
Development of Social Expenditure Statistics of Japan: From ILO to OECD

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**DEVELOPMENT OF SOCIAL EXPENDITURE STATISTICS OF JAPAN:
FROM ILO TO OECD**

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Abstract

This paper is divided into two parts. The first part gives an explanation of the international statistical frameworks of the ILO and the OECD used for the analysis of social expenditure, describes how they were introduced and developed by the Japanese government, then reports on recent changes introduced after the Global Financial Crisis of 2008 and on policy discussions which have taken place in Japan on possible reforms of the taxation and social security systems. The second part of the paper describes the trends of Japanese social expenditures between 1980 and 2007 classified according to OECD guidelines using the OECD SOCX database.

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1. Review of Development of Social Security Statistics in Japan

1.a. Historical background of the development of Social Expenditure statistics

Japan joined the United Nations in 1956 and commenced contributing its data on social expenditures to the relevant United Nations agency - the International Labour Organisation (ILO) - soon after. Japan had submitted data on total social expenditure from 1950 however comprehensive data was not provided until soon after it joined.

According to the ILO publication “Nineteenth International Inquiry” of 1997, the ILO has been improving its Social Expenditure statistics since 1949. After the 19th inquiry was presented in 1997 the present framework of functional categories was introduced. In 2005, the ILO Social Security Inquiry (SSI) was created as a multiple database including the data of the 19th inquiry. Japan adopted the new framework of the 19th inquiry from 1998; however, the former statistical framework has been kept to fulfill domestic policy requirements. Japan had been publishing its results using the framework adopted by the 18th inquiry. The pre-1998 results split expenditure into three categories: ‘Pension’, ‘Medical care’, and ‘Welfare and others’. Other than these a disaggregation into ‘Social Security Expenditure for the elderly’ and ‘Social Security Expenditure for child and family’ has been used to assist domestic policy discussions.

In the past two decades the OECD and EUROSTAT have played leading roles in the development of statistics in the field of social policy and have promulgated guidelines to facilitate international comparisons; however, the ILO was the pioneer in this field. This was because the ILO has responsibility for monitoring developments in this area in order to assess employees’ working

conditions for its member nations². Interest in social expenditures has grown as its scope has broadened over the years. The term ‘Social Protection’ is often used in Europe to reflect a broader scope of social expenditures which extend to larger percentages of the population. The European System of Integrated Social Protection Statistics (ESSPROS) was developed during the 1970s by Eurostat jointly with representatives of the Member States of the European Union³. In 1996, Eurostat published an ESSPROS Manual and totally revised its framework. According to the manual, “the ESSPROS Methodology needed more flexibility to respond to the increased and shifting data requirements of social policy and research”⁴. The manual defined concepts more clearly and included useful examples to assist readers to understand the framework. In 1997 the OECD Social Expenditure framework (SOCX) was developed. It followed the ESSPROS framework closely in many aspects due to the fact that all EU member nations are also members of the OECD. The OECD secretariat participated in the meeting of ESSPROS during which the SOCX framework was agreed in 1997. Revisions to the SOCX framework in 2001 and 2004 led to the number of categories being reduced from 13 to nine. The Active Labour Market Programmes (ALMP) was also introduced with expenditure on ALMP being separated from Unemployment Expenditure. A further change was that ‘occupational injury and disease’ and ‘sickness benefits’ were merged into one category ‘incapacity-related benefits’. Although the OECD SOCX framework closely resembles that of ESSPROS it does have some slight differences. For instance, ESSPROS covers benefit transfers to individuals only whereas OECD SOCX includes other benefits such as construction expenditures, which are not necessarily received by individuals. Also OECD SOCX includes ALMP, whereas ESSPROS does not.

2 ILO (2007) p.1 The office has carried out eighteen inquiries into the Cost of Social Security since 1949 and results have been published in the form of publication. Data on receipts and expenditures have been collected within the framework of ILO Convention No.,102(1952) concerning Minimum Standards of Social Security, and ILO Recommendations Nos.67(1944) and 69(1944).

3 EUROSTAT (1996) p.1.

4 EUROSTAT (1996) p.1.

1.b. Recent change of Japanese Government attitude towards international statistics

Although Japan has contributed data to the ILO for a long period since it joined the UN, the importance of international comparisons of social expenditure statistics was not well appreciated for a long time. Japan used social expenditure statistics for domestic policy discussions only and did not recognise the usefulness of international comparisons for informing policy discussions. But over the past decade people started paying more attention to international comparisons. There are two reasons why people's attitudes may have changed. The first reason was the economic recession which followed the September 2008 Global Financial Crisis (GFC) that badly affected the Japanese economy. From that time there was a greater recognition in Japan of the unemployment problem it faced as the unemployment rate rose significantly. The average national unemployment rate was 5.1% in 2008 and 2009 which, although low compared with other OECD countries, was the highest recorded in Japan since the 1970s. There were a number of people who lost their jobs and residences in this period due to their insecure labor contracts and social insurance schemes which did not offer them the protection they needed. In many cases these workers had no income security or livelihood assistance and became homeless immediately after they lost their jobs. The Democratic Party, which established a new government in September 2009, placed a high priority on addressing the issue of poverty.

The second reason why international comparisons of social expenditure statistics have become more important has been the amendments to the Statistical Act in April 2010 which placed a higher priority on social expenditure statistics. The changes to the Act required, by 2013, social expenditure to be

designated as Fundamental Statistics by the “Basic Plan”⁵. This necessitated, by 2011, an improvement in the international comparability of Japanese social expenditure statistics and a harmonization of the Japanese framework with international statistical frameworks including the OECD’s SNA (System of National Accounts) and SHA (System of Health Accounts). Under the Act, there are three conditions which statistics designated as Fundamental Statistics⁶ can satisfy.⁷

The Japanese Government has recently considered which international framework should be used - that of the ILO or that of the OECD. It was decided that both frameworks should be used. The ILO framework for the cost of social security has been used for domestic policy discussions for many years and it was considered important that it continue to be available for this purpose. A significant issue is that SOCX is exclusively expenditure data and does not include data on receipts. This is a problem as the means of financing social expenditures is a major issue for Japan and a focus of debate about the best ways of managing spending while providing benefits for the welfare and wellbeing of the Japanese population. The issue is exacerbated in Japan by the rapid ageing and declining birthrate of the Japanese population. On the other hand, the ILO framework was no longer sufficient for international comparisons due to the delay in compiling the data⁸, whereas the OECD SOCX has been constantly updated since 1997.

5 The “Basic Plan” is compiled to improve public statistics and specifies measures that the government shall implement comprehensively and systematically in order to develop official statistics (Article 4.2.(2).ii).

6 The Statistical Act 2.4.(iii).

7 Statistics that are or are to be produced by administrative organs and are designated by the Minister of Internal Affairs and Communications as those falling under any of the following:

- (a) Statistics that are particularly important for planning national policies and implementing them;
- (b) Statistics that are expected to be widely utilized for decision-making or research activities in the private sector;
- (c) Statistics that are required to be produced by international conventions or plans established by international organizations or that are particularly important in view of international comparability.

8 The 19th inquiry covers up to 1996. The SSI has been under construction since 2005.

Japan has also had to face up to quickly reconstructing the areas stricken by the 2011 Tsunami, earthquake, and damaged nuclear power plants. Since 2010, the government has been discussing reforms to better harmonize the taxation and social security systems. A strong goal is raising the consumption tax rate to fund the increase in the cost of social security following the 2011 disasters. However, local governments have suggested that the additional revenue from the consumption tax should be shared among the different levels of government. The ILO social expenditure statistics have been used as the reference data to determine the division of revenue between the central government and local governments for funding the costs of social security. As the ILO receipts data is essential to inform policy discussions the Japanese government has decided that both of ILO and OECD statistics will be designated as Fundamental Statistics in 2012. However, there have been various difficulties in adapting the OECD's SOCX. First, the OECD compiled expenditure data which was broader than the ILO and included expenditures such as capital costs⁹. Second, the OECD also introduced more disaggregated categories of expenditure such as 'Mandatory Private Social' and 'Voluntary Private Social'. The total cost of social expenditure which was accepted widely among people in Japan was based on the ILO framework. Up to now, the OECD data has been shown as reference data only in Japanese social expenditure publications, however they will, from 2012, become more prominent in social expenditure statistics in Japan.

1.c. Difficulties in international comparisons of Social Expenditure statistics

Because of the importance of having statistics which facilitate international comparisons the Japanese government had discussions with the OECD in

⁹ The OECD adopts "Global Cost" whereas the ILO includes only benefits.

1992. It was decided that a database of social expenditure should be introduced as a part of an action plan. It was designed to be transparent through the recording of spending items at a detailed level: the 'social expenditure program'. International cooperation is necessary to obtain agreement on the best way to compile data on social expenditures so that international comparability is achieved. However, every nation has its own historical background and domestic priorities which necessitate it building its own social expenditure framework - which does not necessarily correspond to agreed international frameworks.

1.d. Definitions and scope of the international comparisons

The original framework recommended by the ILO was a social insurance centered one.

The ILO defines social expenditure to be all schemes or services which meet the following three criteria:

- i) The objectives of the schemes must be:
 - (a) to grant curative or preventive medical care;
 - (b) to maintain income in case of involuntary loss of earnings or an important part of earnings; or
 - (c) to grant a supplementary income to persons having family-support responsibilities.
- ii) The system must have been set up by legislation which attributes specified individual rights to, or which imposes specified obligations on, a public, semi-public or autonomous body.
- iii) The system should be administered by a public, semi-public or autonomous body.

However, where the liability for the compensation of employment injuries

is imposed directly on the employer, the schemes for employment injury compensation are included in the scope of social security expenditure even if they do not meet criterion iii) above.

On the basis of the criteria listed above, the schemes included in these statistics are shown in Table 1 below which illustrates the ILO framework.

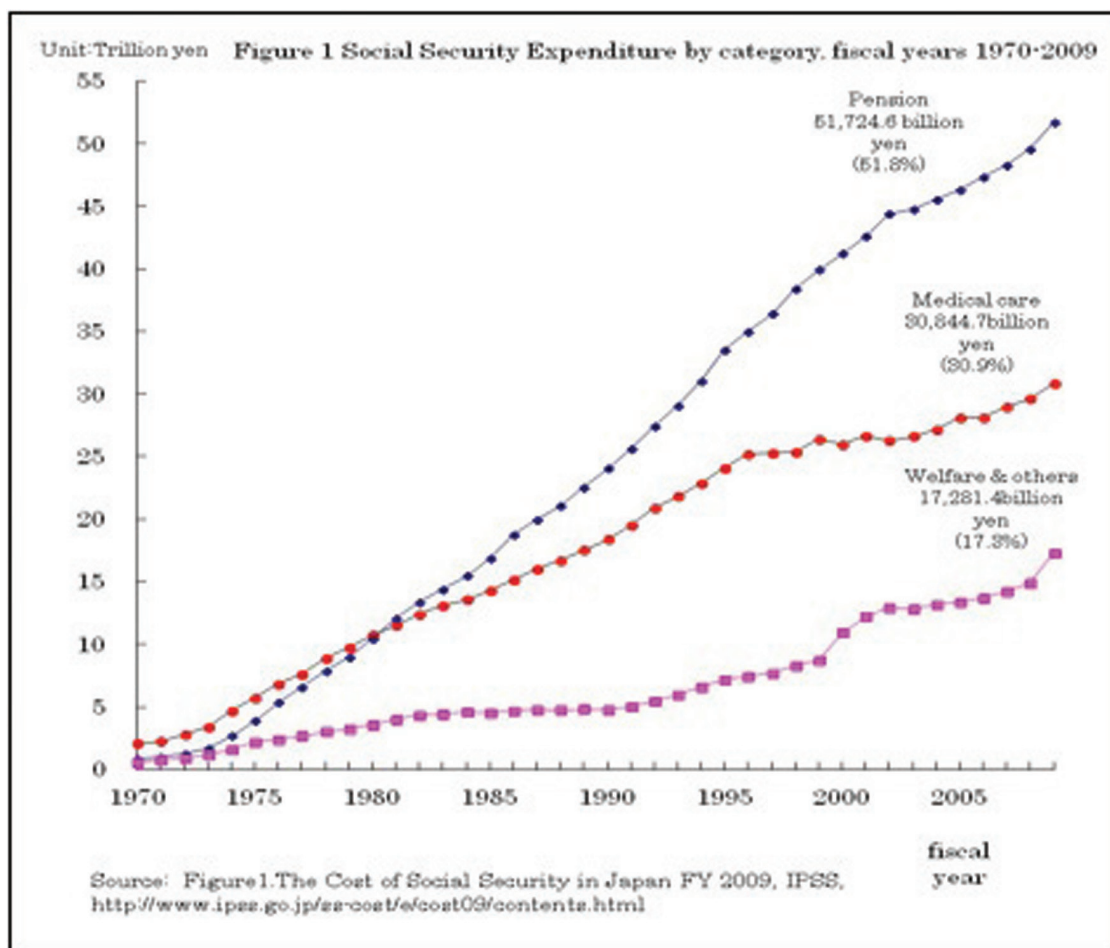
Table 1: The Cost of Social Security

Social Security schemes	Receipts								Total receipts
	Contributions		Social Security Special Tax	State participation	Other public authorities	Income from capital	Transfer from other schemes	Other receipts	
	Insured persons	Employers							
Social insurance									
Family allowance									
Public employees									
Public health service									
Public assistance & social welfare									
War victims									
Social Security schemes	Expenditures							Total expenditures	Difference between receipts and expenditures
	Benefits				Administrative costs	Transfer to other schemes	Other Expenditure		
	Medical care	Benefit in kind other than Medical care	Cash	Total					
Social insurance									
Family allowance									
Public employees									
Public health service									
Public assistance & social welfare									
War victims									

Note social insurance includes unemployment insurance and employment injury compensation insurance.

While this framework is relatively simple many countries have special circumstances which mean they deviate from the ILO categories: For instance, the UK replaces ‘Social Insurance’ with its ‘National Health Service’ category. Historically speaking, in Japan three categories, ‘Pension’, ‘Medical care’, and ‘Welfare and others’ have often been used in domestic policy discussions (see Figure 1). These three aggregated categories were derived from the pre-1998

ILO framework by Japan¹⁰. Under the benefits, there are two ‘Medical care’ categories - ‘Sickness & Childbirth’ and ‘Work-related accidents’ - and two ‘Pension’ categories - one under ‘benefits’ and another under ‘Work-related accidents’.



An example of a policy debate was when ‘Welfare and others’ representing old age care became an issue for discussion in the 1990’s because of shortages in funding - which led to Japan attempting to introduce long-term care insurance. At that time, it was said that the ideal split of the total social expenditure pool should change from 50%:40%:10% (where the figures are the percentages

¹⁰ See the Table 9 of the Cost of Social Security in Japan, from the IPSS website.

spent on ‘Pension’, ‘Medical care’ and ‘Welfare and others’ respectively) to 50%:30%:20%¹¹. This suggested that an amount of expenditure should be shifted from ‘Medical care’ to ‘Welfare and others’ especially to Old-age care. Japan devised a comparative table of three categories by using the former ILO tables – these were published until 1997. See the table in the footnote, where the total benefits by categories as a percentage of National Income are compared for selected countries ¹².

The original ILO framework did not identify Pension, but only cash benefit. Therefore, cross between pension scheme which is recognized from the title and cash benefit are defined as Pension of Japanese definitions of three categories, ‘Pension’, ‘Medical care’, and ‘Welfare and others’. Japan also introduced two original categories of expenditures: ‘Social Security Expenditure for the elderly’ and ‘Social Security Expenditure for child and family’. ‘Social Security Expenditure for the elderly’ was introduced in 1985 while ‘Social Security Expenditure for child and family’ was introduced in 1998. In 1985, a new medical care scheme involving cross subsidization of expenditure on health for the elderly was enacted. A rapid increase in medical care expenditure for the elderly was an issue of concern for local governments, because this expenditure was causing a heavy financial burden for National

11 Welfare Vision for the 21st century by the Ministry of Health, Labor, and Welfare, announced in March 28th in 1994.

12

Country	Total Comparison with National Income	Unit:%			Total benefits Currency unit by country: Million	Benefits per head Currency unit by country
		<i>Medical care</i>	<i>Pensions</i>	<i>Welfare & Others</i>		
Japan FY1997	17.8	6.5	9.3	2.0	69,418,725	550,217 yen
FY1993						
Japan	15.2	5.9	7.8	1.6	56,797,461	455,239 yen
U.S.A.(FY1992)	18.7	6.8	8.4	3.5	906,195	3,494 dollars
U.K.	27.2	7.3	10.8	9.1	132,646	2,279 pounds
Germany	33.3	8.7	14.3	10.3	799,688	9,901 marks
France	37.7	9.2	18.4	10.2	1,973,922	34,313 francs
Sweden	53.4	10.0	20.1	23.3	557,135	63,708 krone

Source, The Cost of Social Security in Japan PY1997, Table 5 International Comparison of Social Security Expenditure by category as a percentage of National Income.

Health Insurance programs which were managed by local governments. In 1998, 'Social Security Expenditure for Child and Family' was introduced against the background of a declining Japanese birth rate.

There was also a discussion about the imbalance between expenditures on elderly households and expenditures on working households, with the suggestion that the elderly were receiving excessive benefits while services for child day care and payments of family allowances were inadequate. Policy makers who wanted to demonstrate the imbalance between expenditure on the elderly and on youth were, however, constrained by a lack of data by age group. The new expenditure categories for the elderly and child and family have provided data which has assisted these policy discussions.

1.e. Recent discussion on the Social Expenditure statistics in Japan

As mentioned previously, the Japanese Government has almost finalized its consultation on reforms to harmonize the taxation and social security systems from the beginning of 2012. The Government plans to double the consumption tax rate from 5% to 10%, and to use this additional revenue exclusively for social security measures. Local Government has emphasized that they pay more benefits than are reported in social expenditure statistics because of data limitations¹³. This limitation is not unique to Japan but evident in several other countries including Korea¹⁴. Adema, Fron & Ladaique (2011) in a recent paper also mention the weakness of data on local government in the

¹³ The costs shared exclusively by the local authorities such as cities and towns for child and elderly welfare services should be included only if they match with the ILO definitions above. However, they are not necessarily included, due to lack of data from the local governments. (IPSS 2011).

¹⁴ Kyeonghwan Gho, Youngsik Chang and Jiwon Kang (2010) SOCX TECHNICAL PAPERS (2010)1, OECD/Korea Policy Centre, Health and Social Policy Programme : SOCX TECHNICAL PAPERS ESTIMATION OF SOCIAL EXPEDITURES IN KOREA :1990~2007.

current SOCX data collection¹⁵. This issue is complex and while it appears some Local Government expenditures should legitimately be included, others should be omitted¹⁶ because the scope of social security benefits and expenditures must be consistent with international definitions. For example according to the ILO's 19th inquiry, to be included in its definitions the system must have been set up by legislation¹⁷; however, some benefits paid by local government are not covered in legislation. An example was a post-GFC program involving payments for unemployed youth paid through a lump sum into a special fund managed by Local Government. Private agencies and non-profit organizations receive subsidies from this fund and provide services such as training to unemployed youth. These services and benefits were not written in legislation. The parties concerned are being asked to provide the appropriate data on such special funds so that the statistics can be amended, if appropriate.

2. Trends of Social Expenditure in Japan between 1980 and 2007

Social expenditure in Japan was 98.7 billion yen in 2007, almost twice that of 1990. In terms of functional classification, the "Old Age" branch had the highest share, followed by the "health" sector (Table 2). During the period from 1990 to 2007 "Old Age" increased by 146%; "Family" increased by 148%; "Other Social Policy" areas increased by 106%; Active Labour Market Programmes (ALMP) decreased by 43%. Possible explanations of the large Old Age branch increase would be the increase in the number of beneficiaries, the maturity of public pension plans and the ageing of the population. Government policies promoting increases in the fertility rate and greater child allowances and day

15 Willem Adema, Pauline Fron, Maxime Ladaique, (2011) p.92.

16 The Ministry of Internal Affairs and Communications proposed additional 6.2 Trillion yen to be included by their own estimates of annual settlement data in FY 2010. (2011.11.10)

17 ILO (1997) p.6.

care services would have contributed to the increase in Family branch. Both cash and in-kind expenditure contributed to the increase in Family branch. The livelihood expenditure explains Other Social Policy Areas' increase. On the other hand, the ALMP decrease can be explained by the lack of labour programs necessary during the period of relatively low unemployment.

Table 2: Trend in social expenditure by branch, 1990-2007 (million Yen)

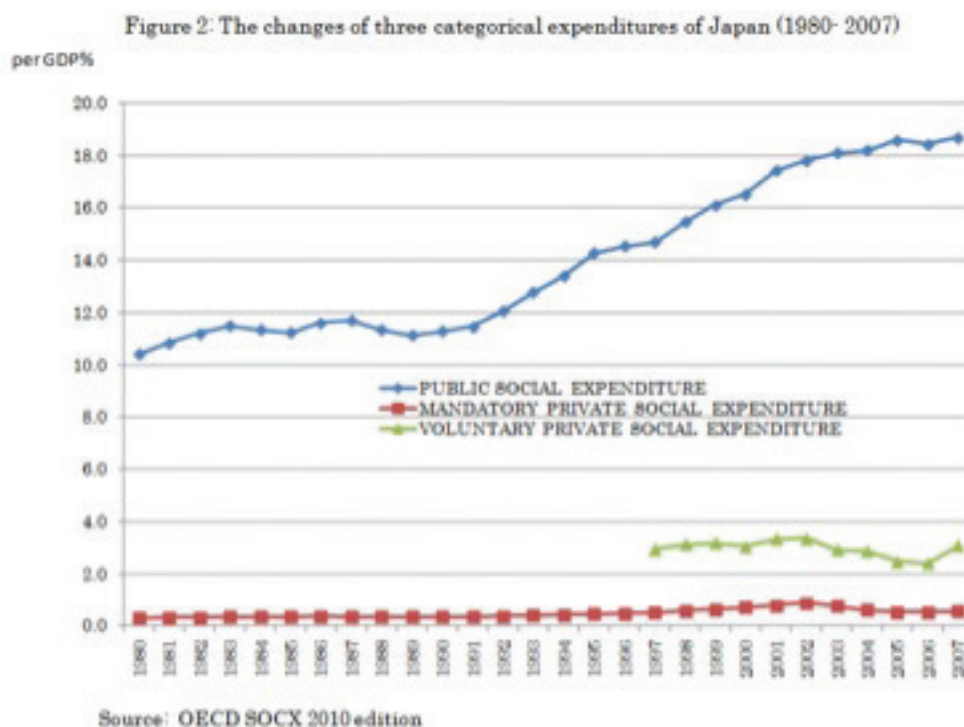
Branch	Year				
	1990	1995	2000	2005	2007
OLD AGE	19108.8	27712.7	37352.1	45119.4	47030.7
	100.0	145.0	195.5	236.1	246.1
SURVIVORS	4234.7	5359.8	5981.4	6481.7	6656.4
	100.0	126.6	141.2	153.1	157.2
INCAPACITY-RELATED BENEFITS (Disability, Occupational injury and disease, Sickness)	3401.4	4345.7	4677.3	4437.6	4931.1
	100.0	127.8	137.5	130.5	145.0
HEALTH	20261.9	28167.9	29765.7	31795.0	32321.7
	100.0	139.0	146.9	156.9	159.5
FAMILY	1637.5	2568.1	3241.8	4073.5	4062.8
	100.0	156.8	198.0	248.8	248.1
ACTIVE LABOUR MARKET PROGRAMMES	1469.1	1568.5	1419.6	1277.5	835.3
	100.0	106.8	96.6	87.0	56.9
UNEMPLOYMENT	1447.8	2588.9	3064.8	1685.9	1584.5
	100.0	178.8	211.7	116.4	109.4
HOUSING	-	-	-	-	-
OTHER SOCIAL POLICY AREAS	653.9	915.6	978.8	1328.5	1349.4
	100.0	140.0	149.7	203.2	206.4
Total	52215.1	73227.2	86481.3	96199.1	98771.8
	100.0	140.2	165.6	184.2	189.2

Source: OECD SOCX 2010 edition

As indicated in the SOCX 2010 edition, 84% of social expenditures are categorized as public expenditure in Japan. Within the same data, Voluntary Private Social Expenditure is reported as a total only, however, it has some data limitations. Not every nation reported Voluntary Private Social Expenditure in the same manner. Japan started identifying this category in the study of OECD (2009)

Figure 2 indicates the changes of the three categories of Japanese social expenditures over the period from 1980 to 2007. Public Social Expenditures

increased from 10.4% of GDP in 1980 to 18.7% of GDP in 2007. Mandatory Private Social Expenditures also increased from 0.3% to 0.6% of GDP over the same period. Voluntary Private Social Expenditure increased from 2.9% to 3.1% of GDP between 1997 and 2007.



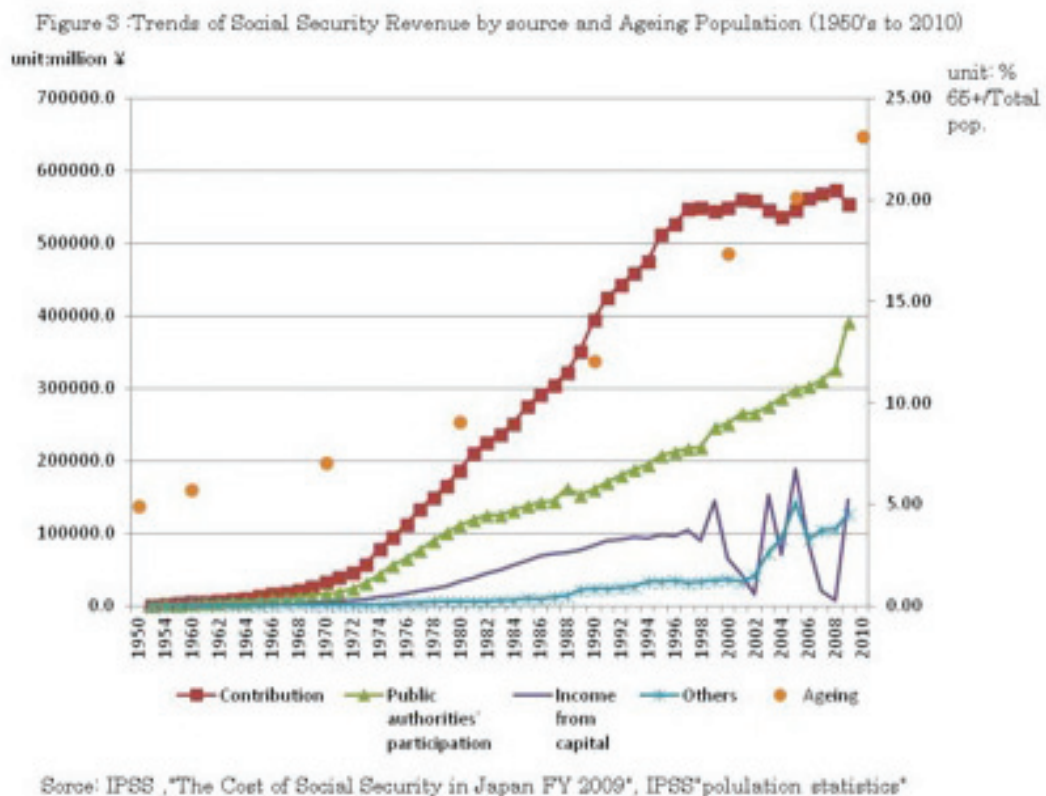
2.a. Public Social Expenditure

The OECD defines Public Social Expenditure as social spending with financial flows controlled by the General Government sector (including spending by different levels of government and social security funds). It includes social insurance and social assistance payments¹⁸. Historically speaking, Japanese social security schemes were based on schemes set up in Germany before World War I. Originally social insurance schemes were the core. After the Meiji

¹⁸ OECD (2011)p.93 Paragraph 81.

Restoration of 1868, only a limited number of public employees - including military personnel - accepted gratuities. As Japan industrialized, large corporations introduced social insurance for their employees. In 1927, the first health insurance legislation for private sector employees was introduced in Japan, but a universal system was not introduced until after World War II. In 1959 legislation for national health insurance and national pension insurance schemes was introduced.

During the high economic growth era the social insurance schemes functioned well. However since the Japanese asset price bubble burst in 1991 with a rapidly ageing population the schemes have struggled financially. For instance, national health insurance was initially targeted at the self-employed, but the elderly, who were mostly retired employees, have become dominant among the current beneficiaries. Without cross subsidization between national health insurance and employees' health insurance, the scheme could not fund all the health care costs. Funding for social expenditures is shown in Figure 3.



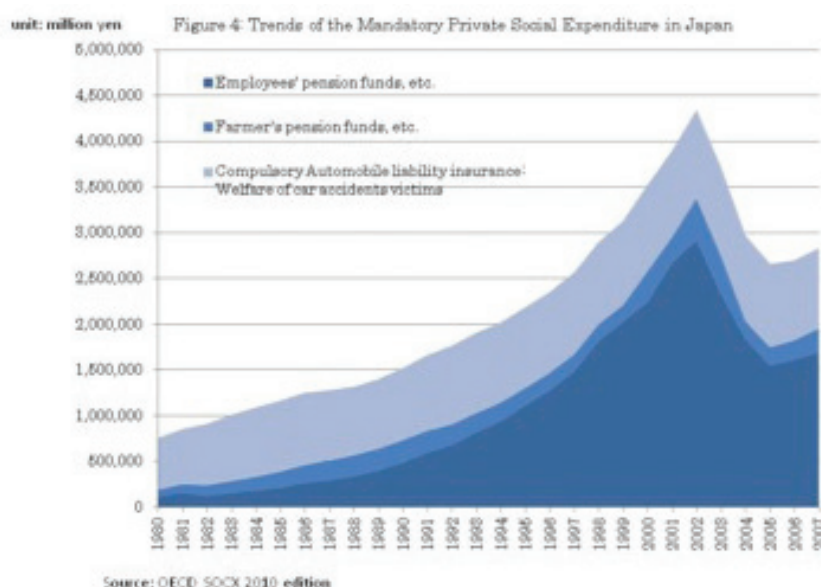
After increasing progressively up to the mid-1990's, contributions by employers and employees remained static until 2008, after which they declined. The rapid increase in the elderly share of the population together with the diminishing working age population caused by Japan's low fertility rate both led to the leveling off and eventual reduction in contributions. This necessitated the contributions from the public authorities and central and local governments having to increase significantly to compensate the revenue for declining contributions.

Public sector contributions to the funding of social expenditures have continuously increased.

2.b. Mandatory Private Social Expenditure

The OECD defines Mandatory Private Social Expenditure as the social support stipulated by legislation but operated through the private sector, e.g., direct sickness payments by employers to their absent employees as legislated by public authorities or the benefits accruing from mandatory contributions to private insurance funds.

Japan's occupational pension schemes are classified in this category, along with the Employees' Pension Fund, which provides public employees with pension insurance; Farmers' pension funds which promote farmers' successors by providing, which is similar to the second tier pension like employees. National pension funds which are run by local government and occupational funds and provide the third tier coverage for the self employed¹⁹; and compulsory automobile liability insurance for the welfare of car accident victims (see Figure 4).



¹⁹ The first tier refers to the basic pension for all residents while the second refers to employee's pension and depends on the amount of remuneration. The third tier is an optional scheme that is provided either by private firms(employers) for their employees, or by collective national pension funds for the self-employed for which government is the insurer.

Mandatory Private Social Expenditure increased steadily until 2002 after which it declined significantly until 2005. Since then Mandatory Private Social Expenditure has slightly increased due to the increase in contributions to Employee Pension Funds as more people reached retirement age and started receiving benefits. In 2001 two cooperate pension plan Acts were passed. They were the Defined Contribution (DC) Corporate Pension Plan (DC Plan) Act and the Defined Benefit (DB) Corporate Pension Plan (DB Plan) Act. The 2002 peak was due to changes in the International Corporate Accounting System which were introduced in April 2001, under which many corporations shifted to the Defined Contribution Corporate Pension Plan from Employee Pension Funds. The future obligations of the retirement allowance and the corporate pension, which had been dealt with as off-balance-sheet by the former corporate accounting arrangements, have to be included in the new corporate accounting as Projected Benefit Obligations²⁰. Because of this change many corporations shifted their pension plan from a DB plan to a DC plan.

2.c. Voluntary Private Social Expenditure

The OECD defines Voluntary Private Social Expenditure as benefits accruing from privately operated programs that involve the redistribution of resources across households and include benefits provided by NGOs, and benefits accruing from tax advantaged individual plans and collective (often employment-related) support arrangements, such as for example, pensions, childcare support, and, in the United States, employment related health plans.

Under this category, Japan provides retirement allowances by enterprises, DB Plan and DC Plan pensions, Tax Qualified Employee Pensions, benefits paid

²⁰ Katsumata (2003) p.67.

by the Japan School Health and Sport Center, and Retirement Allowances by the mutual benefit organization for workers' retirement allowances. The Retirement Allowance is included because it is applied in favor of employees of retirement age for retirement income deductions. If a benefit is received as a lump sum, it qualifies as a retirement income deduction, and the longer period of employed years, the less tax is imposed²¹. The benefit paid by the Japan School Health and Sport Centre is for the children in compulsory education to compensate them for the cost of injury and loss of life incurred while they played and studied at schools. Parents are encouraged to join the insurance plan which only requires very small contributions. A public organization runs the plan, with the Ministry of Education and Science and Technology subsidizing a part of the administration costs. The mutual benefit organization for workers' retirement allowance is also run by a public corporation with partial subsidies being paid by governments. The employees of middle and small size corporations can receive retirement allowances if the employers and employees of these corporations contribute to this organization. DB Plan pensions, DC Plan pensions, and Tax Qualified Employee Pension Payments are not always included as Voluntary Private Social Expenditure because the Tax Qualified Employee Pension data has not been available since 2002. DB Plan and DC Plan data have also not been available since these Plans were introduced in 2001, although since 2007 this data has been estimated and was included for the first time in the NET SOCX data collection in 2009. The Voluntary Private Social Expenditures are not included in aggregates of Japanese SOCX data when the government uses the data for international comparisons as the components of SOCX in this category are not necessarily well defined. What should be included in the Voluntary Private Social Expenditure category is an issue which needs further consideration so that comparisons can be made with other OECD countries.

21 Katsumata (2003) p.70.

2.d. Gross Social Expenditure

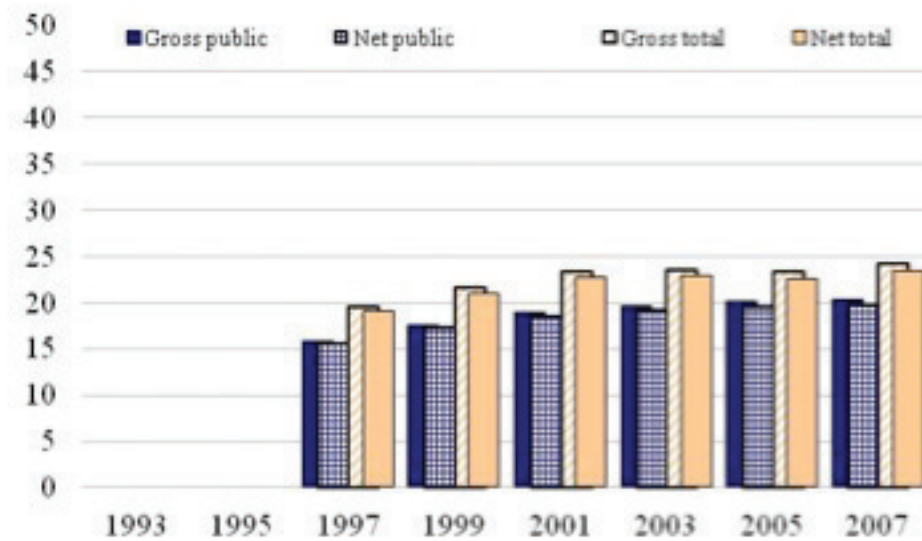
As can be seen from Table 2 social expenditure on old age contributed the largest share (47.6%) in 2007, with health the second largest share (32.7%) The combined categories indicate that expenditure on income security for the elderly and on health care (much of which would be for elderly patients) made up the vast majority of social expenditure. This reflected the fact that the public pension scheme has become mature as retired people from the baby boomer generation became pensioners.

Family policy is recognized as being very important due to Japan's low fertility rate. The Japanese government has particularly focused on child allowances and day care services, however there are difficulties securing increased revenue to expand these programs because of tight budget controls. SOCX data are often used to provide evidence of the differences in Japan's mix of support for the elderly and for families compared to the typical mix of other OECD countries.

2.e. Net Social Expenditure

According to the OECD (2011), with the impact on transfer income recipients from both indirect and direct taxes being relatively small the net social expenditure of Japan is relatively close to gross social expenditure (Figure 5).

Figure 5: Gross and net social expenditure trends of Japan



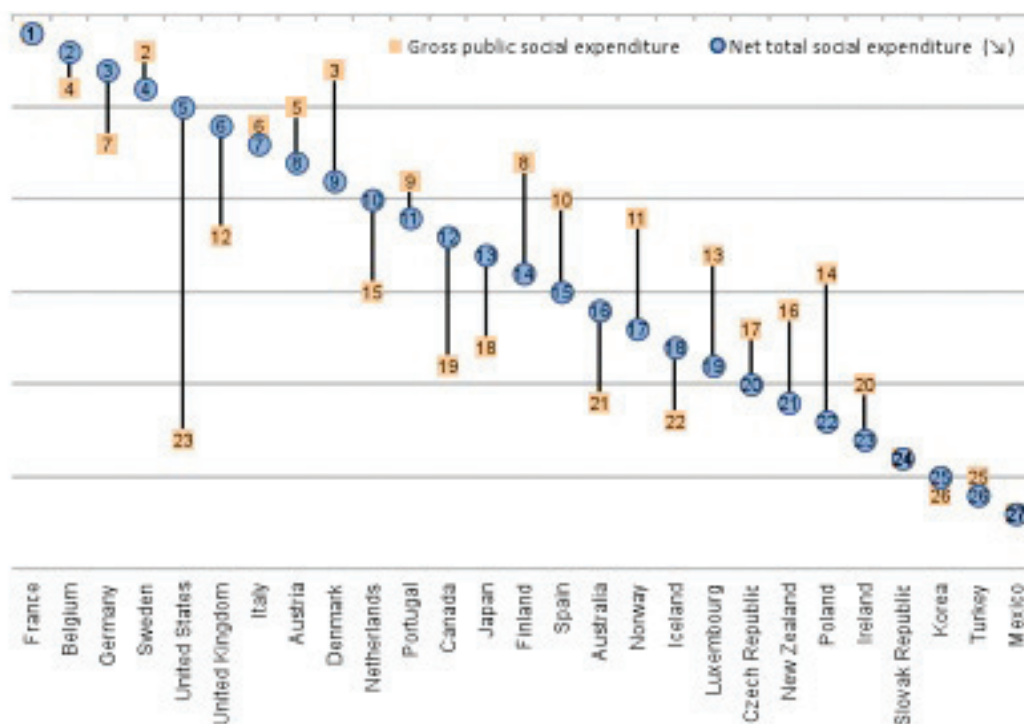
Source: OECD (2011)

Due to the fact that Japan has a relatively low consumption tax rate of 5%, indirect taxes borne by transfer income recipients do not affect the net social expenditure very much. However, if in the near future the consumption tax rate in Japan doubles through the Government introducing harmonized reforms of taxation and social security the gap between gross and net social expenditure will increase. Furthermore as almost all public cash transfers are untaxed, direct taxes borne by transfer income recipients are also not significant. For example widows receiving survivors' pension are exempted from income tax; all services provided under welfare and health insurance are untaxed; most social insurance benefits in cash are excluded from taxable income; and the old age pension is taxed at a much lower rate than earned income. The OECD (2011) indicates that the value of benefit income clawed back through taxes on consumption is much larger in European countries such as Denmark, than in Australia, Canada, and particularly in Japan, Korea,

Mexico and the United States, where indirect tax rates on consumption and direct taxes on benefit income are significantly lower²².

According to 2007 figures published in 2011 the OECD's international comparisons of social expenditure indicate that Japan had the 18th highest gross social expenditure but the 13th highest net social expenditure (Figure 6). The group of countries with a relatively high ranking of net social expenditure and a relatively low ranking of gross social expenditure includes Belgium, Germany, USA, UK, Netherlands, Canada, Australia, Iceland, Korea and Japan.

Figure 6: Social expenditure, country ranking, from highest spender to lowest, 2007



Source: OECD (2011).

²² OECD (2011) p.31.

3. Conclusions

With evidence-based policy a focus of modern Governments, the availability of appropriate statistics to provide evidence has become increasingly important. In Japan, ministries and other government agencies have had access to statistics for a long period. However, these statistics and other detailed information have not been disseminated well outside the public sector. With the 2010 amendments to the Statistical Act the Japanese Government faces a new era where communication with the public will be a priority consistent with the guidelines for the secondary use of public surveys. These legislative changes will help to develop Japanese statistics generally in the future and social expenditure statistics in particular - with these statistics being designated as Fundamental Statistics.

Japan has long recognised that its social expenditure did not compare favorably with the European Welfare States, and that to close the gap it would be necessary to spend more to promote people's well-being. But economic recession and the ageing of the Japanese population are strong barriers which make it difficult to boost social expenditure in Japan. The ageing of the population is a more serious problem in Japan than in most other countries. According to the most recent population projections for Japan published in January 2012, by the year 2060, there will only be 1.3 people in the workforce to financially support each elderly person compared with 2.8 working people for each elderly person in 2010. According to Government estimates of future social security benefit expenditure, social expenditures will increase to 151 trillion yen, or 42.9% of GDP by 2025, compared to 99.8 trillion yen, or 21.1% of GDP in 2009.

During the period of Japan's economic boom before the 1980's, Japan built a very generous public pension system and provided very favorable medical services for the elderly. Increasingly Japanese working generations are

starting to be concerned that they will no longer be able to afford to support the retired generation. Moreover, they worry about their own retirement because Japan's low fertility rate has meant that in the future the available workforce will be much lower and find it difficult to support retirees in the future.

Faced with these problems policy makers and the public need to have access to good statistics to inform the debates about the best way forward. Japan recognizes the increasing importance of ensuring good statistics are available - including statistics on social expenditure.

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