

Development of
Japan's Social Security System
— An Evaluation and Implications for Developing Countries —

日本の社会保障の経験

— 社会保障後発国としての制度整備過程と途上国への教訓の観点から —



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Foreword

This handbook is an edited and augmented version of the report in “Towards the Establishment of Social Safety Nets (SSN) in Developing Countries, compiled by a JICA study group that carried out in 2003 called “Basic Research on Social Safety Nets.”¹ This handbook is extracted several sections from the report referring to Japan’s experience,” written by Professor Yoshinori Hiroi of Chiba University, who is a committee member of the SSN Study Group². Since this report is expected to be utilized as a source of reference in the context of the technical transfer programs for developing countries, a Japanese version and an English version have been compiled into one volume.

The “Basic Research on Social Safety Nets” was initiated against the background of a growing awareness of the need in recent years to promote SSN for the socially disadvantaged. Due to the globalization of the world economy, the socioeconomic situation in developing countries is more likely than ever to be severely disrupted by the possible emergence of a financial or currency crisis. If such a crisis actually occurs, many workers in these countries are likely to descend into poverty due to the increase in bankruptcies, which will boost the unemployment rate. In this scenario, it is also feared that the poor might become much poorer as a result of aggravation of their economies.

This has been well proven in the recent Asian economic crisis, which prompted donor nations to provide emergency aid to developing countries and revealed that these countries had not yet established proper SSN systems. Despite the crisis having passed its peak, there is a growing demand for support to developing countries to enable them to establish SSN systems on a medium – to long-term basis as part of structural reforms to revitalize their sluggish economies.

Considering that this handbook will be utilized as a reference in technical transfer programs for developing countries in the field of the social security development, the

¹ This report (Japanese version) can be downloaded in PDF format from the JICA website. (<http://www.jica.go.jp/>)

² Section 3-2-3 (4) was written by Gen Kojima (JICA staff).

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objective of this handbook is to provide a certain perspective from an overview of the similarities between the past situation in Japan and the current situation in developing countries, in order to elucidate and highlight viable lessons learned from Japan's experience in promoting its social security systems, especially the permanent systems such as the health insurance systems and pension systems.

Japan began to develop its social security systems – modified and modeled after those already introduced in the West – before the end of WWII when more than half of its population was employed in businesses in the primary sector. Japan in those days could be virtually classified as a developing country when assessed on the basis of its industrial structure. This situation is unique to Japan, since Western nations began to deal with this issue only after their economic power had reached a certain level. Since social security systems need to be tailored to each country's social and economic status, it is not appropriate to apply Japan's social security systems to other countries without any modification. However, Japan is a country that developed its original social security systems while the society was dramatically changing in the prewar and post-war period, and introduced the best practices of the leading nations. Such experience, with both positive and negative aspects, could provide useful lessons, taking into account the prospective economic growth of developing countries.

It is hoped that this handbook will be used by as many specialists in social security fields as possible, and also contribute to the advancement of social security systems in developing countries.

July 2004

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Chapter 1 Basic elements for understanding the development of social security systems in developing countries from Asian perspective

This chapter is intended to offer perspectives concerning the characteristics of social security systems in Asian countries by reviewing their stages of economic development and their social and cultural diversity. Such perspectives serve in Chapter 2 as premises for describing the implications of applying Japan's experience to developing countries based on an analysis of the history and characteristics of Japan's social security systems.

1-1 General country groupings

In order to better assess the current social security systems of Asian countries, these countries can be classified into the following four groups based on factors affecting their social security systems. Please note that this classification is a tentative one and does not have any definite meaning.

Group 1

Countries that have achieved economic development comparable to the developed countries, including Japan. Countries in this group have achieved, or will achieve in the near future, universal coverage of social security services and have been dealing with new challenges in recent years such as problems of their aging populations and the streamlining of social security systems

Examples: Singapore, Taiwan, South Korea

Group 2

Countries that are on the path to industrialization, as well as to the achievement of universal coverage in their social security systems. In countries belonging to this group, a certain level of social security services is provided for the employed (such as company workers and civil service workers) while the majority of their populace working in the informal sector, such as farmers and self-employed workers, are not covered by social security systems.

Examples: Malaysia, Thailand, Philippines, Indonesia

Group 3

Countries that are in the primary stage of industrialization. In countries belonging to this group, social security services are provided for a limited number of people, such as certain types of civil servants and military personnel. Their medical care policies still give priority to the improvement of public health, especially the prevention of infectious diseases.

Examples: Vietnam, Laos, Cambodia, Myanmar

Group 4

Countries that cannot be categorized into any of the above groups due to the extraordinary size of their population.

Examples: China, India

As already mentioned, the above categorization is a provisional one. Therefore, from the viewpoint of the relationship between social security systems and socioeconomic systems, it would also be possible to form a group that includes socialist/communist countries (as well as transitional economies from socialism/communism). (Examples: China, Vietnam and Laos)

China has been promoting its reforms under the banner of a socialist market economy since the 1990s. The concept of the “welfare state,” which is closely associated with the notion of social security, has been nurtured and developed as a social model for the realization of “modified capitalism.”³ In this sense, **the “welfare state” and a state with a “socialist market economy”** have similarities since both social models have a market economy system under state control, that is, an economic system that combines aspects of capitalism and socialism. This perspective offers significant insight into the social security system of China, as well as that of other countries with economies in

³ The social model of Sweden, which has embraced social democratic administrations since the 1930s, was initially called “the middle way”.

transition.

With the above general classification in mind, I would like to clarify the basic factors for understanding social security systems in Asian countries (those generally referred to as developing countries).

1-2 Economic development and social security – Externalization and re-socialization of the functioning of families and communities

Generally speaking, **as a country goes through the economic development process and builds up its economic systems, its social security system improves** along with the transformation of its industrial and employment structures, level of urbanization, family types, disease structure, and population composition **in order to secure the livelihood of individuals and households, as well as to achieve a stable income redistribution.**

Substantially, following on economic development, **any social security system evolves as a public system to supplement (or re-socialize) a weakened form of “mutual assistance” that has been functioning within individual households or within (rural) communities in an informal fashion.**

For example, the pension system originated as an economic mutual assistance system for the elderly practiced particularly by large families (such as three-generation households) in traditional communities. Such mutual assistance systems then became “externalized” to become a public system along with the advancement of industrialization and urbanization, which has resulted in an increase in nuclear family households. In other words, the pension system took over the responsibility of individual families for providing economic assistance to the elderly and institutionalized this responsibility as a social security system. Not only the pension system, but also **most other social security systems developed in accordance with the industrialization, such as health insurance, unemployment benefits and other social welfare services that are designed to support “nuclear family households” defined as “fragile communities” that have emerged outside the traditional types of families and communities in particular areas along with the advancement of urbanization.**

The development of the social security systems mentioned above is peculiar to a society in the transitional stage from a pre-industrialized society (or traditional society) to an industrialized society. On the other hand, as a result of its more advanced economic development and maturation, long-term care issues, such as the provision of physical assistance to the elderly, emerge to become the forefront of new challenges along with the increase in life expectancy. In addition, it becomes more critical to support childraising in a society where nuclear families move towards “individualization,” partly due to the increased participation of women in society. This is the stage of a society called “a mature and aging society.”

From the viewpoint of the externalization and re-socialization of the functioning of traditional families and communities, the relationship between economic development and social security systems can be explained based on the following three-stage concept. (Table 1-1)

- A. **Pre-industrialized society** **Mutual assistance within traditional families and communities**
- B. **Industrialized society** **Trend towards nuclear families**
- C. **Mature and aging society** **“Individualization” of nuclear family members**

The category “B. Industrialized society” can be further classified into two stages of society – “early industrialized society” and “late industrialized society.” As explained above, social security systems are established to supplement the mutual assistance mechanism functioning within traditional farming communities. In an early industrialized society, social security systems are developed to ensure livelihoods for urban workers (employed workers) and their families, the number of which increases along with the advancement of industrialization and urbanization. When entering the stage of the late industrialized society, social security systems are required to cover not only employed workers, but also farmers and self-employed workers, in order to make up for the functional decline in the mutual assistance systems of traditional communities. Nonetheless, a certain level of mutual assistance is generally more available to farmers and self-employed workers than to employed workers. As a result, even in developed countries, farmers and self-employed workers are often entitled to limited social benefits, or are not mandated to participate in social security programs. Therefore, it largely

depends on the philosophy of each country, as well as its actual status, as to how much consistency can be assured between the social security system for employed workers and that for farmers and self-employed workers. However, it may be said that social security systems generally develop through two stages: the first stage in which employed workers are covered by the system; and the second stage in which the scope of the system extends to all nationals, including farmers and self-employed workers.

In actuality, many Asian countries often encounter difficulties in expanding the coverage of the social security systems that they have already introduced for employed workers to include those working in informal sector businesses, which account for the majority of their populations. (This trend can be observed especially in countries in Group 2). As discussed later in Chapter 2 in reference to the evaluation of Japan's experience, Japan started to extend the coverage of social benefits not only to employed workers, but also to all people (including farmers and self-employed workers) in a relatively early stage of its economic development. This is one of the characteristics of Japan's social security development process. For example, Japan's National Health Insurance system (Kokuho), managed in the form of a community health insurance, is a quite unique system.⁴

The coverage of those working in informal sector businesses, such as farmers and self-employed workers, is one of the central issues to be discussed for the development of social security systems in Asian countries.

1-3 Health care – the concept of the “Health Transition”

For the analysis of health care systems, changes in the disease structure are also significant, together with changes in the family structure and employment structure, as mentioned above. In addition, there is another perspective to be referred to on this matter – that of the “**health transition.**”⁵

⁴ In the course of the research, the author noticed that policy-making officers and researchers in Asian countries, such as Thailand, China and Laos, were most interested in Japan's “Kokuho” system among its social security systems (Hiroi (1999)). Jenkins (1993), Ginneken (1999) and Beattie (2000) with regard to the issue of the extension of social security systems to those engaged in informal sector businesses.

⁵ Aside from studies independently dealing with the themes of social security and welfare states, there have been various research and practices conducted in the field of so-called international health, including those by WHO and other international medical cooperation organizations regarding health care systems in developing countries, including those in the Asian region. See Cleland and Hill (1991), Chen, et al. (eds.) (1994), Berman (ed) (1995), etc.

The “health transition” is a new concept that has recently been advocated in the fields of public health and international health. **This concept is used to comprehensively and dynamically assess in an integrated manner changes in both the disease structure and in social and economic systems, including the population structure, employment structure and industrial structure.**⁶ There are basically three health transition stages, as follows.

The first health transition stage refers to a period during which a society is mainly fighting infectious diseases (after having solved problems of starvation and epidemics). In the second health transition stage, leading components of the disease structure shift from infectious diseases to chronic diseases. It is believed that Japan entered the second health transition stage around 1951 when strokes became the leading cause of death instead of tuberculosis, or around 1960, when strokes, cancer and heart disease were ranked in this order as the three main causes of death, each of which has since remained in this ranking until today.⁷ In the third health transition stage, the emphasis is placed on measures taken against degenerative diseases of the elderly rather than chronic diseases. In this stage, the medical costs for people aged 65 or older account for a substantial proportion of a society's total medical costs. Consequently, elderly care issues come to the fore and prompt the society to integrate its health care system and welfare system.

The concept of the health transition calls for a society to develop proper health care systems (in terms of finance and delivery) according to the disease structure at each stage.

In the first health transition stage, people's health is more affected by factors beyond the control of the individual, such as the infectious agents themselves or the urban environment. Therefore, the society is actively engaged in the improvement of public health by taking such measures as immunization programs and sanitation upgrading projects, which means that such a society is developing “public goods” in the context of economics.

⁶ For details, see Hasegawa (1993)

⁷ The ranking of these three diseases has currently shifted as follows: 1. Cancer, 2. Strokes, 3. Heart Disease

In the second health transition stage, in which chronic diseases are central to the disease structure, improvements in public health are not the mainstream of health care policies since chronic diseases are lifestyle-related diseases that are the concern of individuals rather than being of public concern. In such a society, an insurance system – under which people pay premiums in preparation for the event of an illness – becomes an important option to be introduced in its health care policies. It is in this stage that many countries actually developed their (mandatory social) health insurance systems. As for the delivery of medical services, hospitals are the major actors (instead of clinics and general practitioners). In short, a society in the second health transition stage generally focuses on the development of health care systems and medical facilities.⁸

In the third health transition stage, elderly care issues become more important. The care of the elderly involves not only the aspect of medical treatment in the narrow sense, but also improvement of the quality of life (QOL) for elderly people, which is realized through long-term care for the elderly as well as participation of the elderly in society in the broader spheres of life. Thus there needs to be perspectives on both a “health care model” and a “QOL model” in establishing a health care system in this stage. In a functional sense, the essential points are as follows: (a) The health care system focuses on social services rather than medical care for the elderly; (b) Elderly care services under such systems are provided at home (or in communities) rather than in institutions. In the third health transition stage it is crucial to produce a system that integrates health care and welfare, as well as services in facilities and services at home (or in communities).

So far, certain aspects of the development of health care and welfare systems have been discussed based on the concept of the health transition, since some services provided under such systems are required to be reviewed from a different angle to that of the analysis of changes in the industrial structure and family structure in the context of the formulation of income security systems, including a pension system.

In a general sense, the three-stage health transition is a concept that is independent of

⁸ Japan developed its health care systems and medical facilities mainly in the high growth period from 1955 to 1974.

the three-stage development of the society (Pre-Industrialized Society/Industrialized Society/Mature and Aging Society) already mentioned in relation to the externalization and re-socialization of the functioning of families and communities. However, there is a certain relationship between the two concepts. For example, the aging of the population follows economic development that leads to an increase in life expectancy. Besides, changes in the disease structure are related to the progress of economic systems, as seen in the shift of primary social health concerns from infectious diseases to chronic diseases owing to improvements in sanitary conditions brought about by economic development. Table 1-1 briefly summarizes the relationship between the two concepts at each stage. On the left side, the Table indicates the relationship between changes in the disease structure and the corresponding health care (or welfare) systems to be developed, and the right side indicates the relationship between changes in the

industrial/family structure and pensions and other income security systems. This conceptual framework presents an outlook on the relationship between economic development and social security systems.

1-4 Diversity of their social security systems in Asian countries

The discussion so far has referred to issues positioned in the “vertical axis” direction and present linear development models, in order to conceptualize the relationship between economic development and social security systems. However, such linear development models are not sufficient to deal with the immense diversity of Asian countries. Such diversity could be placed in the “horizontal axis” direction. In other words, **social security systems in Asian countries are better understood in terms of a matrix of social security models covered by a theory of gradual development in relation to economic development (vertical axis) and the diversity of individual countries reflecting their political and cultural backgrounds (horizontal axis).**

This section reviews the following primary components that constitute such diversity, or the horizontal axis.

- Degree of national integration (or Ethnic homogeneity and diversity)
- Influence of the former colonial powers
- Other factors (Individual peculiarities and religious and cultural factors)

(1) Degree of national integration (Ethnic homogeneity and diversity)

Social security systems (and welfare states after WWII) have been historically developed and expanded closely in conjunction with philosophies for nation states. It is natural in a sense that social security systems has generally been domestic systems for the peoples of individual nations, and that solidarity among the public has been often used as a basic principle to support social security systems. In the case of Japan for instance, a strong demand for “national integration” during WWII played a leading role in establishing and solidifying its Employees’ Pension Plan and health insurance system, especially the National Health Insurance (Kokuho) system, and contributed to building the foundation of the country’s “universal insurance” system.

Table 1-1 Economic development/health transition and social security systems

Health transition stage/Leading components of the disease structure	Health care and welfare system		Pension (income security) system		Industrial structure/Family structure/Population structure
	Finance	Delivery	System to be developed	Background	
Stage 1 Infectious diseases	Public health improvement policies (Enhancement of public goods)	Primary care services/ Development of public health centers	Mainly mutual assistance systems within families and communities		A. Pre-industrialized society
Stage 2 Chronic diseases	Health care insurance system (Expansion of coverage from employed workers to farmers and self-employed workers)	Hospitals play important roles/ Development of medical services and medical facilities	Mainly for the employed workers	Emergence of urban workers and the increase in their numbers → Dissolution of mutual assistance systems in communities	B. Industrialized society Early stage Late stage
			Expansion of coverage to farmers and self-employed workers		
The social security system targeting “Corporations and Nuclear families”					
Stage 3 Degenerative diseases	Integrated health and welfare system for the elderly	Shift to a system oriented towards welfare and home care	Restructuring and integration of the health care and welfare systems	Increase in the elderly population/ Advancement of women's participation in society/ Increase in employment mobility	C. Mature and aging society
Toward a social security system targeting ‘Individuals’ as the unit					

Prepared by Hiroi

In any case, **it would be difficult to establish and manage a social security system without a certain sense of solidarity as well as participation that is shared, at least, among those covered by such a system.**

This perspective explains the peculiar difficulty in developing social security systems in certain Asian countries. For example, Malaysia, with a racial mix of Malays, Chinese and Indians, is still struggling to establish its form of national integration, despite the nation's efforts to ease tensions and encourage reconciliation between ethnic groups along with its New Economic Policies, which give priority to native Malays (Bumiputra), in an attempt to pursue structural reforms, including the elimination of economic disadvantages affecting specific ethnic groups. The same can be said of the multiethnic country of Indonesia. It may not be too much to say that neither the concept nor the reality of a nation state, in the Western or modern sense, had ever existed in many Southeast Asian countries. They had been divided or their borders have been drawn artificially by Western powers in the course of colonization, where small kingdoms and ethnic groups existed previously.⁹ Therefore, there is little inevitability that Indonesia, for example, will continue as a united nation, the concept of which is derived from modern Western Europe. **Such a low degree of national integration hinders the establishment of a universal insurance system. It is necessary to take into account the above backgrounds in contrast to Japan's past experience.** In other words, this issue sheds light on other themes, such as the relationship between social security systems and nation states, and the importance of political integration for the development of a nation-wide social security system.

(2) Influence of the former colonial powers

As briefly mentioned above, many Asian countries became independent as "nations" from colonial rule by Western countries. As a result, their social security systems were affected in many ways by their former suzerains.

For example, both Singapore and Malaysia have a mandatory saving system called a Provident Fund as the pillar of their social security systems, which calls for all individuals to open their accounts and save some money on a regular basis, the basic frame-

⁹ For details, see Shiraiishi (2000)

work of which was founded during the colonial British era. Another instance is the public medical security system in Malaysia, which is paid for from the government's general revenues (tax money) and has some similarity with Britain's NHS (National Health Service) system, while many other Asian countries have, or are going to introduce, their own social insurance systems for health care. (In Malaysia, medical services under the above system are also delivered by public medical institutions in many cases.)¹⁰

The same can be said to apply to the Philippines. Until the National Health Insurance Act was adopted in 1995, the Philippine health insurance system had been called Medicare, exactly the same name as the system of its kind in the US, its former ruling nation.¹¹ One Philippine researcher pointed out that America's influence was one of the reasons preventing the country from developing as a welfare state, stating that, "Most of the administrative systems in the Philippines have been modeled after those of America due to the lack of continuous contacts with Western countries during its history."¹²

Thus, the complexity and diversity of social security systems in Asian countries can be partly attributable to the influence of their former colonial powers.

(3) Other factors (Individual peculiarities and religious and cultural factors)

Lastly, we would like to refer to the special circumstances peculiar to the respective Asian countries, as well as their national character, both of which also contribute to the diversity of their social security systems. For example, the characteristics of the social security system in Singapore, a city state without a farming population, are deeply related to the nation's high level of homogeneity. Essential factors affecting the social security systems of Asian countries can also be found in their cultural and religious backgrounds. A "Southern European welfare state" is sometimes mentioned in the context of the categorization of social security systems. It is believed that catholic states in southern Europe, such as Italy and Spain, used to lag behind in the development of for-

¹⁰ Malaysia is currently considering the introduction of a public health insurance system.

¹¹ The previous health insurance system of the Philippines was based on the Medicare Act of 1969.

¹² "Is the Developing Fetus of the Welfare State Heading for Stillbirth?" by Robles Jr. (Translated by Shiratori, 2000)

mal social security systems partly due to the subsidiarity principle embraced by these countries, which advocates that the “Primary responsibility for welfare should be taken by the family and the church. The nation takes action only when those responsible cannot deal with the situation.” However, **it is quite understandable that traditional families or communities, or churches or other religious organizations, instead of the nation, should assume the main responsibility for welfare in a broad sense. It would be inappropriate to jump to the conclusion that a country without a formal (governmental) social security system cannot provide sufficient welfare for its people.**

Here we would like to refer to the status of social security in Thailand. Woothisan Tanchai, assistant professor at Thammasat University, presents three types of “traditional welfare” in Thailand contrasting it to “Western welfare”—welfare based on Buddhism, welfare in communities, and welfare as a new social policy, including the establishment of the new Constitution in 1997. As for welfare based on Buddhism, Tanchai explains that in Thailand, more than 80,000 young people are given opportunities to learn in temples, adding that it is common in his country for temples to provide welfare services for the homeless and poor.¹³

The above examples are among many. The allocation of roles between the nation and the church takes different forms based on different philosophies in Islamic countries, for example. At any rate, much consideration should be given to the religious and cultural background of Asian countries, as well as their diversity. It is necessary to conduct research and institute policy measures with regard to their social security systems in accordance with these viewpoints.

In addition, since many social security systems have come into being primarily as a result of the socialization of care work shared by women, it is especially important to pay attention to the diversity and characteristics of gender relationships (and family structures) in each country and region when reviewing social security systems from the viewpoint of cultural diversity.

¹³ For details, see Woothisan Tanchai (2001)

Chapter 2 Japan's experience concerning the development of its social security system

2-1 Significance of the evaluation of Japan's experience

Chapter 1 has outlined social security in Asian countries. In conducting research on such a theme, or in carrying out international cooperation in the field of social security, it is significant for us to evaluate Japan's own experience as a crucial process.

In fact, this factor has been one that has been most lacking in Japan's research and practices in the field of social security. This is partly due to the fact that Japan's research and policy implementation regarding social security has long been focusing on learning and introducing the systems adopted by the leading countries on this issue (such as the European countries and the US). This has discouraged Japan from promoting interactive communications with other foreign countries, including the Asian region, through transmission of the results of the evaluation of Japan's experience in the development of its social security systems, as well as from clarifying the characteristics and problems of Japan's social security system in the context of a comparison with the systems of the same kind in Asian and other developing countries.

Japan has taken the path of extremely rapid industrialization since the late 19th century when the country was still one of Asia's underdeveloped capitalist states. Japan in those days could be defined as a developing country compared with the industrialized nations of the West, which were model countries for a Japan that was at the time making efforts to develop its economy in line with government-guided policies designed to catch up with industrialized nations.

This situation can be characterized by the fact that various influences from Western countries can be seen in the design of Japan's current social security systems, that those engaged in the primary sector had accounted for a large portion of the nation's population for a long time, and that changes in the employment structure, the advancement of urbanization, as well as the decline in the birthrate had progressed at a very high rate. Therefore, Japan's experience, which has been completely different from that of Western nations, presents

unique implications in the context of the design of social security systems in the latecomer countries, and, **regardless of whether they are negative or positive, they offer insightful original examples that are useful for studying themes such as the development of social security in the latecomer countries, as well as social security in non-Western countries.**

In addition, it is necessary to review Japan's experience from the viewpoint of its rapidly aging population, which has emerged as a result of drastic socioeconomic changes that many latecomer countries go through, as represented by the sharp decline in the birthrate in the postwar era (especially from 1945 – 1954). The problems of an aging population can be already observed in many Asian countries, such as China, and are expected to also be experienced in the future by other countries in Asia. Therefore, Japan's experience also offers unique perspectives concerning measures to deal with a rapidly aging population.

2-2 Characteristics of Japan's experience concerning the development of its social security system¹⁴

This section gives a detailed explanation and evaluation of Japan's experience concerning the development of its social security system in terms of the following three aspects; the overall design of Japan's social security system, the relationship between Japan's social security system and its socioeconomic systems, and analysis of specific systems (Health care/Pensions/Welfare).

2-2-1 Japan's social security system as a whole

The following are the summarized characteristics of Japan's social security framework:

Japan's social security system initially started as a social insurance system based on the German model, and then it gradually introduced the elements of (British) universalism.

The government actively included people in the informal sector (farmers, fishers, foresters/self-employed workers) in the social security system when the

¹⁴ For details, see Hiroi (1999 and 2001)

population of such people was still relatively large. (Uniqueness of the National Health Insurance (NHI) (Kokuho) system)

Some of the social insurance systems have been managed by the government as the insurer. (State-controlled health insurance systems/National Pension Plan, Employees' Pension Plan)

Health insurance systems were developed first, followed by the rapid advancement of pension systems.

(1) Trend towards universal coverage and universalism

Firstly, the point that we would like to raise here is (a) above; that Japan's social security system initially started as a social insurance system based on the German model, and then it gradually introduced the elements of (British) universalism. A social insurance system based on the German model can be defined as a social insurance system (especially pension system) designed to deliver benefits to employees according to their earnings, the primary revenues for which come from premiums collected from these employees. This model of social security system is basically instituted for employed workers. Under the German model of such a system, non-employed workers (such as those engaged in agriculture, forestry and fishery, as well as self-employed workers) receive relatively few benefits compared to employed workers. Besides, some systems classified under the German model do not require mandatory participation for non-employed workers. In Germany, it is voluntary for certain strata of the population, for example self-employed workers and high-income earners, to participate in its public health insurance system. In addition, some people, such as the non-employed spouses of employees, are not allowed to participate in the nation's pension scheme.

On the other hand, a universal model social security system – although there are several variations – is generally characterized by the principle of providing all people with equal benefits through tax revenues. Under such a system, there is no substantial difference between employed workers and non-employed workers. Figure 2-1 below categorizes three basic models regarding social security systems, including the market-oriented model, which is different from both of the above two models. This categorization is related to the discussions later on.¹⁵

¹⁵ For details, see Hiroi (1999)

Table 2-1 Models of social security/welfare states

Models	Characteristics	Countries and regions	Basic principles
A. Universal-model	<ul style="list-style-type: none"> • Considerable benefits • Universal coverage • Maintained mainly by tax revenues 	Scandinavian countries UK (but moving toward the model C)	"Public assistance" (Publicness)
B. Social insurance model	<ul style="list-style-type: none"> • Benefits according to payments • Mainly covers employees • Maintained mainly by premiums 	Germany, France, etc.	Mutual assistance (Reciprocal help/Cooperation within communities)
C. Market-oriented model	<ul style="list-style-type: none"> • Minimum public assistance • Private insurance systems play the leading role • Depend on self-help and volunteer assistance 	USA	"Self-assistance"

Prepared by Hiroi

As one of the overall characteristics of Japan's social security system, it has been pointed out that Japan's social security system initially started as a social insurance system based on the German model, and then gradually introduced the elements of (British) universalism. This transition process can be better explained by dividing it into two stages. The first stage is marked by the implementation of the **"universal insurance"** framework in 1961. The substantial basis of Japan's universal insurance framework was formed during WWII and then nurtured in the turbulent period immediately afterwards. As already mentioned, a "social insurance system" is not equivalent to a "universal insurance system." Germany, a country with the world's oldest social insurance system, does not have any universal coverage schemes. (For example, in Germany, it is voluntary for high-income earners to participate in the nation's health insurance plan, and self-employed workers are not required to join public pension schemes.) Having sought a universal insurance framework, Japan had chosen to follow a different route from Germany, the initial model country for Japan regarding social security, by seeking a universal insurance framework.

Why did Japan decide to establish such a universal insurance framework? In Japan, the term "universal insurance" was originally mentioned in parallel with the national slogan; "universal conscription." Specifically, the history of Japan's universal insurance framework dates back to the Universal Insurance Movement starting from 1942, which was advocated by the Joint Committee for the Promotion of the National Health Insurance System sponsored by the Taisei Yokusan Kai or Imperial Rule Assistance

Association¹⁶. As a result, by the end of 1943, the National Health Insurance (NHI) system covered 95% of all city, town and village governments in Japan, which means that universal coverage had been achieved in Japan except for several large cities. This period of time is sometimes referred to as the First Universal Insurance Era in Japan. In addition, the basis of the current Employees' Pension Plan was founded around this time as well. (See below.)

1942 Workers' Pension Insurance system started

- Covered male factory workers

1944 Employees' Pension Insurance system started

- Expanded to female workers and office workers (Workers' Pension Insurance system was replaced by this system)

The establishment of the above pension plans was driven more by the circumstances of Japan, which was on war footing, than the NHI system.

Japan's universal insurance framework came to completion in 1961, sixteen years after the end of the war. Nevertheless, its substantive contents, as well as its philosophies and motivations, were nurtured when Japan was at war from 1940 to 1945. It is possible to say that national unity during the war, as well as the strong sense of national integration in the postwar era for achieving the national goal of economic development, was the main driving force for the realization of Japan's universal insurance framework.

After the above stage that formed the "take-off" stage from the German model, Japan further consolidated its universal insurance framework by taking the following measures. (German model → Universal model)

1982 Elderly Health Care system was established

1985 Basic Pension system was established

Although most Japanese people (including non-employed workers covered by the NHI) were covered by health insurance by the end of WWII, there had not yet been

¹⁶ *Taisei Yokusan kai* was the government-sponsored organization to control the whole society, active in Japan during WWII.

any pension systems for non-employed workers.¹⁷ In order to deal with this situation, the non-contributory Welfare Pension Plan was introduced in 1959, which was then replaced by the contributory National Pension Plan enacted from 1961. Thus Japan's universal pension system began.¹⁸ However, the initial National Pension Plan placed employed workers' wives who divorced at a disadvantage as they had no independent rights to pensions. Against this background, the Basic Pension Plan was put in place in 1985 based on the philosophy: "Provide pension rights for all people". The concept of a "basic pension" does not exist in Germany. In contrast, it is characteristically common among countries adopting universal model social security systems (UK, Scandinavian countries, etc.). The structure of Japan's pension framework is often explained as a "Basic Pension Plan for the bottom tier, Employees' Pension Scheme for the upper tier." In other words, Japan's public pension is a combination of the universal model system (reflected in the Basic Pension Plan in which all people receive the same amount of benefits) and Germany's social insurance model system (reflected in the Employees' Pension Plan in which people receive benefits proportional to the amount of premiums they have paid according to their salaries). On looking back at the development of Japan's pension system, it is possible to see that it has been shifting from a German model system to a universal model system. If this trend continues, Japan's public pension structure might end up with a single Basic Pension Plan structure through the abolition (privatization) of the Employees' Pension Scheme. In this sense, Japan's public pension is considered to be still in the process of becoming a full universal model system.

The establishment of the Elderly Health Care system explains well why Japan's social security is still in the stage of transformation from a German-model system to a universal-model system. The Elderly Health Care system was instituted in the course of the administrative reform starting from 1980s that was initially advocated by the Ad hoc Commission on Administrative Reform. The objective of this system was to "remedy the financial challenges facing the National Health Insurance system without raising the portion funded from the government's budget (tax revenues)." (In other words, medical expenses for the elderly are shared only by participants in the NHI system.) Japan's

Elderly Health Care system was designed solely to share the medical costs of the elderly by all those insured by the system. There is no such system in Germany. Therefore, in addition to changes in the pension framework, the establishment of the Elderly Health Care system is considered to be another part of the transformation of Japan's social security system from the German model.

However, it is also possible to consider that Japan's social security system already varied considerably from a German-model system at the time of the introduction of the NHI system from the viewpoint that the NHI system has been funded from tax revenues in a consistently expanding manner, which has never happened in Germany. More specifically, the proportion of tax funding, that is, the share of state support for the cities, towns and villages (insurers) that are actually managing the NHI system, has increased as follows: 20% (1953) → 25% (1958) → 35% (1962) → 45% (1966) → 50% (1984). This trend means that the national government continued to provide financial support for municipalities to develop their NHI programs. This approach is considered to provide a certain reference for Asian countries.

The shift from the German model to the universal model, which applies to both health insurance systems and pension systems, is the basic direction of Japan's social security system. This direction can be characterized by Japan's determination to pursue universal insurance for all people (as reflected in the establishment of a universal insurance structure), as well as by its technical approach in coming up with a uniform structure concerning contributions and benefits (as represented by the introduction of the "Basic Pension" system). In order to maintain this direction, tax revenues have been injected into Japan's social security system on a timely basis.

Summarizing the discussion so far, the relationship between the development of Japan's social security and economic growth since the end of WWII until the end of the 1980s can be understood by dividing such economic growth into three stages – (a) "Take-off" stage; (b) "Ascending" stage; and (c) "Terminal" stage. Each stage can be considered to correspond to the development of the social security system. (See Table 2-2)

By using this method of stages, a close linkage between Japan's economic growth and the development of its universal insurance framework can be recognized, both of which have been driven by the nation's development-oriented aspirations.

¹⁷ The difference in the development of Japan's health care systems and its pension systems will be discussed later.

¹⁸ Since a pension system can be deemed a type of insurance system, a universal pension system can be defined as a universal insurance system in a broad sense.

Table 2-2 Economic growth and the universal insurance framework in Japan

Economic growth stage	Direction concerning a universal insurance system	Institutional progress
1. Take-off stage	Building the foundation of a universal insurance system	Establishment of the NHI system/ Employee's Pension program (During WWII)
2. Ascending stage	Implementation of a universal insurance system	Completion of the NHI system/ National Pension scheme (1961)
3. Terminal stage	Tentative finalization of a universal insurance system framework	Elderly Health Care system (1982)/ Basic Pension program (1985)

(2) The significance of the National Health Insurance (NHI) system for farmers / fishers / foresters and self - employed workers

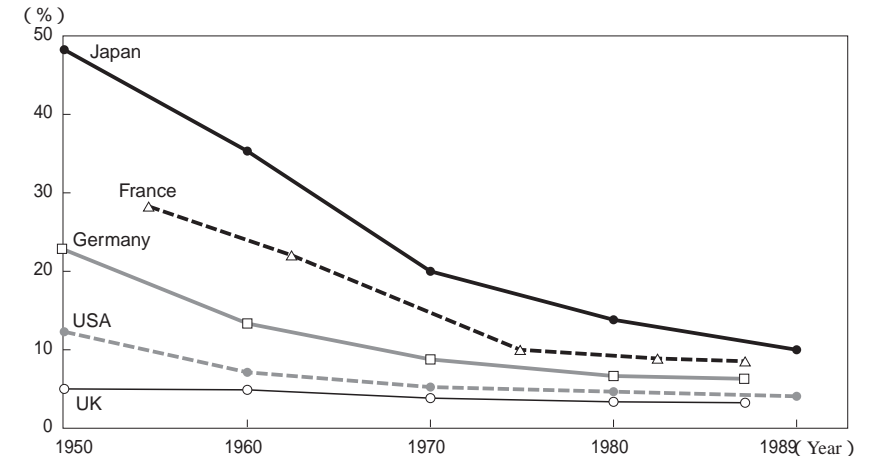
As discussed in Chapter 1, the most important point in designing a social security system in a developing country is how to deal with its non-employed workers (such as farmers, fishers, foresters and self-employed workers). Michael Jenkins, consultant of the International Social Security Association (ISSA) points out that, "Rural, agricultural and informal-sector workers have often been denied the social security protection to which other economic sectors of populations have had access, and this is particularly true in the case of developing countries."¹⁹ In the beginning of this chapter, the following point was raised as one of the characteristics of Japan's social security framework development: the government actively included people in the informal sector (farmers/self-employed workers) in the social security system (especially health insurance systems) when the population of such people was still relatively large. This characteristic offers a certain direction for developing countries in terms of the positioning of informal sector workers in their social security systems.

Firstly, we would like to look at Japan's past situation from a statistical viewpoint. **Figure 2-1 compares changes in the proportion of primary sector workers in the labor force of several countries from 1950s to 1980s. This clearly reveals that Japan had a significantly larger primary sector population compared to other developed countries until around 1970 and then this population declined quite sharply after that year. This means that there is a high degree of similarity in the proportion of primary sector workers in Japan in the past and that in developing countries**

¹⁹ For details, see Jenkins (1993)

today. Japan's experience in this regard can therefore serve as a valuable reference for the current developing countries.

Figure 2-1 Trend in the proportion of primary sector workers



Note: Data on Germany are those of former West Germany
Source: Compiled by the author on the basis of information in ILO annual reports

As stated above, the treatment of non-employed workers is the most critical point in designing a social security system in a developing country. In other words, Western developed countries did not need to struggle so hard with this issue. These countries had already achieved industrialization and had a comparatively small non-employed worker population before they started to establish and solidify their social security systems from the late 19th century to middle of the 20th century, which allowed them to build social security nets covering almost all social strata even if related systems were voluntary-participatory or if such systems did not cover non-employed workers.

Therefore, it is possible to say that **Japan, a late-industrialized nation, was the first country that made considerable efforts to "include farmers/foresters/fishers and those in the informal sector in the social security system."** In other words, Japan presented the first example of "the establishment of a social security system in a developing country."

Guhan, an Indian economist, refers to the “limitations of formal models” as follows: “It does not make sense to regard the social programs of France, the United Kingdom and the United States as presenting a shop window from which a developing country can select the goods it prefers. Neither Beveridge nor Bismarck nor Roosevelt can provide a model for social security in developing countries.”²⁰ Japan came up against this issue for the first time in history. Hence, Japan's experience is considered to offer unique suggestions for the present developing countries.

Japan's experience highlights a problem that is now common to developing countries. It was hard for Japan to incorporate its huge number of primary sector workers into the social security framework as the country had started to introduce and solidify its social security system at a relatively early stage of economic development when the nation's economic base was shifting from primary sector industries to secondary sector industries.

Incorporating non-employed workers into a social security system is more important for a health insurance system rather than for a pension system, since it is reasonably feasible for households in farming communities to financially support their elderly people, while on the other hand it is difficult to rely on such mutual assistance regarding health care. There is not much difference between people in rural communities and city workers (employed workers) in terms of the need for health care. For this reason, a society is firstly required to deal with health care for farmers, fishers and foresters.

Japan's option for solving this problem was the introduction of the National Health Insurance (NHI) system, which could be interpreted as a community health insurance system. The National Health Insurance Law enacted in 1938 stipulated that each NHI program be managed by a health insurance association voluntarily established for that purpose, which was the municipality itself or a public corporation. In 1948, the Law was revised to ensure that the NHI mandatory participation system was “principally managed by municipalities,” in which specified health insurance associations were allowed to be established in exceptional cases, with the aim of promoting NHI programs across the country. As a result, in 1961, all municipalities throughout the country had NHI programs. This marked the completion of a universal insurance framework

²⁰ For details, see Guhan (1994)

in Japan.

Looking back at the time when he was working on the project to establish the NHI system, one government official made the following interesting comments:

“I was asked to work on research on the status of farm villages. I made a report, and at the same time, I just looked into overseas health insurance systems applied to farmers. But I found that they were all workers' insurance systems. They did not serve as models for Japan where small-scale farming was being practiced by peasants. It was necessary for us to come up with our own system that suited our country's situation. After much thought, an idea occurred to me. In the traditional family system, the spirit of local unity and the virtue of mutual assistance are still strongly alive in Japan's local communities, even though they are the products of feudalism. So I thought it would be very feasible to form a local health credit union for each of such communities by utilizing the local people's sense of integration, under the supervision of central ministries or local municipalities. I thought people would choose to participate in this kind of program rather than in other programs. --- (Omitted) --- The basic concept of the NHI system came about in this way.”²¹

It could be said the NHI system was initially instituted as a form of farmers' insurance scheme in rural communities (mura in Japanese) when Japan was a less-industrialized country with primary sector workers accounting for more than half of the nation's labor force. The NHI system is the most unique and most distinctive system among Japanese social insurance systems. Considering the industrial and employment structure of Japan in those days, it is natural, in a sense, for Japan to have pursued a social insurance system like the NHI. Japan's NHI system could be one of the most viable models when designing public health insurance systems in developing countries that are facing circumstances that are similar to those that Japan faced in the past.

The basic question here is: Should a system like the NHI be defined as a type of “Asian” system, or as a “developing country” type of system? Please see below.

²¹ The Insurance Department of the Health and Welfare Ministry (1974); Underlined by Hidefumi Kawamura

Asian type system: A system that has a universal meaning for all time in a certain region (for example, Asia) where a particular local (rural) community structure or a unique indigenous family relationship is being maintained.

Developing country type system: A system that is effective for a less-industrialized country solely during a certain period of time (for example, during a time when a country has a high primary sector population still with effective traditional local communities).

The above question is related not only to the evaluation of the applicability to developing countries of a system like the NHI, but also to issues that the NHI system in Japan will have to face in the future. Considering that the current circumstances surrounding the NHI system are completely different from those when the system was put in place, as well as that the initial objectives of the system have seen a “hollowing out,” the NHI system could be rather defined as a developing country type system (type 2 above). Therefore, it is possible to say that this type 2 system works effectively when a country is at a certain stage of economic development (especially when the country's population consists mainly of farmers). Now that the participant structure of the NHI system has substantially changed from what was originally intended, Japan is required to at least reconsider the social strata of those to be covered by the NHI system.

(3) The nation as the insurer

This section is a discussion on the following characteristics of Japan's social security framework that was raised as point (c): “Social insurance systems have been managed by the government as the insurer. (Government-managed Health Insurance system/National Pension Plan, Employees' Pension Plan)”

Table 2-3 Participant structure of NHI programs managed by municipalities

		FY 1961	FY 1992
Proportion of NHI program participants in the total population		47.0%	30.5%
Grouping by participants' (household) occupation	Farmers/Fishers/Foresters	44.7%	9.0%
	Self-employed workers	24.2%	24.7%
	Employed workers	13.9%	23.6%
	Unemployed	9.4%	38.1%
	Others	7.8%	2.3%

Unlike a tax-subsidized social security system, a social insurance system is usually managed by an autonomous private organization functioning as the insurer, although such organizations are subject to various public regulations. A typical example is Germany's health insurance organization called Krankenkassen, which is principally fully supported by premiums and is in charge of negotiations with medical associations in terms of medical service fees. In the case of Japan, which is classified as a social insurance model country based on the characteristics of its social security system, the country has a quite rare social insurance framework managed by the nation (= government) as the insurer, as represented by the government-managed Health Insurance system, as well as the National Pension Plan and Employees' Pension Plan. This government-led social insurance framework, which may have reflected the nation's paternalism, represents the particular character of Japan in the past as a less-industrialized country, and at the same time has implications for designing social security systems in developing countries.

To be more specific, when looking at Japan's Health Insurance Associations established by large corporations, it appears that they are more like private organizations. However, according to relevant laws, they are defined as organizations that carry out their operations “instead of the government,” which means that the government is in a dominant position compared to private Health Insurance Associations. In other words, the philosophy of Japan's social insurance is that the government should be responsible for health insurance for all employees and the Health Insurance Associations of large corporations merely act for the government. This is contrary to the idea that health insurance programs for employees should be carried out by their respective Health Insurance Associations. The government becomes the insurer for employees working in corporations that are incapable of establishing a Health Insurance Association. In the course of drafting the Health Insurance Law, there were some arguments regarding the treatment of a few then-existing mutual aid associations. Eventually, the finalized law did not allow these private organizations to continue the operation of their health insurance programs, while providing such qualification for several specified bodies (Japan National Railways, etc.) as exceptional cases (namely, mutual aid associations for public servants). Regarding the discussion about the treatment of the mutual association of Kanebo Co., one of the largest private mutual associations at the time, one scholar made the following interesting comment: “In Western countries, almost all employees' health insurance programs are being managed by autonomous private organizations.

Nevertheless, in our country, the government is compelled to become the insurer since the general public still has a weak consciousness concerning the idea of insurance, which has hampered the development of mutual aid associations.”²²

(4) Dual Structure of the Economy and the Significance of the Government-managed Health Insurance

Two types of health insurance system were thus developed: health insurance managed by the government and that managed by associations, in addition to the national health insurance. The government-managed health insurance system, which is insured directly by the government, was for small and medium-sized businesses. From the viewpoint of the design of social security systems in developing countries, or more broadly, of income redistribution in the development process, the government-managed health insurance system can be considered to have been established as a measure to deal with the dual structure of the economy, a phenomenon specific to developing countries.

The problem of the dual economy is a major topic in development economics. An economist explains as follows²³: “If large businesses with a high capital-labor ratio are developed while there is a plentiful supply of low-cost labor, which widens the disparity in productivity and wages between large and small to medium-sized businesses, then this disparity will result in a growing inequality of income distribution. In Japan, the phenomenon referred to as a dual structure of the economy occurred in the process of shifting energy sources from coal to oil during the interwar period. In developing countries at the present time, as a factor causing inequality, this phenomenon is likely to have a more profound impact than it did in Japan.” With regard to the relationship between the development process and income distribution, which is a more common topic, the graph of economic development and income inequality was studied by economist Simon Kuznets and was hypothesized to yield an inverted U-shaped curve. According to Kuznets' hypothesis, inequality increases as the GNP per capita grows (thus the Gini coefficient, a measure of inequality, increases), and then starts to decrease after reaching a certain stage.²⁴

²² For details, see Mori (1923)

²³ For details, see Hayami (1995).

²⁴ The hypothesis states that an inverted U-shaped curve expresses the relationship between the GNP per capita (horizontal axis) and the Gini coefficient (vertical axis).

From such a viewpoint, **the government-managed health insurance system is considered to have served as a major means of ameliorating the dual economy and the growing inequality of income distribution (in other words, to flatten the Kuznets inverted U-shaped curve).** It is difficult here to accurately evaluate how the system contributed to economic growth itself and reduced income disparities. However, the system may have at least been instrumental in further stabilizing growth in the small business sector. In other words, **it should be recognized that the government-managed health insurance system served as an essential and substantial “measure for small to medium-sized businesses.” This viewpoint is considered to have great significance for social security cooperation with developing countries.**

Table 2-4 shows an international comparison of insurers that are central to social insurance systems and operate as their financial management bodies. With regard to health insurance, three systems were developed in Japan: the system managed by the government, the system managed by associations of companies, and the national health insurance system insured by local authorities. This has given rise to a unique situation in which the total number of insurers is significantly higher than in other countries. In other words, Japan's health insurance is a unique system supported by the government as a very large-scale insurer alongside many small insurers. In contrast, with regard to pensions, the nation (=government) was defined as the main insurer when the labor pension system was established in 1942, except for the pension system for government officials that was established by the association of government enterprises. Accordingly, without an equivalent mechanism to a health insurance system managed by associations, the nation has been the dominant insurer. The basic reasons given for this are that the government-insured pension system is less personal than the health insurance system and that the long-term nature of pension schemes inevitably calls for management by the government. In Japan, nevertheless, the predominance of the government in the management of the pension system is greater than in other countries. This characteristic is probably due to the origin of the Japanese pension system, a system that was established to fulfill the need for compulsory savings (=capital accumulation) during wartime.

Table 2-4 Comparison of the insurers (financial funders) of health insurance systems and pension systems by country

	USA	UK	Germany	France	Japan
Health insurance	National government (Medicare) + Private insurance companies	National government (NHS) <funded by taxes>	900 private health insurance organizations in eight groups (Krankenkassen)	Several private health insurance organizations (Caisse d'assurance maladie)	About 5,000 insurers (National government/Health Insurance Associations: 1,800/Municipalities managing NHI programs: 3,200)
Pensions	National government + Private insurance companies	National government (National insurance)	Individual corporations	Individual corporations	National Pension Plan = National government Employees' Pension Plan = National government

Social insurance group

(5) Relationship between health insurance and pensions

The following is a discussion of point (d): the development of health insurance systems came first, followed by the rapid advancement of pension systems.

Firstly, the following two facts should be noted in relation to the delay in the development of Japan's pension system.

As for health insurance, the Health Insurance Law was adopted in 1922 and came into force in 1927. On the other hand, as already stated, there had been no legislation regarding pension plans until the Workers' Pension Insurance Law was adopted in 1941. In addition, such legislation had been brought about by the special factor of Japan being on a war footing in those days.

As for health insurance, the First Universal Insurance coverage had already been attained before WWII owing to the enactment of the National Health Insurance Law in 1938. On the other hand, no pension plans had been available for self-employed workers and farmers until the National Pension Law was enacted in 1961, when Japan's universal insurance system was completed.

Substantially speaking, the above point refers to employed workers, and the point to farmers and self-employed workers.

Point could be explained as follows. Compared with the case in Germany in which the public pension plan for the elderly and the disabled was introduced several years after its public health insurance system was put in place in 1883, there was a long time lag between the establishment of a health care system and that of a pension system in Japan. This is partly because, unlike the health insurance system, there had been relatively less pressing need to initiate a public pension system (due to the short life expectancy of the population (around 47 years old for males at that time), as well as to the existence of traditional forms of financial support by families), and partly due to the technical complexity of a pension system as a form of long-term insurance system. Point has more significance. Non-employed workers (such as farmers, fishers and foresters, as well as self-employed workers) usually live with and look after their elderly family members. In addition, the job participation rate of the elderly in non-employed workers' households is high since they are allowed to work as long as they want to with no mandatory retirement age in place. That is why non-employed workers did not require a formal pension system to the same extent as employed workers. Nevertheless, there is no substantial difference between an employed worker and a non-employed worker in terms of the need for health care services. Thus, both groups of workers need to be treated equally in this regard. Therefore, point reflects the difference between employed workers and non-employed workers in terms of their need for health insurance and pensions.

This could be generalized in the following way. As discussed in Chapter 1, a formal social security system is basically designed to replace or supplement an informal mutual assistance mechanism (maintained mainly by family members) that becomes weakened or attenuated along with industrialization. The order of priority of each social security system is determined based on the degree of difficulty that individual families have in dealing with a certain situation, as well as on the level of need, which varies depending on changes in social factors (such as the population structure). The order is generally as follows:

Health care → Financial support for the elderly (= Pension) (→ Long-term Care for the elderly)

It is generally considered rational to develop health care first, then pensions. However, as indicated in Figure 2-1, the time lag between the development of health care insur-

ance and the development of pension schemes was too great in the case of Japan. This is due to the following reasons:

Japan had had a large non-employed worker population for a relatively long time, which had allowed a traditional mutual assistance mechanism to continue functioning and suppressed the demand for a pension system up to a certain point.

After the postwar economic growth and industrialization reached a certain point, Japan's population started to age rapidly due to the sharp decline in the birthrate that had occurred in the early stage of this period of economic growth and industrialization. This phenomenon brought about a drastic increase in the amount paid by the government for pensions, a situation that had been further exacerbated by the revision of the payment levels. (The index-linked pension payment system was introduced in 1973.)

The above two points could apply to developing countries.

Another issue needs to be taken into account regarding the development of Japan's social security system. Although it is relatively common for non-employed workers and their families to financially support their elders, some of them (for example, unmarried elderly females) cannot expect such support. It is necessary to validate from the viewpoint of fairness and equality whether Japan's social system was properly functioning to ensure livelihood security for these people.

2-2-2 Relationship between Japan's social security system and its socioeconomic systems

The following three characteristics can be pointed out with regard to the relationship between Japan's social security system and its socioeconomic systems.

The universal insurance system completed at the "take-off" stage of economic growth had positively affected Japan's economy as a kind of industrial policy.

Apart from institutional social security arrangements, individual companies and families had effectively functioned as communities to provide informal social security services. (Lifetime employment system, low unemployment/unemployment insurance, small number of households on benefit, etc.)

Japan was able to achieve economic development when it was a "young" country as the high economic growth period overlapped with the demographic transition point. However, aging issues remained unresolved due to financial miscalculations.

It goes without saying that even in Western developed countries there has been a post-war consensus (known as the Keynesian Consensus)²⁵ claiming that "there is no inevitable tradeoff between equality and efficiency, and between social security and economic development." Nonetheless, such a general theory may not be sufficient by itself to explain why **Japan's universal insurance framework has been functioning as one of the nation's government-led industrial policies.**

This issue is associated with point above. Figuratively speaking, **Japan's social security system, as characterized by the universal insurance framework, has been functioning as the "Welfare Department of Japan Inc."**

The above metaphor implies the following two interpretations. The first is that Japan's social security system has been an effective and indispensable means of supporting the capable Japanese company soldiers in terms of their health and quality of life, in order for the aspiring nation to achieve economic growth. The philosophy behind this reflects Japan's prewar policy concerning social security built into the so-called "1940-system," as mentioned above. Secondly, the government has been intently trying to keep as many Japanese people as possible "inside" the system of Japan Inc., since the job of the "Welfare Department" is to provide essential services for the company's employees. Therefore, people "outside" the system of Japan Inc. are covered by "unemployment insurance and social assistance, which equals daily life protection (public assistance)," while people inside the system receive "social insurance (excluding unemployment insurance)." As a result, unlike in Europe, too little stress has been placed upon social insurance and social relief services in Japan.

Moreover, being unemployed or receiving life protection services (=staying outside the system of Japan Inc.) has carried a strong social stigma in Japan. It can be claimed that the negative perception toward those receiving unemployment benefits, as well as towards people covered by public assistance, has motivated Japanese people to devote

²⁵ For details, see Hiroi (1999)

themselves to economic/production activities “ ‘inside’ the system of Japan Inc.” The point is that Japan's universal insurance system has been quite an important element of the Japan Inc. system, that is, for the nation's economic/industrial sector.

In the case of developing countries, many social security services for those in the informal sector are provided in the framework of a public assistance program, namely, a life protection program. Such a direction may lead to a situation in which informal sector workers continue to receive social benefits in a passive manner. As for Japan, the government has been dealing with this issue in the framework of social insurance, including the National Health Insurance system and National Pension plan in which the provision of benefits is linked to the payment of contributions (premiums), having effectively brought a large number of informal sector people into the nation's economic and production activities.

Point refers to Japanese style corporate management and employment practices. More specifically, the following can be confirmed:

- Since Japan's Health Insurance Associations are usually single organizations established by individual companies with lifelong employment practices, the employees of these companies have maintained a strong sense of belonging to their organizations.
- The government has been functioning in a similar role to that of the employer for employees working in small to medium-sized companies, which usually do not have a Health Insurance Association or lifelong employment practice, both of which are usually adopted only by large corporations, by offering them health insurance through the government-managed National Health Insurance system.

As for Japan's unemployment insurance system and other welfare systems, the following can be applicable:

- An inflexible labor market and low unemployment rate resulting from the lifelong employment tradition and seniority-based pay system of Japanese companies has been keeping down the number of applications for unemployment insurance.
- Company welfare services have been substituting for part of the public social security system as the termination of employees has been practiced less in Japan than in the West, especially in the US.

As stated above, **Japan's social security system is closely related to the so-called Japanese-style corporate management systems. It is necessary to examine whether such systems can work in developing countries when designing social security systems based on the Japanese model.** In present-day Japan, the importance of unemployment insurance and life assistance services has been growing along with the disappearance of traditional employment practices and increasing job mobility. Therefore, it is also necessary to turn our attention to the prospective drastic changes in the Japanese economic systems as well as corporate practices, upon which the nation's social security system has so far been based.

Another point to be noted is that **Japan has been taking many economic measures that are not institutionally associated with social security, but virtually function as “social security measures.”** For example, farming subsidies provided by the Ministry of Agriculture, Forestry and Fisheries have contributed to the security of livelihood for farmers, and the local allocation tax system has substantially served to redress the disparities between urban and rural areas. The same can be said of an array of subsidies for small and medium-sized companies offered by the former Ministry of International Trade and Industry. All of the above can be defined as **“social security by the production sector.”** In the early postwar days, people's livelihoods were assured largely through a broad spectrum of industrial policies rather than through institutional social security services.

In later years (especially after the 1970s), such an approach took a direction in which social security services came to be virtually provided by public works projects (in the name of creating jobs for life security purposes), causing various negative side effects (such as the environmental destruction resulting from dam construction, inhibition of normal job mobility and the entrenchment of vested interests).²⁶ This phenomenon is often observed in less developed countries as they tend to place overwhelming importance on production-centered economic policies aimed at achieving economic growth. The method of providing social security through economic activities should be evaluated in terms of both its positive and negative aspects.

²⁶ The author calls this type of social security “public project-type social security”.

Lastly, we would like to refer to point : Japan could achieve economic development when it was a “young” country as the high economic growth period overlapped with the demographic transition point. However, issues of the aging population remained unresolved due to financial miscalculations. As already stated, this trend is commonly likely to occur in latecomer and developing countries. Japan was again the first country in history to have experienced this problem. Japan's birthrate started to decline sharply after 1945 when the nation's economy was at the “take-off” stage.²⁷ Therefore, it was from the 1970s onward that the generations born after 1945 became the economically active population. As a result, Japan was demographically advantaged with a substantial young labor force during its high economic growth period, which continued from 1960 until the nation was hit by the oil crisis in 1973.²⁸ This is in great contrast to the European countries whose economies had matured and whose populations had started to age at a relatively early stage of economic development, which, as a result, allowed these countries to achieve steady economic growth by absorbing the impacts of the aging of their populations over time.

In the case of such a (late-developed country type/developing country type) demographic transition, a country is able to hold down the total costs of social security benefits at low levels as long as the country stays in an early economic development stage with a low proportion of the elderly in the population. This applies especially to pension systems. If such a country has a funded pension system, it can, at least for the time being, collect more premiums from its substantial young population, and on the other hand pay fewer benefits to the elderly. This implies that a pension system serves as an effective means of preserving capital for such countries.²⁹

The more important point is that, as is typically observed in Japan, **a country with such a (late-developed country type/developing country type) demographic structure is highly likely to concurrently face both a significant economic slowdown and a rapid aging of the population from a certain point in time.** It would be difficult, especially from the viewpoint of protecting vested interests, for such a country to

²⁷ Japan's fertility rate dropped from 4-5 children per woman around WWII to 2 in 1957.

²⁸ Interestingly and coincidentally, the generations born after Japan's birthrate significantly declined began to enter the labor market from 1973, which is known as the last year of Japan's high growth economic period as well as “The Beginning of the Welfare Era (Fukushi Gannen).”

²⁹ Japan's prewar pension system was designed for such a purpose.

drastically change its pension system after the above situation occurs. Therefore, it is quite important for developing countries to avoid policies that significantly increase the payment level of public pensions based on financial miscalculations in reference to an early stage of economic growth. In other words, these countries should not suddenly change their pension system from a funded system to a pay-as-you-go system. They need to start early to clarify the role-sharing between public pension plans and private pension plans. This issue was also pointed out in a World Bank report as follows: “A pay-as-you-go system tends to cause an improper confidence based on short-term profits without sufficient recognition of long-term pension liabilities, which blurs the reality of pension financing.”³⁰

2-2-3 Specific fields of Japan's social security system

(1) Health care

The following can be considered as the characteristics of the current health care system in Japan.

Each system is financially controlled by the government while health care services are delivered mainly through the private sector. (“Combination type” system)

Institutional priorities as well as major resources are given and allocated to primary care providers (general practitioners).

The initial focus was placed on the development of the public health care system by taking such measures as establishing public health centers in each region.

The NHI system was introduced as a “community insurance” system based on individual rural communities.

The state-designated fee schedule system has been playing a vital role in controlling and distributing medical costs.

The structure of the overall health care system can be classified into the “developing country type” with the importance placed on quantity and access so that there is demand for converting it into a “mature economy type” stressing the quality of health care, validation of medical technologies, patients' rights, disclosure, market mechanisms, and so on.

³⁰ For details, see World Bank (1994)

1) Private sector-oriented delivery system

The above point refers to the most distinctive feature of Japan's health care system. As can be seen (Table 2-5), Japan's system is unique and quite different from that of both Europe and the US.

Table 2-5 Comparison of the basic structure of the health care system

	UK	Germany	France	Japan	USA
Health care services are provided by:	The public sector Almost 100%	The public sector About 90%	The public sector About 70%	The private sector About 20%	The private sector About 25%
Health care system is financed by:	The public sector Tax revenues	The public sector Premiums	The public sector Premiums	The public sector Premiums + Tax revenues	The private sector

Note: The lower column for "Health care services are provided by:" indicates the proportion of public hospitals of the total number of hospitals in each country. The figure for Germany includes hospitals run by public service corporations (such as religious corporations and foundations).

Source: Prepared by Hiroi

When comparing each country's health care system in terms of "the delivery of services" and "financing for the system," as seen in Table 2-5, the uniqueness of Japan's system stands out. This is because "many of Japan's hospitals originated in clinics run by general practitioners," unlike those in Europe which originated in charitable institutions that had been managed mainly by local volunteers and churches.

Table 2-6 Delivery and finance of the health care system (%)

	Delivery	Finance	
Europe	Public	PublicPublic sector type
USA	Private	PrivatePrivate sector type
Japan	Private	PublicCombination type

As indicated in Table 2-7, the proportion of the number of beds of national hospitals continued to decline in the postwar period due to strong opposition by medical associations to the government's policy of developing public hospitals, claiming that it would affect their hospitals and clinics, thus further enhancing the characteristics of Japan's private sector-oriented health care system.³¹

³¹ A typical example is the "Regulations on the Numbers of Beds of Public Hospitals" set forth in the revised Medical Treatment Law enacted in 1962.

Table 2-7 Trends in the proportion of the number of beds in national hospitals/clinics out of the total number of beds of all hospitals in Japan (%)

Year	1951	1955	1965	1975	1985	1994
Proportion (%)	29.8	20.1	11.4	7.9	5.9	5.0

2) Primary care provider(general practitioners)-oriented and public health-centered systems

As general practitioners' organizations (as represented by the Japan Medical Association) have retained an influential position in Japan's health care system under which medical services are delivered mainly by the private sector, the fee schedule system has been instituted and revised basically from the viewpoint of private clinics, and the medical cost distribution system has been set up in favor of small and medium-sized hospitals rather than large hospitals, or of general practitioners rather than hospitals. This means that Japan has consistently maintained a system under which its institutional priorities as well as main resources are given and allocated to primary care providers (general practitioners), as stated above.³²

It is also necessary to pay attention to point : the initial focus was placed on the development of the public health care system by taking such measures as establishing health centers at the regional level. This is also one of the basic features of Japan's health care system. It is in and after the second health transition stage (in which lifestyle-related diseases replace chronic diseases as major components of Japan's disease structure (see 1-1-3)) that a health insurance system works especially well. In a society still combating infectious diseases (for example developing countries at an early stage of economic development), public health policy measures, such as the implementation of vaccination programs and the improvement of sanitary conditions, are far more important than a health insurance system.

It is believed that Japan entered the second health transition stage (from infectious diseases to chronic diseases) around 1951 when strokes became the leading cause of death instead of tuberculosis, or around 1960 when cancer, heart disease and strokes were ranked as the top three in this regard, a situation that has remained the same until

³² For details, see Hiroi (1994)

today.³³ Interestingly, Japan's universal insurance was coming to its ultimate stage around 1960. Before that time, under the supervision of the GHQ (General Headquarters of the Allied Forces), Japan had been concentrating on the establishment of its public health care system, the central roles of which were to be played by public health centers. The related laws were developed in line with this move, such as the Public Health Center Law and Food Hygiene Law in 1947, the Immunization Law in 1949, and the Tuberculosis Control Law in 1950. These public health policies were crucial for Japan until the nation had accomplished its universal insurance coverage, although their significance is sometimes forgotten.

The above is a summary of the characteristics of Japan's health care system in the post-war period. Surprisingly, **it was found that Japan's postwar health care policies are quite consistent with the recommendations concerning health care development in developing countries issued by the World Bank in its 1993 World Development Report entitled "Investing in Health."**³⁴

Box 2-1 outlines the above World Bank's proposals, from which the following two conclusions are derived.

Firstly, Japan has, without conscious effort and as a consequence, been maintaining an ideal "developing country type" health care system, which has probably contributed to the good performance of Japan's health care services (which has resulted in low medical costs and raised the Health Index of Japanese people). As I have already mentioned, this admirable performance is the result of constant efforts, including lobbying activities directed at the authorities by related private organizations and groups, and not of well-coordinated public policies with a certain vision. As represented by the NHI system, which first developed in local areas, Japan presents a "Japanese model" in the sphere of health care systems that is a feasible one in the context of planning for future health and welfare assistance in developing countries. When carrying out international cooperation activities in this field, **it is necessary to rationalize Japan's health care system through an objective analysis of both its advantages and disadvantages, in order to devise the most appropriate approaches to its application to other countries, based on their individual circumstances.**

³³ The three top-ranking diseases in those days were as follows: 1. Strokes, 2. Cancer, 3. Heart Disease

³⁴ For details, see World Bank (1993)

Box 2-1 Outline of the World Bank's proposals (From the report "Investing in Health")

- Public investments should be reduced in tertiary health care (such as the construction of highly-specialized medical institutions) to the lowest levels (as they are less cost-effective).
- Instead, they should scale up public health improvement measures for such purposes as preventing infectious diseases.
- At the same time, they should focus on the development of essential clinical services.
- From the financial standpoint, it is more effective for their health care systems to cover the whole population than to cover only the poor (considering the cost for sorting out those to be covered, as well as expected complaints from the public against the authorities).
- It is more effective to deliver health care services through the private sector than through the public sector.
- More emphasis should be placed on primary education for women (since mothers affect many aspects of people's everyday life such as diet, childbirth, health care, and so on).

Secondly, **Japan's health care system is the best "developing country type system." In other words, Japan's system is falling far short of an appropriate health care model for a developed and mature society that is designed to cope with new challenges, such as the quality of health care services, the development of highly-specialized medical services, disclosure of necessary information, and the patients' rights to choose.** An objective evaluation of Japan's current health care system clarifies what is missing in the system and how the system should change in the future.

(2) Pensions

The characteristics of Japan's public pension system are as follows:

The system initially started as a German-type earnings-related provision system, and then introduced the Basic Pension Plan reflecting universalism (as seen in the

UK and Scandinavian countries).

The government is functioning as the insurer both in the National Pension Plan and the Employees' Pension Plan.

The timing of the nation's population transition as well as the rapidity of the aging of its population has led to financial miscalculations, with the issue of aging left unresolved.

Point is a unique aspect of Japan's pension system, and the introduction of the Basic Pension Plan may have been a positive move for Japan. Conversely, it is also true that the ambiguous character of the current pension system in Japan (as represented by its funding structure consisting of a combination of insurance premiums (two-thirds) and tax revenues (one-third)) has caused various problems, such as the "hollowing-out" of the Basic Pension Plan. As discussed in 2-1, the current system could be defined as a transitional one.

As already discussed, point stands out in the case of Japan. More than any other developed country, Japan is now suffering from the repercussions of its high level of pension benefit payments, which continued to be increased when the country's population structure was still young. So the current system inevitably requires fundamental reform, including a reduction in the level of benefit payments, which is a major challenge for Japan considering the vested interests involved. This could serve as quite a poor example for developing countries that are expected to go through the same population transition as Japan.

As pointed out in a World Bank report, not only Japan but also many other countries have a public pension system of the type that has both a "saving/insurance" function and an "income redistribution" function.³⁵ Nevertheless, Japan's pension system is more distinctive in this regard than those of other countries.

The "saving/insurance" function and "income redistribution" function of Japan's pension system can be basically explained as follows:

- The Basic Pension Plan functions as a "saving/insurance" system since all partici-

pants (=self-employed workers) pay the same amount of premiums and receive the same amount of benefits.

- The Employees' Pension Plan functions as an "income redistribution" system since the participants pay a different amount of premium according to their income and receive a different amount of benefits proportional to the amount of premiums they have paid (regarding the non-fixed portion of pension benefits payable under the plan).

However, a little more explanation is required to understand Japan's complicated pension system.

In 1954, before the start of the Basic Pension Plan, the Employees' Pension Plan for employed workers adopted what is called a "two-tier structure" in terms of pension benefits paid to individual participants. The first tier is a fixed portion of the benefits, the amount of which is equal for all participants, and the second tier is a non-fixed portion of benefits, the amount of which varies in proportion to the amount of premiums they have paid. In part, though, this mechanism has achieved income redistribution from high-income earners to low-income earners as participants could receive equal amounts of provisions by paying a fixed rate of contributions according to their salaries. Additionally, since the Employees' Pension Plan has been insured by the government, the above income redistribution has been made across industrial divisions, leading to income redistribution "from large companies to small and medium-sized companies (or from growing industries to declining industries)."

After the Basic Pension Plan was put in place, Japan's public pension system came to have two different "income redistribution" functions. The first one can be defined as vertical income redistribution. Income redistribution from high-income earners to low-income earners continued to be assured after the Basic Pension Plan was introduced, since the Employees' Pension Plan, managed and insured by the government, maintained the mechanism that allowed all employed workers to receive an equal amount of pension (about 66,400 per month for 2003) as their basic pension in return for the payment of a fixed rate of premium according to their salaries. The other function is horizontal income redistribution from employed workers (participating in the Employees' Pension Plan) to self-employed workers and farmers (participating in the National Pension Plan). Before the Basic Pension Plan was established, there had been no linkage

³⁵ For details, see World Bank (1994)

between the Employees' Pension Plan and the National Pension Plan, then each of them operates financially independent. The Basic Pension Plan has virtually brought about an income transfer from employed workers to self-employed workers/farmers as the average age of participants in the National Pension Plan had been higher than that of the Employees' Pension Plan.

In addition to the above, one-third of the total budget of the Basic Pension Plan is funded from tax revenues. Thus, Japan's current pension system has a quite complicated structure with a "saving/insurance" function allowing employed workers to receive benefits in proportion to the amount of premiums they have paid according to their salaries, as well as with an "income redistribution" function (from one generation to another, and within each generation). Today, such complexity is conversely making the system's basic objectives and policies ambiguous, leading to public distrust in the system.

(3) Social welfare

The following are the characteristics of Japan's Social welfare (social services) system.

There was no significant development of a social welfare system in Japan before WWII. After the war, several systems were instituted modeled after those in Britain and the US in the framework of the occupation policies of the GHQ. Thereafter, Japan started to develop its social security system focusing on social insurance. Since then, Japan's social welfare system, including its public assistance system, has been playing a quite limited role in its social welfare system as a whole.

As a result, Japan's social insurance system has been functioning in various ways as a "welfare-like" system (for low-income earners). At the same time, along with the aging of the population, health care has increasingly come to have a role as social welfare (as seen in hospitalization for social reasons).

Although such services have been expanding significantly in recent years, mainly in the field of care of the elderly, there is still a growing demand for the scaling up of social welfare or social services, which lag behind the need.

In prewar days there was no significant development of a social welfare system in Japan other than the establishment of the Law on Aid for the Poor in 1932. Japan's social

welfare system began to be solidified along with the enforcement of relevant laws such as the Daily Life Protection Law (established in 1946 and then revised in 1950), the Child Welfare Law (1947), and the Law on Welfare for the Handicapped (1949).

However, as seen in recommendations by the Commission on the Social Security System issued in 1950 ("Recommendations on the Social Security System") advocating that "social insurance" should be a pillar of Japan's social security system, Japan has been placing little emphasis on welfare until recently, while on the other hand giving priority to social security centering on the universal insurance system. As is the case for the legal system, including the public health system, for providing health care services, the establishment of the laws listed above was led by the GHQ, namely, the US. This move may be deemed a form of transformation of Japan's social security system from a German-model system. Nonetheless, Japan eventually decided to maintain the German-model with "social security centrism," as stated above.

As Japan introduced the universal insurance system, the importance of the coverage of social insurance in Japan became greater than in Germany, and conversely, the importance of public assistance (livelihood protection) in Japan became less than in Germany. As a result, social insurance came to substitute for welfare in various ways³⁶. In fact, Japan has an extremely low proportion of welfare recipients compared to other developed countries. The proportion of people living on welfare benefits out of the total population of various countries is as follows:³⁷ UK 8.8% (1993), Germany 3.7% (1993), USA 7.9% (1993), Sweden 8.1% (1994), Japan 0.7% (1994).

In contrast to this phenomenon, Japan's social insurance had come to provide welfare services (especially for low-income earners) in many cases, as highlighted by the fact that large amounts of public funds are injected into social insurance programs. (For example, fifty percent of the NHI program is funded from tax revenues.) Figure 2 shows the proportion of each social security segment in the total amount of social security benefits provided. As can be seen, the share of benefits for welfare is remarkably low compared to other segments.

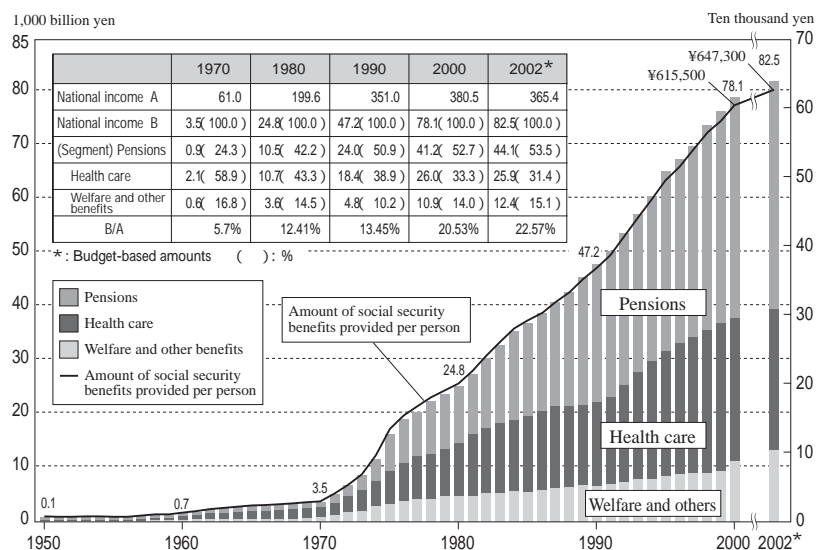
³⁶ So-called hospitalization for social reasons can be regarded as a case where social insurance substitutes for welfare.

³⁷ For details, see Shinya Hoshino (1996)

One of the major reasons that social welfare or social services have been insufficient in Japan is that many Japanese people tend to rely on support from their own families, so that individual households have been substituting for a public social welfare system. This tendency can be observed in many Asian countries where family ties and other informal mutual assistance relationships are essential to people's welfare. Therefore, each of such countries needs to design its own appropriate model of role-sharing between public welfare and informal mutual assistance in order, for example, to reduce the burden on individual families in terms of caring.

The above explanation refers to the characteristics of Japan's social welfare system until the 1980s. Thereafter, the problem of inadequate welfare services has been increasingly pointed out along with the rapid aging of the Japanese population. As a result, a

Figure 2-2 Proportion of each social security segment in the total amount of social security benefits provided



Note: Figure 2-2 was compiled from the materials of the National Institute of Population and Social Security Research except for figures for 2002, which are figures estimated by the Ministry of Health, Labor and Welfare. Figures included in the table are budget-based amounts for social security benefits provided in 1950, 1960, 1970, 1980, 1990, 2000 and 2002. (Unit: 1,000 billion yen)

Source: From the website of the Ministry of Health, Labor and Welfare (<http://www.mhlw.go.jp/shinji/2003/02/s0219-7m.html>) Accessed: March 2004

series of legislative and policy measures has been taken concerning welfare since the mid-1980s, such as the Law on Social workers and Care workers (1987), the Ten-Year Strategy to promote Health Care and Welfare for the Elderly ("Gold Plan") (1989), the so-called eight welfare related laws stipulating the delegation of powers to municipalities and the establishment by municipalities of welfare plans for the elderly (1990), the "New Gold Plan" and "The Basic Direction of Measures to Support Future Child Rearing (Angel Plan)" (1994), the Government Action Plan for Persons with Disabilities (1995), and the Long-term Care Insurance Act (1997). Japan is now seeking to develop a proper framework to scale up the nation's social welfare services.

So far, evaluation of Japan's experience in social security development has been discussed in a quite provisional fashion. Based on this discussion, it is necessary to further analyze the situation concerning related issues from various viewpoints, such as the actual status of individual countries and development economics, in order to promote international cooperation and deepen communication with Asian countries in this field.

(4) Employment and labor

This is a brief review of Japan's experience concerning employment and labor³⁸ by referring exclusively to (employed) workers engaged in the secondary and tertiary sectors. Of a total of sixty-three million Japanese workers, fifty-three million, or 84%, are employed workers (of which nearly ten percent are working in the construction industry³⁹).

The most remarkable aspect of Japan's 60-year experience concerning this issue is the establishment of Japanese-style employment practices represented by the lifelong employment system, or long-term employment system, which is considered to have been completed and introduced by large corporations before the start of Japan's high growth economic period. The lifelong employment system, which is not existent in Europe or the US, came under the spotlight when Japan successfully overcame the first

³⁸ In this report, we do not discuss issues of legislation and policies governing the basic framework for employment practices and management-labor relationships, such as the foundation of the Ministry of Labor, as well as the enactment and implementation of the so-called major labor laws; the Labor Standards Law, Labor Union and Labor Relations Adjustment Law.

³⁹ It is possible to say that these workers receive the benefits of public project-type social security in one way or another. (See section 2-2-2 and the report by Hiroi of 1999)

oil crisis without its economy being seriously damaged. From around 1987 when Japan surpassed the US in terms of per capita GDP in the course of its steady economic development, Japan's lifelong employment system began to be highly esteemed as a key factor in the nation's ever-growing economy. However, as its economy started to stagnate in the late 1990s, such acclamation completely reversed to become harsh criticism of the system.

Since there are many themes for discussion concerning the relationship between Japan's lifelong employment system and its economic performance, we would like to focus on the following aspects in order to provide an overview of Japan's experience in this regard from the viewpoint of the function of the system as a safety net.

Japanese-style employment practices centering on the lifelong employment system initially started as voluntary agreements between labor and management and then received institutional support from the authorities. Nevertheless, such employment practices were economically rational in themselves.

Private corporations (or their groups, or more broadly, Japan's corporate community) were supplementing public safety nets as long as Japanese-style employment practices were functioning effectively (as standards for those corporations), leading to a reduction in the unemployment benefits provided by governments. In other words, public policy measures had been playing a limited role in this regard.⁴⁰

Now that Japan has entered a period of low growth in the economy, there have been growing calls for a revision of Japanese-style employment practices, while on the other hand people are increasingly expecting the government to take employment measures against the background of the rising unemployment rate.

We would like to provide an overview of the distinctive events and policy challenges that Japan has faced in this regard by dividing the nation's history since WWII into the following four periods based on its economic conditions:

1) 1945 – End of the 1950s: Postwar reconstruction period/Democratization period

As its industrial production dropped to 30% of the level it had been in the prewar days due to the destruction of factories and other production facilities during the war, Japan's economic and industrial policies during this period focused on the improvement of production capacity as seen in the adoption of the production priority system. With the job crunch and low-wage problems mounting, labor disputes arose one after another across the country led by labor unions that were gaining strength with the support of democratic policies enforced by the GHQ, reaching their climax with a labor strike in the Miike Coal Mine of Mitsui Mining Co. in 1960. In those days, the major objective of Japan's labor policies was to improve labor-management relations, which was also essential to boosting the operating rates of production facilities. As for employment policies, the Unemployment Insurance Law (1947) and the Emergency Measures Law for Unemployment (1949) were put in place.

Japan's traditional practice of annual spring wage talks between management and unions, known as shunto, started from 1955. Until today, this practice has been functioning to achieve income distribution throughout the country since wage-increase rates agreed between labor and management for large companies – especially manufacturing companies competing in the international market – have an influence on the salaries of small and medium-sized company employees, public corporation officials, and public servants as determined based on the recommendations of the National Personnel Authority, as well as the state-designated minimum wage. This income distribution mechanism through the shunto process was institutionalized during Japan's high economic growth period.

2) 1960s – 1973: High growth period/Economic liberalization period (Entry into the OECD (Organization for Economic Cooperation and Development)/Acquisition of the status of an “Article 8 member” within the IMF)

As the economy continued to grow at an average annual rate of over 10% for a relatively long period of time, Japan saw an active shift in the labor force from declining industries to new industries, as well as from one region to another with the growing demand for plentiful numbers of new graduates (who were called “golden eggs” because of their

⁴⁰ For details, see Hiroi (1999): Evaluation of the role of private corporations in social security, Hayashi (1999): Labor laws in South Korea and Taiwan are believed to be modeled after those of Japan, and they stipulate a function for social security.

preciousness).

Major government employment and labor policies implemented during this period were considered as measures against unemployment in declining industries as well as a means of increasing the number of job-placement agencies across the country, as represented by the enforcement of the Temporary Measures Law for Displaced Mining Workers (1959) and the Employment Measures Law (1966). Under the above Temporary Measures Law for Displaced Mining Workers, displacement benefits paid to mining workers were financed by money collected from mining companies according to their output. This method became a model for subsequent allowance provision-style employment policies.

Table 2-8 summarizes the characteristics of these Japanese-style employment practices⁴¹ centering on the lifelong employment system, which is considered to have been established during this period at the latest.

Although it is said that as few as around twenty percent of all employed workers continue to work in the same company until their retirement age after they graduate from school, maintaining Japanese-style employment practices represented by the long-term employment system has been regarded as the norm for Japan's corporate society to abide by. It is possible to say that private corporations (or their groups, or in other words, Japan's corporate community) had been supplementing public safety nets – consequently reducing unemployment benefits paid by the government – as long as Japanese-style employment practices were effectively functioning (as standards (or regulations) for corporations).

Table 2-8 Characteristics of Japanese-style employment practices

Characteristics	Advantages	Disadvantages	Future issues
<p>“Lifelong employment system”= Long-term employment system</p> <ul style="list-style-type: none"> · Employment of new graduates all at the same time/(Excessively) internal OJT-oriented employee training system/In-house employee-oriented management 	<ul style="list-style-type: none"> · Employment is stabilized (=unemployment rate is suppressed) · Skilled and capable employees are nurtured · Employees' morale is assured (=Employees can achieve self-realization through work) · Employees are motivated to participate in productivity improvement activities (QC (Quality Control) circle activities, Kaizen activities, etc.) → International competitiveness is strengthened 	<ul style="list-style-type: none"> · Employees' loyalty to the company becomes excessive → Death due to overwork, unpaid overtime work · Employees have to work long hours /Employees have to accept frequent reassignment · Employees have to accept transfer to other locations or to subsidiaries · Employees have difficulty changing their jobs · Competition with other companies in the same industry becomes too fierce 	<ul style="list-style-type: none"> · Developing an “external” labor market · Guarantee of an affluent life for employees
<p>Seniority-based wage/promotion system</p> <ul style="list-style-type: none"> · Salary decision based on productivity: Productivity-indexed salary system (Individual employees' salaries are determined as follows: As a first step, the total amount of the wages payable by a company are fixed and are based on that company's productivity, as well as reflecting a wage-increase rate finalized through the shunto negotiations applied to all companies in each industrial sector. Such finalized total wages are then divided and distributed to individual employees according to their job completion abilities.) 	<ul style="list-style-type: none"> · Subsistence wages are guaranteed for employees → Employees can establish life planning · In-company welfare system is enhanced (Fringe benefits, retirement allowances, company houses/apartments, company loans, etc.) 	<ul style="list-style-type: none"> · Wages payable to employees become fixed costs 	
<p>In-company union</p> <ul style="list-style-type: none"> · Management and labor relations “sharing the same destiny” 	<ul style="list-style-type: none"> · Management-labor relations are stabilized 	<ul style="list-style-type: none"> · Corporate governance is weak 	

Source: Prepared by Kojima

⁴¹ Interest in Japanese-style employment practices (=Japanese-style management system) grew with the publication of the “1972 OECD Economic Survey of Japan,” the Japanese translation of which referred to its three characteristics as the “Three Sacred Treasures”. Thereafter, many reports and publications have been released on this theme, including a 1999 report by Numagami which validates from the viewpoint of organization theory that the long-term and stable business practices of Japanese companies represented by the long-term employment system are also beneficial to innovative R&D achievements. For details, see Chapter 6 in Numagami (1999).

3) 1973 – End of 1980s: Steady growth period

Following the period of high economic growth that ended in 1973 due to the first oil crisis, the Japanese economy entered a steady growth period, and Japan was going through its population transition at the same time. As a result, the nation was fortunately free from the serious unemployment problems seen in Europe and the US since the labor supply declined after the last baby boomer generation reached adulthood.

There was a significant employment policy change in this steady growth period, that is, a change from the previous after-the-fact policy for the unemployed to proactive labor market policies aimed at the prevention of unemployment and the maintenance of employment. For this purpose, the Unemployment Insurance Law was replaced by the Employment Insurance Law in 1975, and various subsidy programs were implemented in order to support private corporations (or more broadly, the corporate community as a whole) to maintain employment by providing them with mainly employment adjustment subsidies introduced by the new law. Additionally, the doctrine of abuse of dismissal rights⁴² (including the four requirements for dismissal for reorganization purposes based on such a doctrine) was established through case law, having judicially reinforced the employment security policy.

4) 1990s -: Low growth period/Stagnation period

With the wounds inflicted during the economic bubble years unhealed, the Japanese economy entered the 1990s, which is referred to as “the lost decade”. Up until now, the unprecedentedly severe recession has been dragging on.⁴³ The unemployment rate has been hovering at high levels ever since it soared to the level of five percent in 2001. (Even during the so-called high-yen recession of 1986, the unemployment rate did not exceed the three-percent level.)

⁴² It has been decided to incorporate the doctrine of the abuse of dismissal rights in the soon-to-be revised Labor Standards Law, while a provision specifying cases where employers are allowed to exercise their dismissal rights has been deleted from the draft in the course of the deliberations on the revision of this law.

⁴³ For details, see Hiroi (2001): “Japanese people have come to be pessimistic about their current low-growth society along with the falling birthrate and the aging population. However, it is necessary to consider Japan to be a “stationary society” at present, and to envision a new meaning to the wealth of life.”

The number of so-called discouraged workers is said to be increasing in Japan. They are giving up looking for a job and are becoming a non-labor force. This means that the number of the hidden unemployed has been expanding. In addition, job security for young people has become a social concern as the number of the young unemployed has been rising more than ever and the length of their period of unemployment has been becoming prolonged.⁴⁴

The Japanese traditional corporate community, which has long been maintaining a life-long employment system, is also changing its character significantly, as seen in changes in the employee composition (as a result of restrictions on new employment, a reduction in the number of regular employees by implementing early retirement programs, and an increase in the number of part-time workers and dispatched workers), as well as in the revision of the seniority-based treatment for regular employees. It is being pointed out that this constitutes a transformation of Japanese-style employment practices.⁴⁵

Under these circumstances, the amount of unemployment benefits paid by the government has been increasing, leading to the revision of benefit payment levels to deal with the financial deterioration of the unemployment insurance fund, as well as to the increase in unemployment insurance premium rates.

In contrast to the worsening employment conditions, the government has been adopting employment support measures for women and the elderly in order to bolster the labor participation rate in preparation for the projected labor shortage stemming from the low birth rate and aging of the population. (Equal Employment Opportunity Law between Men and Women (effective 1986)/ Law for Childcare Leave (effective 1992)/ Law for the Stabilization of Employment of the Aged (effective 1998): retirement at 60 years of age has been institutionalized and become mandatory through this law.) This government response can be also be defined as a characteristic of this period in terms of labor and employment.

⁴⁴ For details, see Genda (2001): He states that there is a growing criticism of young people who do not try to look for a regular job and are economically dependent on their parents as “parasites.” Nevertheless, we need to look at the fact that baby boomers constitute a larger generation cohort compared to young people as it is econometrically demonstrable that such deviation is reducing good employment opportunities for the younger generations.

⁴⁵ For details, see Nakamura and Ohashi (2002)

As it enters an era of low economic growth, Japan is facing a new turning point in relation to its employment policies. Their goals now require a major change, that is, a change from the security of employment guaranteed by individual corporations (or their groupings) to the achievement of the transfer of labor to new industries/corporations that are expected to increase their employment without an unemployment period, or to the creation of employment opportunities. However, since 1986, the number of new businesses in relation to the total number of businesses has been lower than that of businesses closing down to the total, and the gap between these two numbers has been widening along with the growing number of bankruptcies affected by the recession of recent years, which has accelerated unemployment. Thus, there are now many difficulties to be tackled.

Chapter 3 Comprehensive evaluation of Japan's experience

When considering Japan's experience as a whole, it is unique and has not been experienced in the West. In addition, **it provides models of either success or failure, or both strong points and weaknesses, especially for developing countries regarding; the design of a social security system for latecomer nations. how to deal with the rapid aging of the population that starts from a certain stage of economic development.**

Major characteristics of Japan's experience concerning point above, which have particular significance for the present developing countries, are as follows:

- (i) **Japan was the first nation to have made active efforts to develop its social security system when the country still had a huge informal sector population (farmers/self-employed workers).**
- (ii) **Japan promoted a government-led social security system in which the government itself became the insurer for employed workers as well.**

“The National Health Insurance” as a “community health insurance” for farmers as well as “the Government-Managed Health Insurance” for employed workers in small and medium-sized companies are considered to serve as models for developing countries as original and non-Western forms of systems.

Moreover, Japan established a universal insurance framework based on the above systems at a relatively early stage of economic development, which consequently contributed substantially to its subsequent economic growth. This fact also offers important implications for developing countries, since the promotion of a social security system is generally regarded as a “burden” that hinders economic growth and is left unresolved as it requires government spending.

At the same time, it should be noted that Japan's social security system is inseparably linked to its postwar national consensus and national integration for achieving econom-

ic development, its administrative, economic and political systems, the Japanese-style employment practices of its private corporations, and its close public-private partnership at the national level, which prompts people to refer to the nation as “Japan Inc.” Therefore, **the actual feasibility of any particular social security system must be further studied from the viewpoint of the relationship between the social security system in question and a broad range of other systems of the country concerned.**

The above point sheds light on the problem that latecomer countries, including Japan, tend not to recognize the impact of the aging of the population until a certain point in time. In this case, as pointed out by the World Bank, they are highly likely to substantially increase their pension payment levels (specifically, by using reserves) based on “financial miscalculations.” Japan made this mistake in the operation of its public pension system, leading the nation to continue to take corrective action until today, that is, a substantial reduction in payment levels in the name of “reforms.” Besides, in Japan, these corrective actions have been taken in a repeated and incremental manner, deepening people’s anxiety about the pension system. Such a mistake inevitably requires latecomer countries, including Japan, to take corrective action on a large scale over a quite short period of time as the aging of the population and the population transition advance at a high rate in these countries. Therefore, **the levels of payments for public pensions should not be increased when the country’s population is not so gray. This is an important implication from Japan’s negative experience.**

As for health care and welfare, it is important to start early to prepare for the third health transition stage (see 1-3) by improving the quality of services (in order, for example, to prevent “hospitalization for social reasons”) as well as its cost effectiveness, through the establishment of an elderly care policy focusing on health care rather than welfare, as well as through the scaling up of welfare services.

Conclusion: Challenges ahead and prospects for the realization of an Asian Welfare Network and a Sustainable Welfare Society on a global scale

In this report, starting from the provisional grouping of Asian countries, we have discussed the basic factors requiring consideration in a review of social security systems in developing countries, followed by an evaluation of Japan’s experience concerning social security.

Although there are a number of points and issues to be addressed this report could only cover some of them regarding such themes as social security in Asia or economic development and social security in developing countries.⁴⁶ So we would like to refer to several topics that have not been mentioned in the main body of this report.

Firstly, we would like to touch on a few issues regarding the environment and environmental policies in the context of social security. If social security issues can be defined as issues of the distribution of wealth, environmental issues can be defined as issues of the scale (or growth) of wealth. Both social security issues and environmental issues are closely intertwined in the dynamic process of economic development, as well as in the process of social change. This perspective is related to the inverted-U curve hypothesis for environmental pollution (an empirical hypothesis claiming that, as an economy develops, environmental pollution first worsens and then gradually improves), which is now being considered as a parallel to the already-mentioned Kuznets inverted-U curve hypothesis explaining the relationship between economic growth and income distribution.⁴⁷

Thus, economic development, social security and the environment must be studied by taking an integrated approach, and such an approach should be further nurtured taking into account the growing environmental problems in Asian countries brought about by their rapid economic development, as well as Japan’s experience concerning social security and environmental issues.

⁴⁶ For details, see Hiroi and Komamura (2003): Social security in Asia

⁴⁷ For details, see Hiroi (1999)

We also need to direct our attention to a broad range of subjects with regard to the relationship between the progress of globalization and the consolidation of domestic social security, or more broadly, that between development and culture. As to the former, although discussion in this report has been mainly from the viewpoint that a social security system is a domestic system, Asian countries are destined to be exposed to globalization in the course of establishing their social security systems. This is, in fact, the most significant feature of the circumstances now facing these countries in terms of social security.⁴⁸

Meanwhile, it is also critical to create a future vision of social security in Asian countries not only on the nation state scale, but also on a supra-national scale with a view to economic cooperation and income redistribution between the nations in the region, although these may take on a different shape from the case of the EU.

Such a vision ultimately leads to the theme of a welfare state on a global scale, and also overlaps with the concept of human security. Furthermore, considering the environmental issues mentioned above, there needs be a vision and the realization of a sustainable welfare society on a global scale for the 21st century.

For this purpose, the first major challenge will be to establish “**an Asian welfare network**” aimed at promoting mutual cooperation and collaboration among Asian countries regarding social security, as well as to envision the concept of a cross-border welfare block in the region.

On the other hand, despite their moves to establish a closer and more integrated relationship, as suggested in the theme of development and culture, not all Asian countries are uniformly seeking industrialization. Each of them is developing (or maintaining its traditions) in its own way with its indigenous culture and traditional social structure still intact. This perception raises a question of how the concept of social security itself – which, in a sense, derives from Western historical experience – can be applied just as it is to Asian countries. The subject of social security in Asia should always be examined with an awareness and understanding of such cultural and regional diversity.

⁴⁸ For details, see Hiroi and Komamura (2003)

Lastly, we would like to confirm the following two points regarding international cooperation in social security, a keystone of this report.

In the context of social security, this theme has often been assigned a low priority in Japan's social security research, which has primarily been focused on “learning from the West.”

In the context of international cooperation, this theme had not attracted much attention as an item of cooperation since Japan's assistance activities for developing countries have been implemented mainly in the field of infrastructure development through construction projects.

As a result, international cooperation in social security has been an unexplored field in Japan. However, it has come to the fore as one of the most important tasks to be addressed by the country along with the tightening relationship between Japan and other Asian countries, deepening understanding of the significance of consolidating social security in relation to each country's economic development, as well as the growing recognition of the importance of intellectual support based on an evaluation of Japan's experience.

Now our major challenge is to expand communication with each Asian region through mutual feedback between research studies on social security adopted by all countries and regions in the world, as well as the evaluation of “Japan's experience” in the field of social security.

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