



Blueprint for the Future of Social Welfare (I): Social Security Cutting Across Policies, Public Finance and Employment

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Key Points:

- Policy switches in multiple fields have become an issue in advanced countries.
- The conversion of Japan's social security systems to whole-generation social security produced results of a certain level.
- A future vision for a society to aim for should be clarified.

The administration headed by Prime Minister Abe Shinzo has advanced support for women's employment and working style reforms since 2015 under its slogan of promoting the dynamic engagement of all citizens. In December 2017, the Abe cabinet decided on a package of new economic policies and announced new measures for assisting with childcare and education in the name of human resources development in addition to measures collectively referred to as a productivity revolution.



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An outline of these measures is provided below. As measures for supporting childcare, the government will uniformly dispense with fees for using authorized facilities, such as kindergartens and day nurseries for children 3 to 5 years old, and enable households exempted from residential taxes to use such facilities for children less than 12 months old to 2 years old free of charge. As measures for addressing the number of children on waiting lists, the government will prepare day care facilities for 320,000 such children by 2020. As measures for supporting education, the government will exempt members of the lower income group from entrance fees and tuition charges for institutions of higher learning such as universities, and will provide scholarships. The government will also make private senior high schools tuition-free for low-income households. The government has also incorporated improvements in working conditions for childcare workers and nursing care specialists into these measures.

The changes outlined above require total funds in excess of 2 trillion yen. The government will reportedly allocate 1.7 trillion yen of this sum from increased revenue from a consumption tax hike scheduled for October 2019, and finance the remainder using donations from companies. How should we rate the policies announced on this occasion? I would like to

examine this point from a comparative viewpoint in the following section, taking the overall picture of reforms up to the present time into consideration.



There are two major points for assessment that I wish to mention.

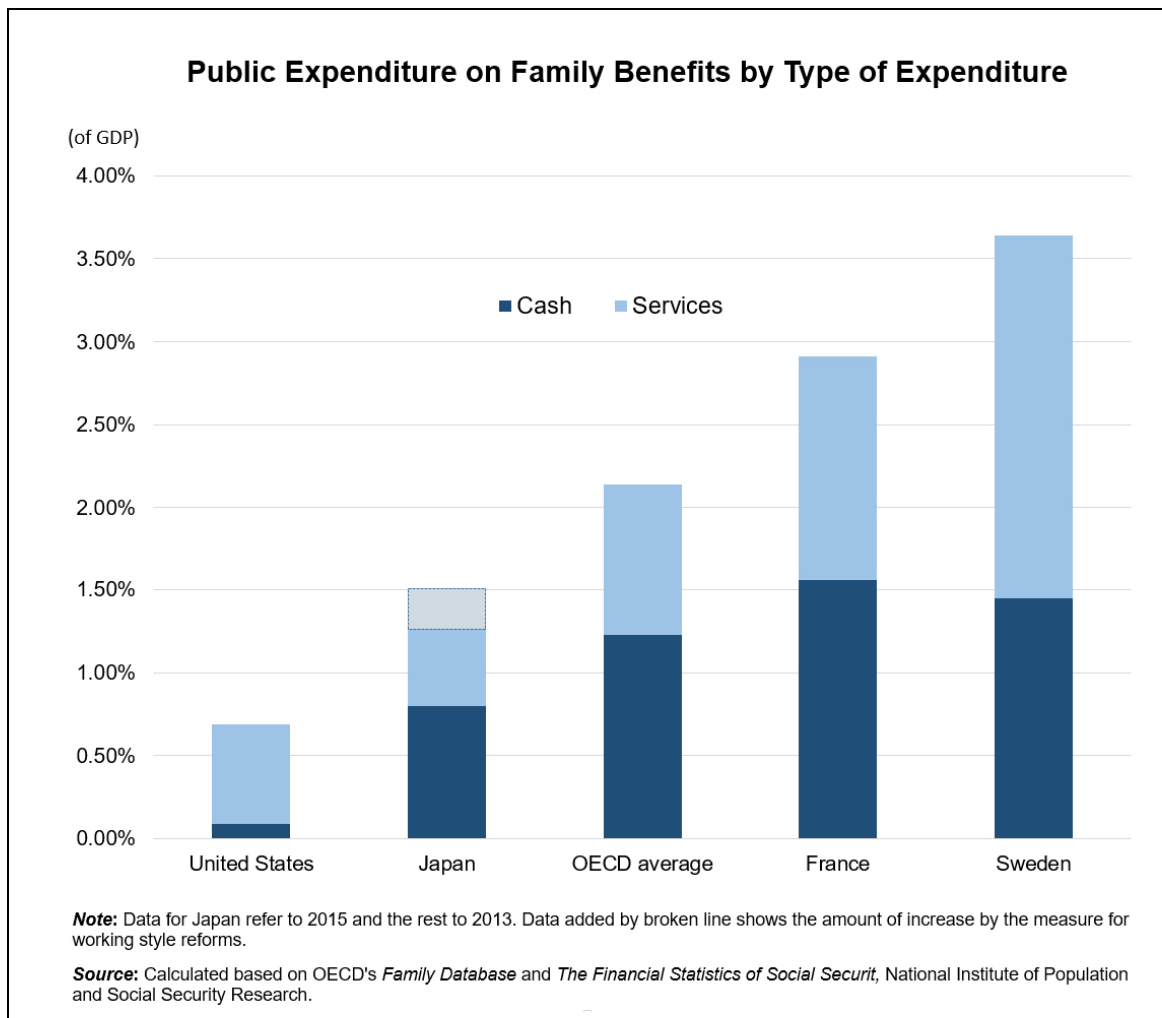
The first point is whether or not these measures shape a policy package that cuts across public finance, employment and social security. Advanced nations are currently under pressure to switch their policies in multiple fields. It is difficult to raise taxes and premiums under globalization. The budget balance has become a common issue for them.

In the meantime, changes in the labor market and families have produced new social risks. Temporary unemployment and unstable employment, such as short-term employment and irregular employment, increase as industries in advanced countries shift from manufacturing to tertiary industries, such as information, finance and services. Disparity grows unless support is provided to people in unstable positions. Furthermore, the number of women struggling to handle both career and family increases as their employment advances. The risk of a birthrate decline rises unless a switch from a male breadwinner family model advances.

A package of three policies is necessary for dealing with changes in the labor market and families under the condition of financial restrictions. The three policies include (1) controlling the expansion of medical services and annuity expenditures for the elderly, (2) advancing the flexibility of working hours and the deregulation of the labor market, and (3) strengthening support for the employment of the younger generation and unemployed people and stepping up assistance with childcare.

The second point is Japan's responses to a triple handicap. Japan has fallen behind other countries in terms of efforts for coping with changes in the labor market and families. Meeting and parting have been repeated within the world of politics for 20 years, causing ad hoc responses to accumulate. As a result, state debts have swollen to more than 200% of gross domestic product (GDP), the highest level among advanced countries. The correction of long working hours and childcare support have not progressed. The switch from a male breadwinner family model has been slow. As a result, Japan is faced with a falling birthrate and an aging population, as demonstrated by the total fertility rate that has remained below 1.5 for 20 years. Disparities between regular employees and their non-regular counterparts and those between men and women have become entrenched. More and more young people are facing unstable lives.

The nonfeasance of the government has brought about the triple handicap of a falling birthrate and aging population, budget deficits and the fixation of disparities to a large extent. Can the latest reform plan really serve as a means of finding a way out of such a stalemate?



I would now like to rate the latest policies, taking the above two points into consideration.

First, the policies are anticipated to produce results of a certain level regarding the point that they convert social security that is biased in favor of the elderly into social security for whole generations. According to my estimates, the ratio of family-related expenditures to GDP rises from about 1.3% to 1.5% and moves a little closer to the average ratio among members of the Organization for Economic Cooperation and Development (OECD). (Refer to the figure.) The policies are in line with a policy trend in advanced countries in that they increase benefits in kind (service benefits), such as free childcare, instead of cash disbursements such as child allowances and childcare leave benefits.

There is an opinion that the establishment of facilities for accommodating children on the waiting list should be prioritized over making childcare into a free service. However, family-related measures are smaller overall than those in other advanced nations in terms of scale. I believe that efforts to establish facilities and make childcare free should be advanced as

two halves of the sale whole in view of the large impact of the birthrate decline.

In the meantime, the cost-free provision of a portion of higher education at a cost of around 800 billion yen is difficult to rate. Public spending on higher education is certainly at the lowest level among advanced nations. However, whether charging no tuition fees enhances the functions of higher education or not requires further verification.

Second, the policies raise multiple questions from the viewpoint of their alignment with financial and employment policies. In the first place, the road to the reconstruction of public finances has receded. The policies divert a greater portion of the revenue from consumption tax from financial reconstruction to social security. Furthermore, medium- and long-term measures for suppressing public spending on medical services and annuities have not advanced sufficiently in Japan, whereas other advanced countries are introducing aid measures for the younger generation and women in a package with the control of the expansion of disbursements for the elderly. From this viewpoint, the latest measures for supporting childcare and education that was made practically possible by leaving the burdens to future generations.

Alignment with employment policies is also weak. Measures for assisting with childcare and education are measures for coping with new social risks caused by changes in Japan's industrial structure. Originally, those measures were supposed to function in combination with the deregulation of the labor market and the flexibilization of working hours. However, working style reforms, which are scheduled to be deliberated at the next session of the Diet, have a strong aspect of tighter regulations. They have not stepped into the easing of dismissal regulations for regular workers and the flexibilization of working hours.

Taking the above factors into consideration, it is difficult to call the current reform plan a package of policies that cuts across finance, employment and social security. Switching to whole-generation social security is the appropriate course. Individual measures for supporting childcare and education are also epoch-making. However, their alignment with other measures remains weak. The impression that they are one-off measures for avoiding unpopular ones is undeniable.



The current Abe administration has strong foundations that are unrivaled. Nevertheless, the administration has not been able to present a medium- to long-term policy package that includes unpopular measures. Why? I would like to identify two points regarding that question before concluding this article.

The first point is the obscurity of a future vision for a society to aim for. Initially, the Abe administration touted the three arrows of Abenomics, and cited growth strategies based on

deregulation as one of those three. However, in 2015 the administration changed its signboard to a society in which all citizens engage dynamically with no major progress achieved in the area of deregulation. The administration began emphasizing redistribution as its policy in the period that followed.

Does the government seek to stimulate markets and realize economic growth by curbing tax burdens and fiscal spending, and easing regulations of the labor market? Or will the government play a central role in supporting childcare and employment by asking Japanese citizens to bear tax burdens universally? The basic vision that the current administration has for the future remains unclear.

The second point is more serious. It is the problem of the absence of competition between ruling and opposition parties. In the House of Representatives election in October 2017, opposition forces again entered into alliance and separation, disregarding domestic policies. They did no more than announce unrealistic campaign pledges, such as freezing the consumption tax increase. The ruling parties were not pressed to compete with them in policy packages including unpopular policies. The situation strengthened the tendency of seeking voter support by arranging ear-pleasing redistribution measures.

Social security equals measures that are closely related to the lives of each and every citizen. Such measures cannot be decided through a simple top-down approach alone. Bold decisions cannot be made unless a democratic process, through which multiple policy packages based on a medium- to long-term vision of a society are presented by ruling and opposition parties, and one of them is decided as a result of voters' choice, works. Achieving such competition among political parties is an urgent issue for Japan.

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