

What Kind of Society Do We Want to Create? — The Role of Elections

By Kazumasa Kusaka

Japanese Prime Minister Shinzo Abe called for a general election in October 2017. The major campaign issues included security on the Korean Peninsula and how to cope with the greying population. On the latter, the ruling coalition proposed to increase the consumption tax rate as scheduled from 8% to 10%, but to change the use of the additional revenue to investment in child education, making it essentially free. This means social security is not only for the senior generation but for all generations. On the other hand, the new party led by Tokyo Governor Yuriko Koike committed to postponing the tax increase and offering free education without specific reference to how to finance it.

Globally, over the last three years, we have seen a referendum on Scottish independence, a vote by the United Kingdom to leave the European Union, and more recently independence referendums held by Kurds and Catalans. Immediately after each vote, the arguing over how to interpret the results began. The British foreign minister, for example, was quick to point out that the UK is promoting free trade and investment and will pursue ambitious FTAs.

Whether voters can base their decisions on sufficient and accurate information is a critical factor for a democracy to function properly. How reliable were the allegations that voters in the UK referendum, whether for or against Brexit, lacked solid evidence? Was the loss of factory employment in US manufacturing industries really due to globalization, as presidential candidate Donald Trump claimed? Or as this year's Japanese White Paper on International Economy & Trade analyzes, is it the case that globalization itself contributed to economic growth and job-creation while technological innovations were the driver in reducing the number of workers in factories?

Returning to the election debate in Japan, Japanese social security expenditure accounts for one-third of the budget, or 22% of GDP. This ratio exceeds that of the United States, is equivalent to that of the UK, and is lower than the 30% levels of France and Sweden. On the question of how much individuals pay for the service, in Sweden 50% of personal income and an additional 6% social security fee must be paid by individuals. The Japanese national burden rate of 42% certainly is inconsistent with the level of service. Social security costs add up to 60% of total tax revenues and are equivalent to the annual amount of Japanese government bonds.

If we look ahead to around 2025, the picture is rapidly deteriorating and becoming unsustainable because of demographic developments. The current ratio of elderly people in

the country, over one-fourth, will increase to over one-third in 2025. This trend is not unique to Japan, but the speed of change is unprecedentedly high. So it is obvious that we are far away from the past when the working-age population of postwar baby-boomers supported a small population of elderly, and we will face an unsustainable system of medical care, care-giving and social welfare. The consequence is that the fiscal system and social security system could collapse together.

How much is this clearly understood by the nation? Many who aspire to a high level of welfare do have some recognition of its accompanying burden. So, logically, the potential choices are among “high welfare — high burden”, “mid — mid”, and “own risk — low burden”. The next question then is who pays, i.e. we need an income redistribution policy to define how the total cost can be shared. Economic arguments apart, when it comes to elections, “high-level welfare and kicking the can of burden down the road” seems to be popular and passes without being criticized.

On this point, a splendid book whose title translates as “Social Security Crisis — Shock of the Year 2025 Problem” was published in October 2017 by my friend Kenji Yamada of Nomura Research Institute. The author had believed that pointing out this critical situation was the responsibility of politicians or bureaucrats, but the publisher persuaded him to write a book about it. For it is ultimately experts who must tell inconvenient truths about the unsustainability of the system. If a political leader assumes that role and reveals the bad news first, quite often he or she would not be reelected to try and tackle the problem.

Taking the example of transactions in commodity goods, consumers need accurate information on volume, price and quality in order for the market to function. In a democracy, in order for elections to function well, the same assurances are needed by voters. The causal relationship between globalization and employment or the consequences of AI innovation are certainly more complicated than the social security issue. But it should be the role of experts, academia and the media to do their homework well before the election campaign begins to offer such “public goods”. What kind of society voters choose will then be based on their own preferences after having acquired this information and listened to political leaders.

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