Major Social Security Issues: Japan, 1972

by PAUL FISHER*

This article focuses on issues related to Japanese pensions, health insurance and family allowances in 1972. Much of the background data and information was obtained by the author during a visit to Japan in the spring of 1972. The current concern about the slow rise in benefit levels despite significant economic growth is discussed, and Japan's ratio of social insurance expenditures to its gross national product is compared with that of several industrial countries. Some reactions to proposals for unifying the two major pension systems are presented. A look is taken at the benefit structure and financing of the two chief health insurance systems, as well as at proposals for program revisions. The new family allowances program and Government plans for its future development are discussed briefly.

WITH THE PASSAGE of a 1922 act dealing with workers' health insurance, Japan became the first Asian country to introduce a social insurance law. Some new measures were enacted during the late 1930's but the bulk of the social insurance program was introduced in the immediate postwar period under the influence of the United States occupation. The momentum gained in that period was maintained in the following decades: health insurance was improved and, together with pension schemes, was extended to the entire population. Though the entire population is covered under sickness and pension insurance, the social insurance programs differ from each other in the amount of benefits and contributions payable.

The visitor to Japan in 1972, overwhelmed by the multiplicity of programs, soon becomes aware of two characteristics of the resulting complex mosaic: (1) the relatively low level of certain cash benefits, measured against the basic needs of the beneficiaries and, in particular, against the considerably improved income of the labor force and (2) the way in which the social insurance system mirrors Japanese labor-management relations.

In the spring of 1972, a multitude of proposals, ranging from adjustments of cash benefits to fundamental reforms of the entire system, were under discussion. Despite the intensity of public debate carried out in the press and in street demonstrations, only piecemeal and relatively minor changes had occurred at that time,[1] and few others were given a chance of success. Proposals for basic structural changes of the Government social security program and the elimination of "contracted-out" (private) protection have not been implemented because of major opposition from industry and labor. Certain other plans to improve benefits never materialized because of the financial restraints imposed by the Government.

PENSION ISSUES

Pension Insurance Programs

The entire Japanese population has social security coverage—the private sector under two major national programs, and public employees through various mutual aid societies. The two major programs for the private sector—the employees' pension insurance (EPI) and the national pension insurance (NPI)—cover 22 million and 24 million persons, respectively.

The EPI, established in 1941 as the laborers' pension, is compulsory for those employed in industrial, commercial, and retail establishments employing five or more persons. Workers in such establishments that employ less than five persons may, however, be insured voluntarily under EPI,

* International Staff, Office of Research and Statistics.

[1] See "Special Retirement Programs for Farmers: New Japanese Law," *Social Security Bulletin*, October 1971, page 26; "Children's Allowances in Japan," *Social Security Bulletin*, June 1972, page 39; and "Japan: New Child Allowance Scheme," *International Labor Review*, May 1972.

and about 1 million were so covered in 1971.

The NPI, which became law in 1961, is a catch-all program covering all Japanese residents aged 20–59 and not covered by another public pension program—that is, by EPI or the programs for seamen, teachers, and civil servants. Farmers pensions were added to those under NPI by a 1970 law. The program provides both contributory and noncontributory pensions. The self-employed and workers in enterprises with fewer than five employees are the two largest groups in the compulsory contributory NPI.

The noncontributory means-tested[2] national pension is paid to: (1) "transitional" beneficiaries who have made no contributions to the contributory pension because the qualifying contingency (old age, invalidity, or death of the breadwinner) occurred before NPI began; (2) the victims of natural disasters; and (3) those permanently exempted from making contributions—persons whose income is low and whose application for exemption is approved by the prefectural governor, who bases his judgment on income-tax or city tax returns. (Also exempt from making contributions are disability beneficiaries and recipients of a noncontributory widowed mother's or guardian's pension and all public assistance recipients.) The ratio of the insured who are exempted from making contributions to the total number of persons insured under NPI has been declining; it was 10.9 percent in 1967 and is currently about 9.1 percent.

Size of Benefit

Dissatisfaction with the amount of cash benefits paid by the various program has centered on the difference between their slow rise and the spectacular economic growth of the country that has increasingly benefited the working population.[3] From 1967 to 1969, for example, the ratio of old-age pensions to average nonagricultural wages declined from 16.1 percent to 12.9 percent. Legislative ad hoc adjustments, which have occurred only about every 5 years, improve this ratio temporarily. The 1970 amendments brought it up to 17.7 percent.

Without an automatic adjustment provision and with long intervals between legislative benefit increases, upward movement of wages and prices tend to leave the beneficiaries, after the first few months of any ad hoc adjustment, in a poor position in relation to their own consumption needs and in comparison with active workers' incomes. In an inflationary situation, this imbalance becomes significant enough politically to bring about sharp benefit increases. Recently, the administration asked for a doubling of benefits under NPI and a somewhat smaller increase under EPI. Past attempts by the Ministry of Health and Welfare to pass an automatic adjustment law have failed.[4]

Indeed, the two major pension programs replace the preretirement income of their old-age beneficiaries only to a very modest degree. The Ministry determined that the replacement ratio of EPI after 20 years of coverage amounts only to 24.6 percent for a male insured worker who had been employed in a manufacturing enterprise with more than five employees. This ratio increases to 36.5 percent after 30 years' coverage and to 44.5 percent after 40 years. A rough calculation that relates the 1972 average monthly pension of 18,000 yen[5] to an equally roughly estimated average monthly wage income of 80,000 yen yields, for 25 years' coverage, a ratio of 22.5 percent. This ratio is very low in comparison with the 40-percent level advocated by the International Labor Organization in Convention 102 and raised to 45 percent in Convention 128.

The figures on average annual pensions paid in 1971 in table 1 give some perspective on the relation of benefits in the two major pension programs to average monthly income. Under EPI, newly awarded monthly pensions averaged 17,578 yen for single persons and 18,705 yen for a couple. The average monthly pension for couples already on the rolls was 14,417 yen. In addition to

[2] In 1972 the income limit for a single recipient was 380,000 yen a year.

[3] According to data in the May 1972 *Japan Labor Bulletin*, industrial wages (in real terms) rose about 50 percent between 1966 and 1971; the workers—who faced a 32-percent increase in consumer prices—experienced a significant improvement in living standards; because of the high propensity to save, family expenditures rose only about 29 percent.

[4] The Ministry of Labor has been more succesful in this respect. Legislation provides a cost-of-living "sliding scale" for unemployment insurance and workmen's compensation benefits. See also the *Japan Labor Bulletin*, December 1972, page 4.

[5] One United States dollar equaled 300 yen in 1972.

TABLE 1.—Average annual pensions, 1971

Type of pension	Average annual pension payments, 1971			
	Employees' pension insurance		National pension insurance	
	Amount (in yen)	Percent of average wage income [1]	Amount (in yen)	Percent of average wage income [1]
Newly awarded:				
Old-age beneficiary (single)	214,533	22.3	53,703	5.6
Old-age beneficiary and spouse	224,461	23.4		
Invalidity pensioner (fully disabled, single)	210,032	21.8	96,000	10.0
Currently payable:				
Old-age beneficiary couple	173,000	19.1		
Invalidity pensioner (fully disabled)	135,000	14.1	91,200	9.5

[1] Based on the Ministry of Health and Welfare figure of 80,000 yen for average monthly wage income in 1972.

their low average-replacement ratios, these amounts are significantly lower than the monthly payments under public assistance of 22,000 yen for elderly couples living in large cities and 44,000 yen for a family of four. Furthermore, welfare payments are adjusted automatically for price changes, while the pension system must wait for ad hoc legislative action.

The average annual pension amounts shown in table 1 represent monthly pensions lower than the pension figure of 20,000 yen commonly used in explaining the operation of the pension formula. That figure appears to have acquired, in the public mind, the character of a minimum pension, although it is based on a hypothetical 20 years of contribution. Actually, the beneficiaries received amounts that produced the averages shown, and 60 percent of them received less than 20,000 yen. It is, however, debatable whether it is appropriate to use the figure of 80,000 yen for the average monthly wage of 80,000 yen in computing the replacement rate of pensions. In the first place, most NPI beneficiaries had smaller preretirement incomes. Large numbers of them were formerly self-employed (38 percent of the labor force), family workers, urban wage earners employed in very small enterprises, and farmers (40 percent of the insured)—all groups earning significantly less than the average monthly wage of 80,000 yen.

In the second place, contributions and benefits are not computed on the basis of an insured person's monthly salary but rather on the basis of his "standard remuneration." The term "remuneration" refers to the insured person's cash earnings (base wage or salary, special allowances, and bonuses). Bonuses and other earnings paid at intervals exceeding a period of 3 months are, however, excluded in the calculation of the remuneration. (Such semiannual bonuses, a traditional component of the wage, add between 1½ to 4½ months' pay to the worker's yearly income.)

Nor is there full agreement about the components of a worker's "average monthly earnings." Kurt Braun,[6] in distinguishing between base pay and supplemental payments, points out that monthly contractual cash earnings are made up of the basic wage determined by age, seniority, etc., and job related and other allowances (about 16 categories). Adding special cash payments to arrive at total remuneration brings the full number of items to 30. Such a system, in which the "standard remuneration" may represent less than half the prorated lifetime income, obviously can produce extensive variations, when one attempts to calculate "average monthly earnings." The extent of these variations, according to Professor Ballou of Sofia University and Mr. Hiraichi of the Japanese Social Research Development Institute, negates the value of an arithmetic average.

In the absence of any other benchmark, however, the Ministry's figure of 80,000 yen is used here as a base in assessing the adequacy of old-age benefits through comparison with average monthly income.

Unification of Pension Programs

Those who formulated the pension program originally aimed at full equalization of benefits

[6] Kurt Braun, *Labor Law and Practice in Japan* (Bureau of Labor Statistics Report No. 376), 1970, pages 38–40.

under the two main pension systems within 25 years. Because of budgetary restraints (NPI is heavily subsidized from general revenues), achievement of this goal has not been possible. As noted earlier, there is a substantial difference in benefit amounts under the two programs. The average annual old-age pension newly awarded to single beneficiaries under the contributory part of NPI was only 53,703 yen in 1971, compared with 214,533 yen paid under EPI.

The annual pension rates in force under NPI in October 1972 (with the amount increased by 4,800 yen for each dependent child under age 16 other than the first) were as follows:

Type of pension	*Amount (in yen)*
Contributory	[1]
Noncontributory:	
Old-age pension	39,600
Invalidity	60,000
Widowed mother's	51,600
Guardian's	51,600

[1] Based on number of contributions (number of months in which contributions were paid or excused times one-third of 320 yen). On the average, contributory pensions are about three times the noncontributory pensions. (*Outline of Social Insurance in Japan*, page 65.)

The substantial Government contribution to NPI (50 percent of the collected insurance contributions, nearly all the administrative cost for the contributory pensions, and the entire cost of the noncontributory pensions) is one indication of the welfare aspect of this program. This pronounced welfare element, the method of financing, and the great difference in the size of benefits have so far prevented any unification of the two major pension programs.

The EPI program itself does not offer uniform protection. The principle of uniformity is broken by the "contracting-out" of many of the "employee pension funds."

Employee pension funds.—An employer or a group of employers who employ more than 1,000 employees may, if most of his employees and the trade union consent and the Ministry of Health and Welfare approves, establish an insurance fund that provides its "members" with a wage-related pension. This pension must be at least 30 percent higher than that obtainable under the general EPI program and is payable at age 60 regardless of the employment status of the beneficiaries. In April 1972, 4,650,000 members were enrolled in 818 employee pension funds. These funds are financed by employee-employer contributions, interest on investment, and a Government contribution equal to 17.5 percent of the wage-related contributions by the private parties. The Government also contributes to the administrative costs.

Concurrent with their participation in the employee pension funds, employers and workers must contribute to the general EPI plan but at a greatly reduced rate (3.8 percent for men and 2.6 percent for women), compared with the full rate of 6.4 percent and 4.8 percent, and the beneficiaries receive from that source the flat-rate portion of the pension, according to the benefit formula.

The formula calls for a "basic amount"—the flat rate of 460 yen times the number of months of coverage within the limits of a minimum (110,400 yen) and a maximum (165,000 yen)—and the wage-related portion of 1 percent of the average monthly "standard remuneration" (with a minimum of 10,000 yen) multiplied by the number of months of coverage. The sum of 12,000 yen is added for the spouse, 7,200 yen for the first child, and 4,800 yen for each additional child.

The "contracted-out" pension fund arrangements are part and parcel of the EPI plan, but they cover only the wage-related portion of the pension. If a fund is dissolved, its capital returns to the general EPI plan, which then enters into the contractual pension obligation. The investment of the fund reserves in trust banks and insurance companies is strictly controlled by law. Though the general EPI scheme and the funds are closely interrelated, any attempt to combine these two branches and provide equal protection for substantially identical population groups has been effectively opposed by industry and unions.

Private pension schemes.—Distinct from employee pension funds are the (supplementary) voluntarily established private pension schemes. Such funds developed slowly at first, until a change in the tax law in 1962 granted covered enterprises some tax relief (a reduction of one-half the cost) for the employer contribution. To qualify for the reduction, the law required (1) funding, (2) investment of the funds in trust banks or insurance companies (which amounts to a virtual Government guarantee), and (3) recalculation of the contribution rate every 5 years. The issue of vesting and portability had not arisen, largely because of the stability of employ-

TABLE 2.—Retirement allowance payments, by industry, education, and years of service

Industry	Amount (in thousand yen) of retirement allowance					
	University education		High school education		Middle school education	
	20 years' service	30 years' service	20 years' service	30 years' service	20 years' service	30 years' service
Mining	3,551	8,848	2,346	5,762	1,624	3,031
Manufacturing	3,763	7,679	2,749	5,305	2,073	4,136
Construction	4,023	8,579	3,111	7,274	----	----
Banking	4,642	8,932	3,259	6,097	1,664	2,617
Transportation, private	5,214	3,197	2,824	6,628	2,480	5,697
Electricity	6,101	3,486	3,638	8,183	2,881	5,778
Department store	4,176	8,199	2,900	6,292	----	----
Communications	3,674	7,347	3,123	6,546	2,500	5,122

Source: Nagahisa Hiraichi, Japanese Social Development Research Institute.

ment for the "permanent" workers. By 1970 there were 66,000 qualified private voluntary pension plans, covering chiefly employees of small enterprises with 20–100 employees.

Some of these firms sought originally in the private pension a device to replace the customary —and, unless funded—perhaps financially crippling retirement allowance (a lump-sum payment traditionally paid on retirement). Sizable Japanese enterprises prefer to maintain as high a working capital balance as possible and hence pursue the traditional policy of operating unfunded pension programs and paying pensions and retirement allowances, or retirement allowances alone, out of current funds. In this context it may be noted that most Japanese enterprises—particularly the large firms—work with very small equity capital and resort to large-scale bank loans for the conduct of business, including the financing of inventories and other working capital needs.

Retirement allowances.—The retirement allowance is a unique Japanese phenomenon. Large sums based on final wage and length of service are paid to "permanent" employees when they reach the traditional retirement age of 55. The practice differs markedly in large and small enterprises, from industry to industry, and from region to region. A lump sum of 40 times the basic monthly salary (excluding the two semiannual bonuses) is common, however, for employees with 30 years' service. Usually, 1 month of basic salary is given for each year of service.

Table 2 presents a schematic table of retirement allowances by industry, length of service (20–30 years), and education, as drawn up by Hiraichi. Japanese starting wage and wage progression, and hence such derivatives as bonuses and retirement allowances, differ with the employee's educational attainment and with seniority. Graduates of middle school (3 years after elementary education) typically receive lower wages than high school or university graduates. Although performance on the job is slowly being recognized as a pay determinant, Hiraichi's model is probably typical of Japan in 1972.

It depends on the observer, whether the retirement allowance is viewed as a reward for the faithful retainer like that of preindustrial days, a delayed wage, a financial aid for full or partial retirement or acceptance of a lower paid job, an unemployment benefit to tide the employee over until he finds another job, an acknowledgement of his rights on the job now vacated, or a means to compensate the retiree for the loss of valuable fringe benefits (company housing, for example). In any case, the retirement allowance has such firm roots in present-day Japanese industrial relations that, despite its obvious shortcomings, this type of payment cannot be easily dislodged by a pension system.

Some studies do not support this conclusion and point to cases (only a few as yet) where a voluntary pension has already replaced the retirement allowance.[7] Two important factors, however, contribute to the retention of the retirement allowance: (1) The continuing reliance of employers on the lump sum for many purposes—to start a small business, to acquire a farm, to settle debts (including those contracted for their children's

[7] Robert Evans, Jr., "Evolution of the Japanese System of Employee-Employer Relations," *Business History Review*, Spring, 1970 and Tsuneo Ono, "Severance and Retirement Pay in Japan, *Japan Labor Bulletin*, October 1972, pages 5–8.

education or the marriage of a daughter), to purchase a house to replace company housing,[8] to support children who may in turn provide a home for the retired worker and (2) the use of separation allowances in cases of involuntary retirement (after 1 or 2 years of employment), death and disability, and even voluntary quits (at half-rate). For these reasons, the employees and their unions have, in most instances, insisted on retaining the traditional retirement allowance. Voluntary pensions are accepted, as a rule, in addition to, not as substitutes for, the retirement allowance. Large companies have occasionally been able to overcome union opposition to discontinuing the allowance by offering retirees an option between lump sum and pension, or a combination of the two.

Retirement age.—Tradition also governs the age at which "permanent" employees retire. One study[9] has estimated that in 1965 less than 30 percent of the nonfarm labor force were regular employees who entered large firms after graduating from school, received in-company training, and had job tenure until age 55. This group, however, sets the pattern for the labor market, and smaller firms follow that pattern, to the extent possible.

The permanent employees in the large enterprises are customarily required to retire at age 55 (age 50 for women, not many of whom gain permanent status) and give up the so-called lifelong benefits they have acquired. The practice of requiring retirement at age 55 may be changing, however. In the summer of 1972, the Ministry of Labor directed his staff to prepare legislation that would change the retirement age to 65.[10]

As the EPI benefit does not become payable before age 60 (55 for women), retirement at age 55 does not usually end the retiree's participation in the labor force. As a rule he continues to work until age 62 or 63, sometimes as a special employee in the same enterprise or one of its satellite companies—a temporary worker without seniority benefits and with a drastically reduced wage.

The sharply reduced amount of earnings between age 55 and actual retirement (for an average period of 6½–7 years) affects the calculation of the worker's EPI pension by lowering his lifetime earnings. The flat-rate portion of the EPI pension is not affected, however. Since the NPI pension is a flat-rate benefit, workers under that program are not affected at all. No study has been made to measure the effect of reduced earnings on the employee's final pension. At the present time, the Government has not indicated just how it intends to reconcile the traditional, the actual, and the two statutory retirement ages.

This discrepancy between retirement age and the age at receipt of pension leads often to financial hardships. Although 88 percent of the retired workers find jobs at lower pay that sustain them until they can receive a pension under one or other of the statutory social insurance plans, the remainder cannot find work and must rely upon savings, their retirement allowance, family support, or public assistance. Only 1½ percent of the population or half of those eligible are on the welfare rolls. Social pressure, particularly in the rural areas, forces many needy persons to reject this kind of assistance.

Retirement test.—The EPI program conditions the payment of the full pension on retirement from the labor force; NPI does not. Under EPI, persons aged 65 and over who continue to work receive 80 percent of their pension regardless of the amount of their earnings. The reduction of pensions for persons aged 60–64 varies with the amount of their earnings: Those with incomes above 19,000 yen a month receive no benefit; incomes between 19,000 yen and 11,000 yen a month mean a 20–80 percent reduction in the pension; and those whose earnings fall below 11,000 yen have no reduction. In 1971, 28 percent of the EPI beneficiaries were receiving reduced pensions. One-half the so-called "coordination pensions"

[8] Land prices are high and wages relatively low and the customary retirement allowances do not suffice to finance the replacement shelter. Many large companies therefore provide collateral for loans to permit the employee to acquire the land on which to build his retirement home. The company's risk is not great; the Japanese private savings rate was an estimated 20.2 percent in 1970—one of the highest in industrialized countries. (Economic Planning Agency, *Economic Survey of Japan, 1970–1971*, page 35).

[9] See Solomon Levine, "Labor Markets and Collective Bargaining in Japan," in William Lockwood (ed.), *The State and Economic Enterprise in Japan*, 1965, page 661. See also Robert Evans, Jr., "Japan's Labor Economy—Prospects for the Future," *Monthly Labor Review*, October 1972, pages 3–8, and Robert E. Cole, "Permanent Employment in Japan: Facts and Fantasies," *Industrial and Labor Legislation Review*, October 1972, page 624.

[10] *Japan Labor Bulletin*, September 1972, page 4. Collective bargaining agreements in the electrical appliance industry extended the retirement age to 60 in the fall of 1972 (*ibid.*, November 1972).

(benefits resulting from the combination of benefits under EPI and NPI and/or other public pension programs) are paid to persons still in employment.

It is generally agreed that Japanese retirement benefits are so low as to compel the beneficiaries to continue work as long as possible. Japanese labor-participation rates for the age groups 55 and over are consistently higher than those prevailing in other industrialized nations as the data in the tabulation that follows indicate.

Country	Labor-force participation rates, by age group		
	55–59	60–64	65 and over
Japan	71.3	64.4	34.4
United States	64.3	52.2	19.0
France	61.5	48.0	12.4
Federal Republic of Germany	58.4	43.5	14.2
Italy	46.8	31 4	12.9

Source: International Labor Office, *Year Book of Labour Statistics*, 1971, table 1.

In this context it may also be useful to note that Japanese life expectancy has markedly improved in the last decade. In 1969, life expectancy for men was estimated to be 69.2 years; for women, it was 74.2 years in 1968. In 1960, life expectancy was 65.32 years for men and 70.19 for women.

Supplements for dependents.—The presence of dependents adds relatively little to the old-age pension under EPI. The annual supplement is 12,000 yen for the spouse, 7,200 yen for the first child, and 4,800 yen for the other qualifying children (under age 18 or disabled). No such provision applies under NPI.

Survivor pensions.—The position of survivors differs under the two statutes. Under EPI the widow, regardless of age, receives approximately one-half the pension to which her husband would be entitled if one of the following conditions is fulfilled: If her deceased husband was eligible for an old-age pension, if he was insured for at least 6 months, or if he had been fully disabled (incapable of work, whether requiring attendance or not). The minimum amount of the widow's pension is 105,600 yen a year. In addition, survivor pensions are granted to (1) dependent husbands, parents, and grandparents who are aged 60 or are disabled and (2) dependent children or grandchildren who are either under age 18 or under age 20 if disabled. If no such survivors exist, a pension is granted to the following persons, in this order: parents, grandchildren, grandparents.

Under the contributory NPI program, survivors fare somewhat worse. The widowed mother must fulfill the following conditions to receive a pension: She must have paid a contribution of her own for 1 year, she must have been supported by the deceased when he died, and she must have a dependent child under age 18 (age 20 if disabled). Her pension is fixed at 100,800 yen plus 4,800 yen for each child after the first. A guardian's pension of equal size is paid under similar conditions to grandmothers or elder sisters with dependent grandchildren or brothers and sisters.

Widows without dependent children receive one-half the old-age benefit if they were married to the deceased spouse for 10 years, if they were supported by him at the time of his death, and if he qualified for NPI benefit. This widow's benefit is payable only between age 60 and age 65. At age 65 the widow becomes eligible for either a contributory or noncontributory national pension.

A child under age 18 (age 20 if disabled) is entitled to an orphan's pension when both parents are dead if the deceased parent has satisfied the contribution requirements. Effective October 1972, the means-tested noncontributory national pension payable to the widowed mother and the guardian is 51,600 yen plus 4,800 yen for each child after the first.

Tax treatment.—The Japanese Government has proposed to the Diet the removal of one anomaly from the tax treatment of pensions. Employee and employer social security contributions are tax-free, as are the invalidity pensions and cash sickness benefits. Old-age pensions are not tax-free, but their exemption from the income tax is included in the Government's current reform bill.

Financing

The rising cost to the Government of providing pensions is attributable in part to the increasing number of pensioners. This, in turn, is first a function of the growing number of insured persons who meet the qualifying condition of 20 years of coverage under EPI, as well as growth in the absolute and relative number of aged persons. The number of beneficiaries under EPI rose 51 percent between 1967 and 1970. According to one estimate, the proportion of persons over age 60 (17 percent of the population in 1972) is expected to increase to 22 percent by 1986 and to 35 percent by 1996. Although these predictions may not prove exact, the trend—a result of Japan's effective population policy—towards a rapidly aging society is unmistakable.[11] The ILO population figures for Japan, based on the 1970 census, show that the ratio of persons over age 60 to the total population was only 10.7 percent. This ratio can be contrasted with 13.2 percent for the United States, 13.9 percent for Italy, 16.4 percent for the Federal Republic of Germany, and 20 percent for France. A very large proportion of the predominantly young population is economically active and, hence, contributing financially to the pension program.

Japan's labor force currently represents 51 percent of the population, outdistancing the United States (41.8 percent), France (42 percent), Italy (40 percent), the United Kingdom (47 percent), the Federal Republic of Germany (48 percent), and the Union of Socialist Soviet Republics (48 percent). The as-yet-immature EPI—fed by a large number of contributors (22.2 million)—pays less than adequate benefits to a small number of beneficiaries.[12] This system annually yields considerable and growing cash surpluses. The surpluses are turned over to the Trust Fund Bureau of the Ministry of Finance at 6.5-percent interest (and a 7-year redemption pledge). The Bureau in turn uses most of the reserves for social development investments.[13] In 1970, income from contributions (747 billion yen) and interest on investment (249 billion yen) exceeded expenditures by 866 billion yen, bringing reserves up to a level of 4,420 billion yen.

[11] Agency for International Development, *Population Program Assistance*, December 1971, pages 18–19.

[12] The number of EPI beneficiaries increased between 1967 and 1971 from 678,000 to 1,200,000; the average annual benefit in current yen went from 76,192 to 130,500. (Under NPI, only 177,000 contributory and 3,761,000 noncontributory beneficiaries received old-age and invalidity benefits in 1971.)

[13] Japanese Social Insurance Agency, *Outline of Social Insurance in Japan*, pages 73–75.

HEALTH INSURANCE ISSUES

The entire Japanese population is covered by either a Government-administered or a Government-supervised health insurance program. The two main programs are the national health insurance (NHI) program, which covers residents not insured through their employment and the Employees' Health Insurance (EHI) program, compulsory for persons employed in manufacturing, mining, and retail establishments employing five or more persons. Management of the latter program is twofold: (1) by the health insurance societies subsidized by employers[14] and (2) by the Government for the remainder of the EHI program. In addition, the Government administers a day laborers' (casual workers) health insurance program, as well as a program for seamen. Civil servants, employees of local government and public corporations, teachers, and employees in agriculture and forestry are insured through Government-administered mutual aid associations.

Under EHI, the insured person and the employer each pay contributions at the rate of 3.5 percent of standard remuneration. Under NHI, the contributions of the insured cover 25 percent of the medical cost; the rest is borne equally by the local government and the national treasury; the latter carries all the administrative expense. The NHI tax is determined by several factors: income, 40 percent; property, 10 percent; family size, 35 percent; and a flat rate of 15 percent. In 1966, it represented a charge of 2.6 percent of the taxable income of the households concerned.

In 1971 the EHI program insured 22,879,000 persons (9,696,000 in the Government-managed system and 13,183,000 in the society-managed system); and the NHI program insured 43,363,000 persons. Virtually the entire population is provided with health insurance coverage either through these programs or the special programs. Two major problems beset the health insurance programs in 1972—different benefits and program deficit.

[14] A health insurance society may be established by an employer or employers with more than 300 employees if over half the employees consent. In addition, the Minister of Health and Welfare may order an employer with more than 5,000 employees to establish a health insurance society. In both cases, the health insurance is thus contracted out of the general scheme.

Benefits and Unification Proposals

The sick person as a rule fares best under a society-managed EHI plan, slightly less well under the Government-managed EHI program, and not as well under NHI.

Under both the Government-managed and the society-managed EHI plans, the employee and his dependents receive medical and dental care, cash sickness, maternity, nursing, and funeral benefits. Medical care includes office and home visits, drugs, therapy, prosthetics, surgery, hospitalization, outpatient care, nursing, and transportation, and it is practically unlimited in duration. The insured person pays only a small fee for the first consultation (66 cents) and 20 cents for each day of the first month's hospitalization. Dependents pay one-half the cost of the service. Cash sickness benefits amount to 60 percent (for hospitalization, 40 percent) of the respective standard remuneration. There is a 4-day waiting period. Cash benefits are payable for 6 months (in tubercular cases, 18 months).

Under NHI, the extent of medical care is the same, but the program pays only 70 percent of the cost for the insured person and his dependents. There are no cash sickness benefits.

The 1,461 health insurance societies apparently offer the employee—and particularly his dependents—superior and additional services, are better managed than the other plans, and (probably with the aid of substantial employer subsidies) are able to stay within their budget. About 84 percent of the health insurance societies received in contributions the same or a smaller percentage of payroll as those for the Government-managed system. The remainder of these societies obtained from ½ of 1 percent to 1 percent more than the 7-percent payroll tax (up to a monthly standard remuneration of 104,000 yen) that applies to EHI. In contrast, the Government-managed employee system requires each year sizable and growing subsidies from general revenues.

One reason for the unequal performance of the two parts of EHI may lie in the unequal distribution of risks. The Government-managed program, which covers the great number of relatively small enterprises (with less than 300 employees), insures relatively more employees past age 55 with higher morbidity and utilization rates than those insured under the society-managed programs, where persons over age 55 are likely to have been eliminated from the payroll.

As the following tabulation shows, insured employees in the Government-managed program have a lower average income, and thus pay a lower average contribution. Because their health care needs are greater, however, health care expenditures for this group, particularly for medical care, are higher than for employees in the society-managed plans.

Item	Amount (in yen), 1970		
	Employee health insurance		National health insurance
	Government-managed	Society-managed	
Average monthly standard remuneration	49,960	61,915	----------
Average contribution per insured	39,355	47,718	5,146
Total benefit expenditure per insured	43,807	34,843	17,813
Medical care expenditure per insured	39,786	32,643	12,442

Some idea of the deficit in the Government-managed part of EHI and the accumulation of reserves in the society-managed segment can be gleaned from a comparison of the second and third items shown above for these programs. Comparable figures for NHI point up the need for massive Government subsidies.

The Government opposes the maintenance of a dual-track (EHI) system or, at least, favors a method by which the prosperous health insurance societies would pool their financial and material (hospitals, clinics) resources with those of the Government-managed system. Efforts have remained fruitless because of the pressures of the large companies, the labor unions, and the association of health insurance societies.

Even stronger obstacles bar the way to unification of the EHI and the NHI programs. The Government has proposed covering employees under the national program. To this proposal, employees and their organizations have offered strenuous objections, because such a move would reduce benefits (no cash sickness payments) and increase the insured persons' contributions; the employer carries one-half the payroll tax under EHI, but would be freed from the obligation under NHI.

The employees also feel that they would carry the brunt of the sizable Government subsidy for a unified system since their income is taxed at double the rate for the self-employed urban labor force and self-employed farmers' income is taxed at only one-third the rate of employed workers. Because of such opposition, it is felt that unification is not likely to be achieved in the near future.

A first step to reduce somewhat the effects of the different treatment of the population in the two major health insurance programs is being made in behalf of the needy aged. The proposed new "free medical care for the aged," would eliminate the different coinsurance and deductible features of EHI and NHI. Insured persons over age 70 whose annual income (or that of the family that supports them) is less than 600,000 yen would not have to carry any part of the cost of illness. This exemption would apply to the 30-percent cost-sharing quota of insured persons and their dependents under NHI and the 50-percent cost-sharing for dependents under EHI. The legislation would benefit, in particular, old-age pension beneficiaries and recipients of old-age assistance whose medical needs are not covered under existing public assistance laws. One-sixth of the cost of this scheme would be covered by the local authority (city, town, village), another sixth by the county (prefecture), and two-thirds by general national revenues.

Program Deficit

The Japanese health insurance system is experiencing the constant presure of rapidly increasing expenditures upon revenues. In Japan, as in other parts of the world, the cost of hospitalization, of nursing, of drugs, and of physicians have increased at a faster rate than other prices, wages, and the income of the social security program. The only remarkable features of this development are the size of the deficit, the stopgap financial rescue methods used, the extreme nature of the public attack, and the actions of the powerful national medical association.

Table 3 compares income and expenditures of the two parts of EHI and those of NHI in 1970. The NHI program is administered by the local communities, which collect and account for the contributions. This program is adequately subsidized by the national government, which carries the entire administrative expenses, 45 percent of the cost of medical care, and a part of other expenses. It receives the overwhelming part of the national government support for health insurance (90 percent).

TABLE 3.—Income and expenditures of the employees' health insurance and national health insurance programs, 1970

[In billion yen]

Item	Employee health insurance		National health insurance
	Government-managed	Society-managed	
Income, total	547.1	511.7	644.0
Contributions	523.2	456.6	218.2
National subsidy	22.5	1.5	264.8
Other	1.4	53.6	61.0
Expenditures, total	585.4	464.5	601.6
Benefits	582.6	333.4	547.5
Medical care only	529.6	306.0	540.6
Other	2.8	131.1	54.1
Interest paid on loans (for past deficits)	−8.4		
Annual deficit	−46.7		
Cumulative deficit	−178.6		
Balance	−38.3	47.2	42.4

The EHI society-managed system ended 1970 with a positive balance. The overall deficit therefore arises primarily in the EHI Government-managed program and in the day laborers' health insurance program. Together, these programs in 1970 had an annual deficit of 60.3 billion yen, paid 13.9 billion yen in interest on loans to cover previous year deficits, and at the end of the year showed a combined accumulated deficit of 295.5 billion yen. The deficit in the health insurance scheme for casual workers may be unavoidable, but that in the Government-managed employee's health insurance program is not so considered. Reform proposals, therefore, center on the latter.

Apart from the fact that deficits in these two programs may lead to sizable and not always foreseeable pressures on the national budget, the constant increase in all national expenditures for medical benefits (18 percent annually for the past 5 years) seems to endanger the chances for significant improvement of the pensions. As a rule, 60 percent of all national outlays in Japan for social insurance are consumed by health insurance. In the 1972 budget of the Ministry of Health and Welfare, two-thirds of the 21.3-percent increase from the 1971 level had to be earmarked for that purpose.

As in many other countries, the rising cost of hospitalization is difficult to stem or control. Almost two-thirds of the hospitals (but not hospital beds) and all the clinics are privately owned. Both groups ares "self-supporting." Hospital income is governed by a system of reimbursement from the health insurance systems that assigns point values to different services performed in the hospital. This method lends itself to abuses.

Several of the health insurance societies own and operate their own hospitals and clinics. The income from these institutions and that from contributions is often invested in convalescent homes and sanatoria, as well as in rest and vacation centers (hotels) for the healthy insured. Drug prices are controlled to some extent by the industry and by Government price schedules.

The point system establishes a hierarchy of prices for individual services. The value of each point is negotiated between the Ministry of Health and Welfare and the Japan Medical Association in the Central Social Insurance Medical Councils, which consists of eight representatives of the purveyors, eight representatives of the insurance carriers, and four public members.

The Japan Medical Association, one of the most effective private interest groups and lobbies, has not hestitated in the past to use the strike to obtain its demands. Recently, when confronted by a majority of carrier and public members opposing its demands, it simply resigned from the Central Social Insurance Medical Council until its demand for a 13-percent increase in point value was achieved. Still, the physicians did not realize all their demands. Automatic adjustment of point values and the merger of NHI and EHI did not materialize.

The Japanese press had been full of allegations about the shortcomings of the health insurance program. There are claims that the point system per se, combined with what is termed an excessive demand for medical services, must lead to overcrowded waiting rooms, unnecessary treatment, fraudulent claims and, because the number of claims submitted becomes unmanageable, to a breakdown of cost and quality control. Such charges appear to be an indictment of the entire health delivery system of the country, since 98 percent of all hospitals and clinics and 95 percent of all medical doctors are within the social security system.[15]

The Japanese Government and the Ministry of Finance, in particular, is understandably concerned with the long-run development of medical demand and supply. One of the remedies considered by the Government is a higher rate of cost-sharing. The Japan Medical Association objected to this proposal on the basis that it would endanger the public health interest of the nation. The negative reaction to an increased rate of cost-sharing may also have been influenced by the fact that such a step could curtail the demand and hence physicians' income.

The Government, through the Ministry of Health and Welfare, has sought a short-range method of improving the financial status of EHI through higher premiums. In January 1972, it submitted to the cabinet-level Social Security Advisory Council and to the intraministry Social Insurance Council a proposal that would: (1) increase the ceiling of the standard remuneration—the basis of contribution and cash sickness benefits—from 104,000 yen to 200,000 yen; (2) raise the lowest level of remuneration from 3,000 yen to 12,000 yen and include in the contribution base 1 percent of the semiannual bonuses as a special contribution; (3) increase the contribution rate from 7 percent to 7.3 percent with the provision that the Director General of the Social Insurance Agency could raise it to 8 percent if the financial situation of that agency should make it necessary; and (4) replace the emergency loans or grants of the Government with a permanent treasury contribution of 5 per 1,000 of the benefit expenditures, which would be raised at the same rate and under the same circumstances as the increase in contributions of employees and employers.

The political opposition aimed at a revision of the whole system. The Council of Social Security, the Council of Social Insurance, the Liberal-Democratic Party, and the Japan Medical Association proposed modifications of the Government proposal. The labor unions opposed the raising of the premium rate and proposed instead higher treasury contributions. The legislature will act on the proposed changes in the spring of 1973.

FAMILY ALLOWANCE ISSUES

Program Purpose

As stated in the law the purpose of the family

[15] As a consequence of the high participation rate, patients have almost complete freedom of choice of doctors and hospitals. Without a strict referral system, the insured person can choose between doctor and hospital for his initial medical contact.

allowance program is to contribute to the stabilization of family life and to the upbringing and the health of children. The legislative history makes it clear that the intent of the law was not to exert a substantial influence on population, wages, or employment policy. In particular, it cannot be construed as a reversal of Japan's postwar policy of population control. Other branches of social security make the adherence to such a policy even clearer. Population growth is discouraged, for example, by limited maternity grants that do not cover the entire cost of confinement by the insured and medical care is granted for abortions.

Coverage

All Japanese citizens residing in Japan are covered under this program if they have: (1) an annual income that, in 1972, did not exceed 2,000,000 yen for a family of five and (2) at least three children under age 18, with the third not older than 15 (before completing compulsory education). It will be noted that the relatively high income ceiling covers 96 percent of all families in the 1972 program. In that year, the first year of operation, family allowances were limited to three children under age 5. The relatively high income ceiling eliminated from its protection only 10 percent of the children in families that otherwise fulfilled all requirements of the law. The number of children benefiting from the law represented one-third of all children in the age groups under 5.

Benefit

The monthly children's allowance, which amounts to 3,000 yen (a flat-rate benefit), will be paid for the third and following children. In 1967 when the rate was determined this amount covered between one-third and one-half of the cost of raising a child. In 1972 the 3,000 yen covers only one-fifth of the cost. The children's allowances are distributed by the local governments (city, town, or village authorities) in units of four monthly payments in February, June, and October of each year to one of the parents or foster parents. The allowance is tax-free, not subject to forfeit, and is granted without regard to any other public assistance payments or increments for dependents accruing to the family under other social security schemes.

Financing

The Ministry of Health and Welfare determines the cost of the program according to three categories of families: Those headed by privately employed persons, those headed by the "non-employed" (self-employed and unemployed), and those headed by civil servants. The cost of the family allowances for civil servants is carried by the employing Government agency—that is, the national government, local public bodies, and public corporations. The cost of allowances for the unemployed is also carried entirely by public funds. Two-thirds of the children's allowances for the self-employed are financed from general revenues and one-third from local governments. All administrative costs are borne by the national treasury.

To finance the children's allowances of employed persons, the estimated cost is derived from four sources: 70 percent is levied against their employers, 20 percent comes from general revenues, 5 percent from the county (prefecture), and 5 percent is carried by the city, town, or village. The distribution of the 70-percent employer share among them follows the pattern of "standard remunerations" described earlier.

For 1972 the employer contribution for the first stage of this program amounted to only 0.5 per 1,000. By 1974, when children allowances reach the full level established by the present law, the rate is estimated to amount to 1.2 per 1,000 of that part of the payroll subject to social security taxes. The relatively low level of tax burden has effectively stilled the originally strong opposition of the employers, who earlier had pointed to their traditional practice of granting voluntary family allowances and feared having to pay twice for the same social purpose. Now, the large enterprises in which this practice had been particularly well-established see in the Children's Allowance Act of 1971 a possible future substitute for their traditional practice.

Gradual Implementation

Between January 1, 1972, and March 31, 1973, allowance for the third and successive children are paid only to those under age 5. In the next fiscal year, all eligible children under age 10 will be receiving benefits. Beginning April 1, 1974, when the law becomes fully effective, all qualifying children under age 15 will receive the allowance.

The following figures supplied by the Ministry of Health and Welfare presents that agency's estimate of the number of entitled children and the associated cost of the family benefit in the first 3 years of the program:

Fiscal year	*Children entitled (in thousands)*	*Estimated cost (in billion yen)*
Jan. 1, 1972–Mar. 31, 1973	936	33.7
Apr. 1, 1973–Mar. 31, 1974	1,933	69.6
Apr. 1, 1974–Mar. 31, 1975	2,479	89.3

Liberalization

The Government has expressed its awareness of the inadequacy of the flat-rate benefit and expects eventually to raise the monthly amount from 3,000 yen to 5,000 yen. Experience in other countries indicates that there will be strong pressure to raise the age limit from 15 to 18—a liberalization the Government appears willing to accept. There is no indication that the Government intends to extend the family allowance from the third and successive child to the second or the first, as a number of other industrialized nations have done.

CONCLUSION

In the last 5 years, the Japanese press has frequently expressed the opinion that insufficient resources are being devoted to social security and other related programs and that the inadequacy of the efforts is all too clearly visible when the percentage of the gross national product (GNP) devoted to social security expenditures in the older industrial nations is compared with the proportion in Japan. Measuring social insurance outlays against international standards is a powerful argument in a society that has successfully met international competition in science, technology, sports, and the arts and has made many advances in the economic area yet is still much concerned with its international standing. The growth in Japanese productivity has outstripped that of other industrial countries since 1961, as the figures that follow indicate.

Country	Labor productivity (1963 = 100)		
	1961	1966	1970
Japan	87	124	190
France	90	115	142
Federal Republic of Germany	94	115	139
Italy	87	117	146
United Kingdom	96	108	119
United States	92	112	119

Source: International Labor Office, *Year Book of Labour Statistics*, 1971.

The belief is also that the time has come for social progress to catch up with economic growth. In looking at the ratio of social security expenditures to GNP, reform forces point not only to the low percentages themselves but also to the low rate of growth (table 4).

Some efforts to improve this ratio have already been made. The 1972 social security budget of the Ministry of Health and Welfare was 21 percent higher than that for 1971—a peak year-to-year rise. (In 1970, when benefits were sharply raised, the increase from the preceding year was only 17 percent.) Even with an assumed inflation rate of 6 percent for 1972 and an 8-percent increase in the insured population, a per capita rise of 7 percent in real terms must be termed significant. This period was one in which, because of changes in the currency exchange rate, Japanese exports experienced serious difficulties and the rate of economic growth had dropped to 8 percent. Of equal importance is the distribution of the increase among the various programs. In the past, only about a third of all Government social security expenditures went for pensions, but half of the 1972 increase was so earmarked. It would seem that Japan is on the threshold of a significant improvement of its social security system.

TABLE 4.—Comparison of social security expenditures expressed in percent of GNP, seven major industrial countries, 1952–68

Year	Japan	United States	United Kingdom	Union of Soviet Socialist Republics	Federal Republic of Germany	France	Italy
1952–53	4.0	4.3	10.0	--------	14.6	12.7	9.9
1955–56	4.9	4.9	9.6	8.0	14 3	13.5	10.2
1958–59	4.9	6.2	10.7	10.2	17.8	13.7	11.8
1961–62	4.7	7.0	11.2	10.4	15.9	14.1	11.8
1964–65	5.3	7.0	11.6	10 0	16.4	15.2	13.3
1965–66	5.8	7.2	12.4	10.9	16.8	15.6	15.2
1966–67	6.0	7.3	12.6	11.1	17.4	--------	16.2
1968	6.0	7.3	12.7	--------	17.5	--------	--------

Source: International Labor Office, *The Cost of Social Security*, 1972, table 2, pp. 326–330.