

Now, pensions matter.

Where is the Japanese-style welfare society going?
Where is the Japanese-style welfare society Heading?

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1. Pension as an issue

In July 2004 the Upper House election ended, resulting in 50 seats to the Democratic Party, the largest opposition party, and 49 seats to the ruling Liberal Democratic Party. Komeito, a religious party, got 11 seats. Though the coalition government of the LDP and the Komeito can hold the majority in the Upper House, the Democratic Party was the winner.

In the election campaigns, there were two main issues: the controversial sending of troops to Iraq in the name of humanitarian aides and as a more important issue the

reform of the pension system. In February 2004 the government presented a bill on public pension. The Democratic Party criticized it severely, arguing that the minor reform of the system that the bill was intending would not be sustainable as the society is rapidly aging. Rejecting any serious debates on reforms of the pension system, the ruling LDP and the Komeito passed the bill despite very strong resistance from the opposition parties. Many voters who were looking at the debates at the parliaments disagreed with this reform and gave more votes to the opposing Democratic Party. The election was the first election in which the pension system mattered. Why did the pension system matter in this election for the first time?

2. Welfare society, not welfare state

“Welfare state”, no. “Welfare society”, yes. This was the basic philosophy expressed in a strategic paper of the ruling LDP in 1979. As already seen in Western Europe, “welfare state” needs a big government, collecting high tax and creating welfare bums. “Welfare society” is based on sound and strong family value, taking care of old parents in their families and preventing young daughters from creating ‘abnormal’ family such as single mothers. In a “welfare society”, we see a small government coexisting with social stability.

Until the burst of the bubble boom in the early 1990s, this concept of “welfare society” had really taken hold to a great extent, except for a short period around 1970. In the late 1960s and early 1970s, people living in big cities such as Tokyo and Osaka demanded “welfare first” instead of high economic growth, pointing out air pollution, overpopulation, serious traffic jams, scarce social infrastructure, soaring inflation and so on. Grumbling citizens in coalition with the Japan Socialist Party and the Japan Communist Party succeeded in electing progressive mayors and governors one after another. The era of local welfare states began. Facing these challenges, the ruling LDP decided to support welfare, declaring 1973 as the “first year of welfare.”

Ironically enough, the first oil crisis erupted in this “first year of welfare.” It triggered a panic in Japan which had been accustomed to high economic growth for nearly 20 years. We have no resources than human resources. We have to work hard. We cannot afford to enlarge welfare programs. Such sentiments suddenly became a national consensus, resulting in successive replacements of progressive mayors and governors with conservative ones who advocated a “balanced budget” in the late 1970s.

In the 1980s, the “welfare society” seemed to be sustainable, supported by Japan’s achievement of the highest economic growth among the industrial countries, low unemployment, low divorce and few single mothers. Though problems associated with the aging society were already looming, little attention was paid because of over-optimism, belief in eternal economic prosperity, strong family values and a fixed division of labor between the genders.

With the burst of the bubble boom in the early 1990s, excessive optimism totally disappeared, replaced by excessive pessimism. In the 1980s, many leading persons in the business and academic world tried to answer to the question “why we are number

one in the world?” In the 1990s, debate topics were “the lost decade” and “defeated economic war,” admiration of America’s “new economy” that was regarded as the best economic model for the rest of the world at that time. In the pessimistic mood, doubts about the sustainability of the “welfare society” began to surface.

3. Fragmented pension schemes

Until 1985, each occupational group had its own pension scheme. The fragmented pension scheme made consolidation of strong interest groups difficult. In fear of soaring expenditures, the government reformed pension insurance fundamentally in 1985. Integration of some parts of the different pension schemes meant that wealthy groups have to subsidize nearly bankrupt groups. In the so-called three-floor system, the ground or first floor is a basic pension for all insured persons. The second floor is an additional benefit for all employees in the private sector and all civil servants. The self-employed have their own second floor benefit, if they pay voluntarily. At the third floor, regular employees of big firms and national and local civil servants have additional benefits in relation to before-retirement income.

Despite the reform in 1985, the pension system deteriorated further. In the mid 1990s, famous big firms expressed serious concerns about huge deficits of their employees’ pension funds. Employees’ pension funds were operated on the assumption that they can yield at least 5.5% profits by investing in bonds and shares. But, the burst of the bubble made a 5.5% yield extremely difficult. The Nikkei Stock Index plummeted from nearly 40,000 in January 1990 to 14,309 in August 1992. The official discount rate was cut from 6.25% in August 1990 to 2.0% in September 1993 and to nearly zero in 1995. Under such economic conditions 5.5% yield was far from realistic. The huge deficits that had to be covered by companies depressed corporate performances and thus delayed economic recovery.

In the 1990s, not only employees’ pension funds but public pension system as a whole deteriorated rapidly. An increasing number of people, especially younger generations, refused to register in the pension scheme or refused to pay insurance premiums, insisting that the public pension system was no longer sustainable. By cutting down and delaying pension payment, the government tried to improve the financial resources of the public pension in 1994. But the Ministry of Welfare and Health thought that this would not be sufficient to make the system sustainable. In 1997 the ministry published a pamphlet entitled “Five Options,” insisting that without doubling the insurance premiums the public pension system would collapse in the future. Misinterpreting it, the mass media promulgated the view that the public pension system was on the verge of collapse. The near-bankrupt-pension campaign made citizens anxious.

But in the late 1990s, Japan had a more serious matter: Japan’s economy itself. Parallel to the Asian financial crisis that had begun with the sharp devaluation of the Thai baht in 1997, Japan faced its own financial crisis. In 1997, the Hokkaido Takushoku Bank, a big city bank, and Yamaichi Securities, one of the three biggest brokerages, went into bankruptcy. After World War II it had been the firm policy of the powerful Ministry of Finance to protect all big banks and brokerages. Under the “structural reforms” and

“financial big bang” that began, in the mid 1990s, to follow the model America, even big financial institutions can collapse. This shocked citizens so deeply that consumers stopped spending money, which brought the economy on the brink of a great depression. Saying that “our nation will not hold,” the prime minister Hashimoto decided to introduce a big tax cut for boosting the economy and to suspend the “structural reforms”, at least temporarily. The pension campaign contributed to deterioration of consumer confidence but was a minor problem compared to this serious economic crisis.

4. Now, pensions matter

In June 2004, the government brought in a bill on public pensions. The main points of the reform were: (1) The premium for Employees’ Pension Insurance will increase gradually from the present 13.58% of annual income and finally reach 18.30% in 2017. (2) The premium of Basic Pension will increase from 13,300 yen now to 16,900 yen in 2017. (3) Benefits of Employees’ Pension Insurance will reduce gradually. (4) The governmental subsidy to the Basic Pension will increase from one-third at present to half of the system’s financial resources.

With this reform, the government declared, the public pension system will be sustainable for 100 years. Ignoring questions and criticism from the opposition parties, the coalition government of the LDP and Komeito that command the majority in both the Lower House and the Upper House passed the bill amid shouts and confusion in June 2004.

The passage of the bill means a beginning of pension system reforms, not their end. First, during the debates in the Lower and Upper Houses it turned out that a famous actress the Social Insurance Agency used for a “Pay Pension Insurance Premiums” campaign had failed to pay pension insurance premiums. Lawmakers denounced her and the agency. But, following this scandal, it revealed that many law makers had failed to pay insurance premiums at least temporarily, including some ministers and the Prime Minister Junichiro Koizumi himself. Amid the furor of the public the powerful Chief Cabinet Secretary Yasuo Fukuda, a Dick Cheney in Japan, and the President of the Democratic Party Naoto Kan resigned. This series of scandals left citizens with anger and mistrust toward the public pension system.

Second, despite the declaration by the government that the bill would be sustainable for a hundred years, no concrete forecast data on birth rate and economic growth were disclosed, saying only the birth rate of 2003 was 1.32% and will improve to 1.39% in the future. After the bill was passed, the Ministry of Health, Labor and Welfare announced that the real birth rate of 2003 was 1.29%, 0.03% lower than the assumption of the bill. Criticized severely by the opposition parties, the government admitted later that it knew the real birth rate of 2003 before the bill was passed but did not announce it. Feeling deceived by the government, citizens are thinking that the birth rate of 1.39% which the government claims to be very likely is unrealistic and thus the new public pension system would never be sustainable for a hundred years.

Now, pensions matter. The public nursing care scheme matters too. It was first introduced in 1997 and is suffering from deteriorating financial resources because the demand was much higher than expected. It is becoming clearer that families are no more “hidden assets” that make “welfare society” possible, though the social pressure on families, especially on women in families, to take care of older parents is still strong.

Where is the Japanese-style welfare society heading? Esping-Andersen presents three worlds of welfare capitalism. For Japan, to go into the direction of the social democratic world is unthinkable, because no political parties will dare to propose heavy taxes and generous welfare in a country where the tax has been low. To go into the direction of conservatism is not likely, because, if that happens, families without children or single people will increase more and more. Liberalism is a possible option in the age of global capitalism, but has its limit in Japan, because Japan lacks the individualism associated with the liberal model. Very likely, Japan will do patchwork to avoid a crisis, without discussing possible, sustainable schemes.