Hashimoto’s “vision” of 1996 called for holding the share of taxes plus social security contributions below 45 percent, but estimates at the time indicated that without major reforms this share would exceed 50 percent by 2014 and reach 56 percent (nearly Scandinavian levels) by 2025 (Naohiro Ogawa 1998).
29 For more on this theme, see Campbell (2000).
discussion in both countries started at about the same time, in 1990). The fundamental cause was, again, widespread and intense public concern about how to take care of the rapidly growing numbers of the elderly, particularly since the traditional option of family (which usually meant a daughter or daughter-in-law) care seemed less and less plausible.

Passage of LTCI (Pflegeversicherung) in Germany was hailed as a step “virtually unparalleled in Western welfare states after 1975.”\(^{30}\) LTCI in Japan is a still bigger and more radical policy departure. The threshold for eligibility is much lower than in Germany, so that roughly twice the proportion of elderly people will get benefits. Benefits for a given level of physical or mental disability are much higher (in principle, the Japanese program is supposed to cover 90 percent of the actual costs of care, the German program just 50 percent). Most significantly, although Germany will pay a cash allowance to cover informal care, in particular by a relative, Japan will not, even though this provision saves a lot of trouble and money. A majority of beneficiaries have taken this option in Germany even though the amount of cash is markedly less than what one could get in formal services, so the program has actually run at a surplus and the government has not had to worry too much about establishing new service-providing organizations.

In Japan, only formal services (institutional, as in nursing homes, or community-based) will be provided. The client will in effect receive vouchers for the amount of approved care and can decide for himself or herself or with the help of a “care manager” which services he or she will purchase, and from whom. The client’s eligibility and benefit level are completely independent of income and of whether or not a family member is available to provide care. That is, quite unlike the usual Japanese practices that in many respects had persisted even with the Gold Plan, an ordinary middle-class older person who was living all that happily with his or her children (as upward of half the Japanese elderly do, happily or not) could go into a nursing home or could receive somewhere between $500 and $2,700 of services at home.\(^{31}\)

That fact, along with the sheer size of the LTCI program (estimated even officially as running over $50 billion a year when fully implemented), indicates that Esping-Andersen’s suggestion about Japan possibly undergoing a “regime shift” may now be materializing. It is not impossible that the quantity and quality of care publicly provided to elderly frail people in Japan will come to approximate the level of Scandinavia (which of course uses tax-based direct provision, not social insurance). That would be remarkable for a country usually seen (including by Esping-Andersen in the same piece) as a rather rudimentary welfare state.

We must be careful, however, not to overstate the case. First, the experiment is in its early days; second, even if a new regime is dawning, it is only for old people. Two additional comparisons with LTCI in Germany are telling.

One difference is that the German government installed tough ceilings on spending, at both the micro and macro levels. Individual eligibility decisions are in the hands of doctors who work for the insurers (not independent committees, as in Japan), and only premium revenue can be used for benefits, at a rate set by law (Japanese LTCI draws also on ordinary tax revenues and there is no ceiling). Germany has extensive experience with entitlement spending that quickly gets out of hand, and has taken pains to prevent the new program from upsetting the apple cart. Japan had some of the same problems in health insurance years ago, but in this case the government was apparently confident enough, or so much committed to this policy, that it went ahead without formal caps.

The other difference is that LTCI in Germany is not limited to the elderly—younger disabled people are also eligible. In Japan, mainly because the social insurance premium must be paid starting at age 40 and because it was feared there would be resistance to paying something for nothing, LTCI will cover “age-related disabilities” such as Alzheimer’s Disease or stroke from 40 on, but otherwise eligibility will start at age 65. Social policy specialists have pointed out that this distinction is irrational and will create

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\(^{30}\) Goetting, Haug, and Hinrichs (1994).

\(^{31}\) The LTCI program has many interesting aspects not covered here; for a brief account see Naoki Ikegami (1997).
problems on ethical, practical, and political grounds, but the response so far seems to be that Japan is trying to deal with its aging-society problem and will do that and no more.

**Social Policy in the Broad Sense**

To summarize briefly, I have argued that although ideas about a unique “Japanese-style welfare society” played a significant though often exaggerated role in decision-making about social policy issues in the 1980s, it is not a very useful approach to understanding actual government policy, at least not with regard to the traditional programs we have called the “welfare state in a narrow sense.” That is, particularly with regard to such big-ticket items as pensions and health care, and many smaller programs as well, we can understand a lot about the evolution and current situation of Japanese social policy by using concepts derived from the much more developed research on Western social policy.

The fact that spending levels as a proportion of GDP are still relatively low in Japan is certainly not trivial, but all estimates show that this measure will be up among the higher levels in the world before long (for better or worse), and in any case it obscures the more basic point that in terms of substance, Japan is not too far from normal European (though not Scandinavian) levels. And as just observed, with regard to care for the frail elderly, which has a good claim to being the new frontier of the welfare state for advanced nations today, Japan may be making a quantum leap ahead of the pack. If that comes to be seen as a “regime shift” into a new configuration of public policy, it certainly is not in the direction one would conventionally associate with Japan. This is not only a massive transfer of financial responsibility from family to government or “socialization of care” (*kaigo shakaika*, a term actually used in government documents on the new program). The way care is delivered is on the one hand radically separated from the family, by covering only formal services rather than family care allowances as in Germany, and on the other much more individual-choice oriented than the controlled and bureaucratic (some might say paternalistic) approach in Scandinavia. Clearly this is not “Japanese-style” as it has ever been conceived—the opposite direction, one would think.

However, Esping-Andersen also saw employment policy as part of the core of the welfare state, and here we do see some distinctly Japanese elements. As noted above, it is Japan’s active labor-market policies that distinguish it rather sharply from the liberal-residual and conservative-corporatist models and make it look a bit like Scandinavia. That does not just mean pursuing full employment via rapid economic growth, it includes as well specific policies to promote private employment as the key to maintaining a good standard of living. Some of those policies (such as retraining programs as well as the equivalent of unemployment compensation) do work through private companies in a way not seen elsewhere. More generally, the government has certainly long seen “permanent employment” and other mechanisms to connect worker and firm as being in the best interests of capital, labor, and the nation as a whole. No doubt if one looked beneath the surface of explicit public policy one could find a variety of ways in which these patterns have been promoted over the years.

We have observed also that the overall notion of welfare via jobs was extended well beyond the large-firm sector to include farmers, small business owners and employees in retail and beyond, residents of depopulated areas, and even certain minority groups. The mechanisms were a variety of direct or indirect subsidies that would (a) keep more people working in that occupation than would result from market forces, or (b) maintain incomes at an “artificially” high level for those remaining even if the sector was shrinking.32 These included the rice-subsidy and protection from imports for farmers; big tax; lending and regulatory breaks for small business plus protection against competition from big stores in the retail sector; massive public works spending and a variety of other small employment programs for depopulated rural areas; trade protection for leather goods and other traditional products; and affirmative-action job quotas (mainly in local government) for the *burakumin* minority group. One effect is that Japan is the front-runner

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32 The latter was clearly the case in agriculture.
in small business employment among industrialized nations by almost any measure, often at double the level. 33

These policies are hardly a secret, and in fact they are often brought up as symptoms if not causes of Japan’s wasteful, uncompetitive, sick economy. Moreover, the point that small business including farming provides a livelihood for so many older people is often noted—statistics show that Japan has the highest labor participation rates in the industrialized world for both men and women at all ages from 60. The subsidies and trade protection policies that support this employment are sometimes seen as a substitute for the formal welfare state policies of Western industrialized nations. A distinctly inferior substitute, in most eyes—the implication is that Japan can thereby get away on the cheap for not doing the right thing in social policy.

From another angle, however, these policies could be seen as a different path rather than a cheap substitute, one with certain advantages beyond low cost. After all, as noted above Japan does have one of the most egalitarian patterns of income distribution in the world, similar to Scandinavia even though the amount of income redistribution through the social security system is so much lower. 34 This narrow gap between rich and poor no doubt has some roots in historical contingency (the destruction of wealth in the war) and company practices aimed at employee solidarity (seniority wages and managers paid not many times more than menial workers), but government policies of equalization through employment have been extremely important as well. Moreover, while the structure of the tax system is not conventionally included within welfare state policy, it is a crucial point that the Japanese income tax system has been quite progressive, and that throughout the postwar period it has taken a relatively high proportion of its revenues from corporate profit taxes and a relatively low proportion from regressive indirect taxes (the national consumption tax was initiated only in 1989 and is still only 5 percent).

Look at the broader context. These days there is a lot of talk about the difference in welfare outcomes between Western Europe on the one hand and the United States along with other English-speaking nations on the other. Most Europeans seem to lead a comfortable life with a lot of leisure whether they have jobs or not, but many people are not working and the economy is said to be stagnating. 35 In the United States unemployment is quite low and people work hard, even those in low-productivity jobs that pay little. Inequality is extreme, but the economy is dynamic and growing steadily.

Japan fits neither pattern. Unemployment is quite low, people work hard (though in my impression not as hard as in the United States), there are many people in low-productivity jobs, but household incomes are generally quite equal because wages are relatively high even when productivity is low. Such wages are therefore subsidized by high prices for many items and as overhead in retail sales—everybody pays more—which in turn is maintained by protection against imports or against large stores. The other government policies noted above are also important.

At this writing it appears that the consequences of this pattern for Japan is economic stagnation, to an even greater degree than in Europe, but it is worth remembering that these cross-national differences have been true for many years, and in much of that period the European economy was growing somewhat more rapidly than the American, and the Japanese economy more rapidly than both. Despite current American triumphalism, it is not yet clear how much of Japan’s current economic morass is cyclical or whether it is the result of bad short-term policy rather than structural defects in the economic system. 36

It does appear that with globalization and other economic pressures, protectionism will be difficult to maintain in Japan. It is questionable whether high-wage, low-productivity jobs can long survive unless some other mechanism to subsidize them can be invented. The possibility deserves some thought, because

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33 For a fascinating and unusually positive view of this pattern, see Patrick and Rohlen (1987).
34 As indicated by the low ratio of taxes and contributions, and of social spending, to GDP. For a good recent discussion of these issues, but without Japan data because Japan does not participate in cross-national income distribution studies, see Ervik (1998).
35 Esping-Andersen notes also Sweden, with high employment and quite equal wages, secured largely by the government’s hiring of many women to staff its extensive welfare programs for the elderly (1990, chapter 9). The labor-force requirements of the new LTCL program in Japan may have similar effects, though probably not for public-sector employment per se.
36 This is Posen’s (1999) view; for the opposing view, see Katz (1998).
it seems not unlikely that the old “automation” scenario may now be coming through; the high productivity sector in advanced nations may develop so quickly that fewer and fewer workers can produce enough goods and services to maintain the entire economy.

In such a case, what will all the people whose work is not really needed do? In what we have stereotyped as the European pattern, they will live on pensions, disability, or public assistance and not work at all. In the stereotypical American pattern, they will work in low-productivity service jobs, delivering low-quality services for very low wages. In the stereotypical Japanese pattern, they will work in low-productivity service jobs, delivering higher-quality services for pretty good wages or self-employment income. The latter is an attractive picture, whether it is practical or not.

To sum up, with regard to traditional social policy or the “welfare state in a narrow sense,” Japan is not as different from Western models as is usually assumed, and with Long-Term-Care Insurance may soon start to look distinctive in the more expansive direction and perhaps a model for other nations (though again, just for the elderly). Looking at social policy more broadly, it appears that Japan has pursued welfare objectives, particularly a high level of equality of living standards across the population, more through the tax system and a set of employment-support policies (trade protection, competition-inhibiting regulations, price subsidies, building public works) than through traditional welfare-state programs. That pattern helps account for Japan’s record of low public spending on social policy, but may still represent a rather high level of costs imposed by government on society.

References

Note to readers: Following East Asian practice, Japanese surnames precede given names, excepting those of Japanese whose English-language works have been cited.


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