

# The Social Security System in a Post-Welfare State

By Satoshi Watanabe



Author Satoshi Watanabe

Based on the sense that it may be growing difficult for many countries, and particularly Japan, to maintain traditional welfare state regimes, this paper first surveys the prospects for social security and then proposes the concept of a “national minimum state” as an alternative to the welfare state. Given the medium- to long-term changes in population composition to come, maintaining the current social security system will be impossible. Until now, however, social security in Japan has been treated as “sacred ground”, making it politically difficult to pursue radical streamlining or efficiencies. A decision has already been made to raise the consumption tax beginning in April 2014, but there is a limit to how much social security funding this will generate; a major decrease in the level of social security benefits per elderly person is unavoidable. Japan is being forced to wipe the slate clean with respect to its traditional concept of the welfare state and look toward transitioning to a social security system focused on a “national minimum”. Indeed, as the first country to face rapid super-aging, Japan has a role to play as a forerunner in showing the world a model for the new “national minimum state”.

## The Rapidly Aging Population

In 2010, the percentage of Japan’s total population that was aged 65 or over reached 23%, making it a super-aging society in which one of every four people is elderly. This ultra-aging trend is expected to accelerate, with forecasts for 2050 suggesting an extreme population age structure in which two of every five people will be aged 65 or over and one of every four aged 75 or over. In addition, the already declining population is expected to drop even faster, such that the total population in 2050 will be roughly 80% (and the working-age population — aged 15-64 — roughly 60%) that of today.

As shown in *Chart 1*, while the population age structure diagram for Japan in 1950 presents a well-formed pyramid, today’s is a somewhat muddled cylinder, and the diagram for 2050 shows a completely inverted pyramid. Although population and age structure will be influenced to some degree by birth rate and immigration trends in the future, unlike economic indicators such as GDP they can be predicted with near certainty. When thinking about the nature of social security we must take the medium- to long-term population trends shown in *Chart 1* as a given.

## The Implications of Super-Aging

An increase in the proportion of the population that is elderly necessarily entails an increase in social security expenditures as a proportion of GDP. Increases in pension, medical, and nursing expenditures all accompany an increase in the number of elderly, and a rise in the proportion among the elderly of the “latter-stage” elderly (aged 75 or over) creates strong pressure on medical expenditures (*Chart 2*).

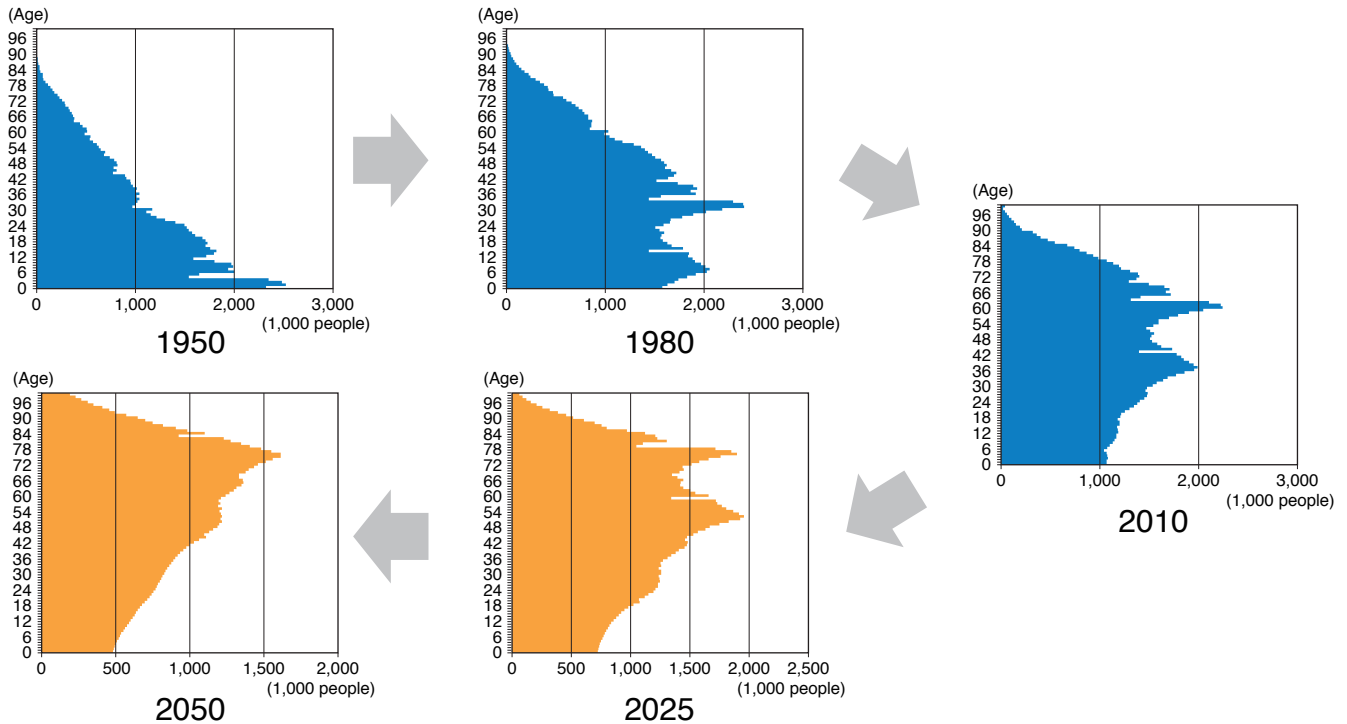
The implications of super-aging are not limited to its direct influence on social security expenditures. Because income distribution among the elderly generally shows greater disparity than among the young, a proportional increase in the elderly population tends to widen income distribution disparity (prior to redistribution through taxation and social security expenditures) for society as a whole. The elderly of today’s Japan spent their working years during the country’s high-growth period, and a high proportion are relatively well off financially. But among the elderly of the future — those who will live through the coming low-growth period — a larger proportion are expected to face more challenging financial situations. Specifically, there is concern that a growing number of the elderly will be unable to support themselves with a combination of their own funds and public pension and will instead be forced to rely on public assistance.

In this way, as conditions worsen for the elderly in the future, the social security system will necessarily play a larger role, creating further pressure to increase social security expenditures. On the other hand, looking at the future population age structure, the proportion of the population that is of working age will decline. This means that even though we may be able to expect some measure of increase in worker productivity through technological innovation and the like, it will be difficult to achieve sustainable economic growth. To limit the drop in the working population, of course, it is essential to further increase the rate of women’s participation in the workforce. Raising the retirement age is another way to slow the decline in the working population, but also has the potential to create oversupply in the labor market that would increase the unemployment rate among the young.

In any case, we cannot assume any great expansion in tax revenues to fund the rapidly increasing social security expenditures.

CHART 1

## Long-term changes in population pyramid



Source: "Population Projection for Japan", National Institute of Population and Social Security Research, 2012

Sustainability of the current social security system over the medium to long term has already been lost. Most of Japan's current social security expenditures are directed toward pensions, medical care, and nursing care for the elderly; with the elderly proportion of the population increasing, continuing the current regime will create a heavy burden on the young that they will find difficult to accept. Drastic reform of the social security system is essential, and must be centered on reducing the level of social security benefits for the elderly. That is, as the total amount of social security spending on the elderly increases, in order to maintain the social security system a reduction in spending per elderly person will be unavoidable.

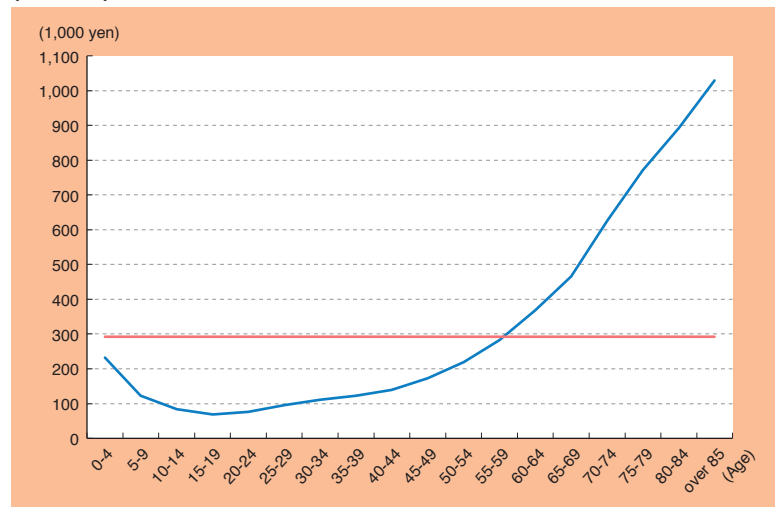
### "Silver Democracy"

With respect to the political process of determining social security policy for the future, one view has it that the political power of the elderly is impeding social security reform. In addition to the rapid rise in the proportion of the population that is elderly, as shown in [Chart 1](#), a low voting rate among young people also increases the proportion of the elderly among those who

vote. (For the general election in 2012, voter turnout among those in their 60s was 75% while for those in their 20s it was just 38%.) Under the current election system, relatively more Diet members are

CHART 2

## Per capita medical care expenditure (FY2010)



Source: "Estimates of National Medical Care Expenditure", Ministry of Health, Labour and Welfare

elected from rural areas than from urban areas as a proportion of population. The elderly population is also proportionally higher in rural areas than in urban areas. These factors further magnify the electoral influence of the elderly.

In Japan, this state of affairs is sometimes referred to as “silver democracy” (“silver” often being used in Japan in neologisms referring to the elderly, such as the “silver seats” set aside for elderly riders on public transportation). Under silver democracy, it is politically very difficult to achieve reform that moves in the direction of reducing social security spending per elderly person. To some extent, progress has already been made in reducing budget expenditures for public works-related projects in Japan, but social security-related expenditures are still treated as “sacred ground”. Reduction efforts have begun, but very little progress has been made.

In addition, it is expected that in the future there will be an increase in the number of those among the elderly who face challenging financial situations. In the event that the political power of the impoverished elderly grows, politicians will be unable to make policy choices from a long-term perspective and find it difficult to resist the pressure to engage in money politics through shortsighted welfare outlays. The situation has the potential to render traditional democracy dysfunctional. Some argue that the political power of the elderly should be suppressed through wholesale change in the electoral system itself, such as establishing age-based districting or the weighting of votes by average life expectancy. Gaining consensus on such drastic reform of an electoral system grounded in the concept of “one person, one vote”, however, would surely be no easy task.

### Reexamining the Idea of the “Welfare State”

In restructuring the social security system for the super-aging society to come, there is perhaps a need to reexamine the very idea of the welfare state itself. The concept of welfare is difficult to define but surely it is no longer possible, for example, to maintain a welfare state in the sense of employment at high wages for workers while providing a sufficient safety net for everyone else (children and those who are elderly, unemployed, disabled, etc.).

The traditional idea of the welfare state is based on the implicit assumption of state control over domestic economic activities and sustained growth of GDP and the population. When these conditions are not met, it is no longer possible to achieve a traditional welfare state. In other words, the advance of economic globalization has made greater domestic wage disparities unavoidable. Meanwhile, as the advance of super-aging and the declining population lower expectations for sustained economic growth, reductions in social security levels are unavoidable.

Accordingly, there is a need to lower the flag of the traditional welfare state and undertake a drastic restructuring of the social security system. One approach to doing so, I believe, may be to stop the massive redistribution of income intended to curtail domestic income level disparities and instead aim for a more streamlined social security system that guarantees citizens only the minimum needed to live. I call a country that adopts such an approach a “national minimum state”.

Originally, the social security system was conceived of as functioning as a safety net to cope with the risk of lost or reduced capacity to generate income due to old age, death of a family member, illness, disability, unemployment, workplace accident, etc. If we think of social security as a mechanism for coping with such risks — after all, the main risks also make it difficult to maintain a minimum livelihood (the national minimum) — we could give the social security system credit as long as such risks were dealt with appropriately. Dealing with risk appropriately, though, is not the same as eliminating risk altogether, which also eliminates the incentive to take responsibility for minimizing the risks one calls upon oneself.

### Grounds for Transitioning to a National Minimum State

Adopting the view that it is no longer possible to undertake the massive redistribution of income among those who are at or above some minimum level, are there grounds to justify proposing a national minimum state to replace the welfare state? On this point I believe there are, at least for countries such as Japan where the per capita national income level has already risen sufficiently. In high-income countries, it is basically enough to engage in income redistribution that considers only those with low income.

For example, the livelihood assistance standard under Japan’s public assistance system (the minimum cost of living including food, clothing, utilities, etc.) for a three-person family composed of a couple and one child is an annual income of 1,590,000 yen in outlying areas and 2,000,000 yen in Tokyo (23 wards). Referencing the Global Rich List (<http://www.globalrichlist.com/>), we find that the former amount ranks among the top 10% of incomes in the world, and the latter among the top 5%. Differences in consumer prices and the like, of course, mean that such results should be treated with circumspection, but clearly the income considered poverty level in Japan is not necessarily so when seen in a global context.

There are also those who argue that the issue of poverty in Japan is not an absolute line but rather a matter of disparity. If disparity were the problem, however, as the national average or modal income rose so would the minimum standard of living that had to be guaranteed to the people. In a global world, it would be difficult for

any one country to guarantee all of its citizens a minimum standard of living that is extremely high in global terms.

In Japan, the redistribution of income from those with high income to those with moderate to low income is ineffective because there are too few people with high income. Raising the highest income tax rate not only generates only modest additional tax income but also has the side effect of encouraging tax avoidance and emigration by those with high incomes. As a result, the emphasis under a national minimum state should be placed on redistributing income from those with high and moderate incomes to those with low incomes, which would enable building an effective safety net. The problem with Japan's current personal income tax system, by the way, is insufficient taxation of those with moderate income, which prevents the effective redistribution of income taxes.

### The Social Security System in a National Minimum State

The most important thing for the social security system in a national minimum state is to drastically reform the current system of public assistance to rebuild an effective safety net. Under the current system of public assistance, in some cases the livelihood assistance standard is higher than the minimum wage, and yet there are also many people who do not receive public assistance despite being impoverished. There are also problems with unscrupulous dealers who swindle recipients of public assistance out of their distributions.

There is a need, therefore, both to lower the livelihood assistance standard and to switch wherever possible to benefits in kind. Lowering the level of distributions is necessary not only as a matter of finances but also from the perspective of preventing illegal receipts of benefits. In addition, given that the social security and tax number system is scheduled for full-scale adoption in 2016, this system should be used to raise the catch rate for public assistance in order to provide an effective guarantee of the national minimum, and to prevent the illegal receipt of benefits. With respect to medical assistance (a different category from livelihood assistance), which is provided even now as a benefit in kind to recipients of public assistance, strict information management using this number will be essential.

With respect to public pensions, there is a need both to promptly raise the pensionable age and to reliably adjust benefit amounts in accordance with population dynamics. Shifting to a system of funded plans should probably also be a long-term aim. As for nursing care insurance, drastic reform is needed as well as continued efforts to promote privatization wherever possible through deregulation of the nursing industry and by increasing the self-pay ratio for nursing services. The public medical insurance system will also probably need both to promote competition in the medical services industry

through deregulation and to increase the self-pay ratio for all age ranges, particularly for the elderly who enjoy the preferential low self-pay ratio.

### The Role Japan Should Play

Reform of the social security system as described above, moving from a welfare state to a national minimum state, will naturally be painful for many citizens, but is unavoidable if Japan's social security system is to continue. As a starting point for putting such major reforms into practice, we first need to renounce the traditional idea of the welfare state.

Given Japanese society's strong orientation toward homogeneity and equality, the transition to a national minimum state will undoubtedly be impossible to achieve without overcoming massive resistance. Japan is not the only country that has noted the welfare state impasse, but large-scale reform of the social security system under a democratic political system is a difficult issue. In *Democracy in America* (1840), Alexis de Tocqueville suggested that in a democracy, the more egalitarian the circumstances between people become the more they tend to desire true equality, making even the smallest difference unbearable.

There are aspects of lowering the flag of the welfare state and limiting the role of the social security system to achieve the national minimum that go against people's desire for equality in a democracy. Still, in a society with a declining population, an inverted-pyramid age structure, and no expectation of economic growth, surely there are also serious questions one could raise about whether traditional "one person, one vote" democracy will even be able to function normally. Some may take the pessimistic view that democracy is facing its limits and that only a powerful state is capable of riding out such a major crisis.

The change in population dynamics will have major effects and is one of the few long-term changes that can be predicted with any certainty; finding ways to cope can certainly be called a worthy challenge. Should Japan, the first country to face such serious changes in population dynamics, prove capable of showing the world a model for a national minimum state that maintains the freedoms and economic vitality of a democracy, it will surely have made a valuable contribution to the world. The problems facing Japan are huge, and demand a bold response by its country's citizens in taking on the challenge.

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*Satoshi Watanabe is a professor at the School of International and Public Policy, Hitotsubashi University. He is a former Ministry of Finance official, and specializes in taxation and public finance.*