

Lagged Welfare and Social Disorder: Japan and the U.S.A

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1. Why Japan and the USA?
2. Labor markets and welfare in Japan and the U.S.A.
3. Reform in Japan and the USA
4. What are lessons from Japan and the USA

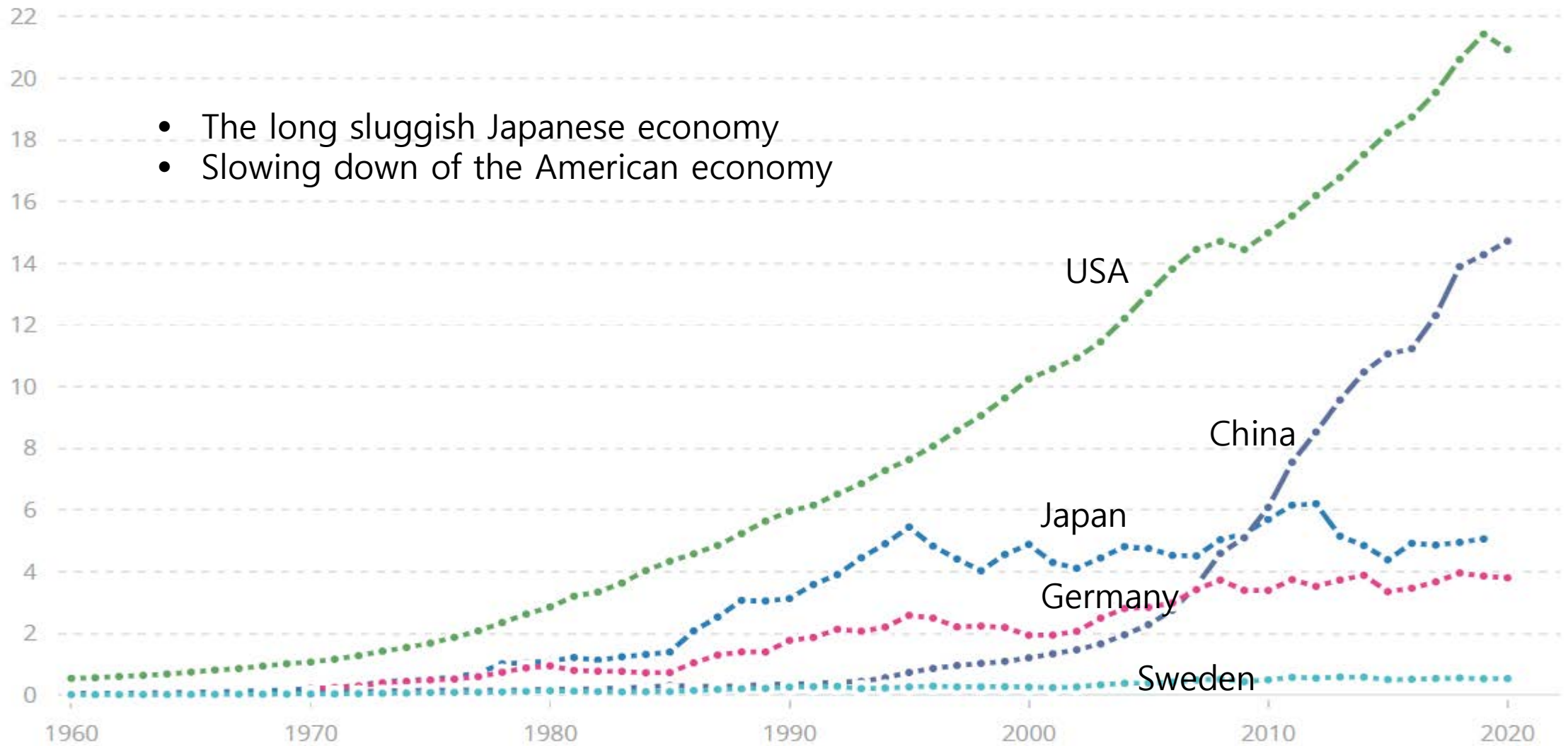
1. Why Japan and the USA?

- The most influential countries in the evolution of political, economic institutions in South Korea
- Still influential in the policy discourse via academic influence
- Path dependence or path-breaking/making new paths
- Comparative understanding of the policymaking
- Erosion of growth engine due to lowering savings and the poor welfare system

Trillion

GDP Growth (1960-2020)

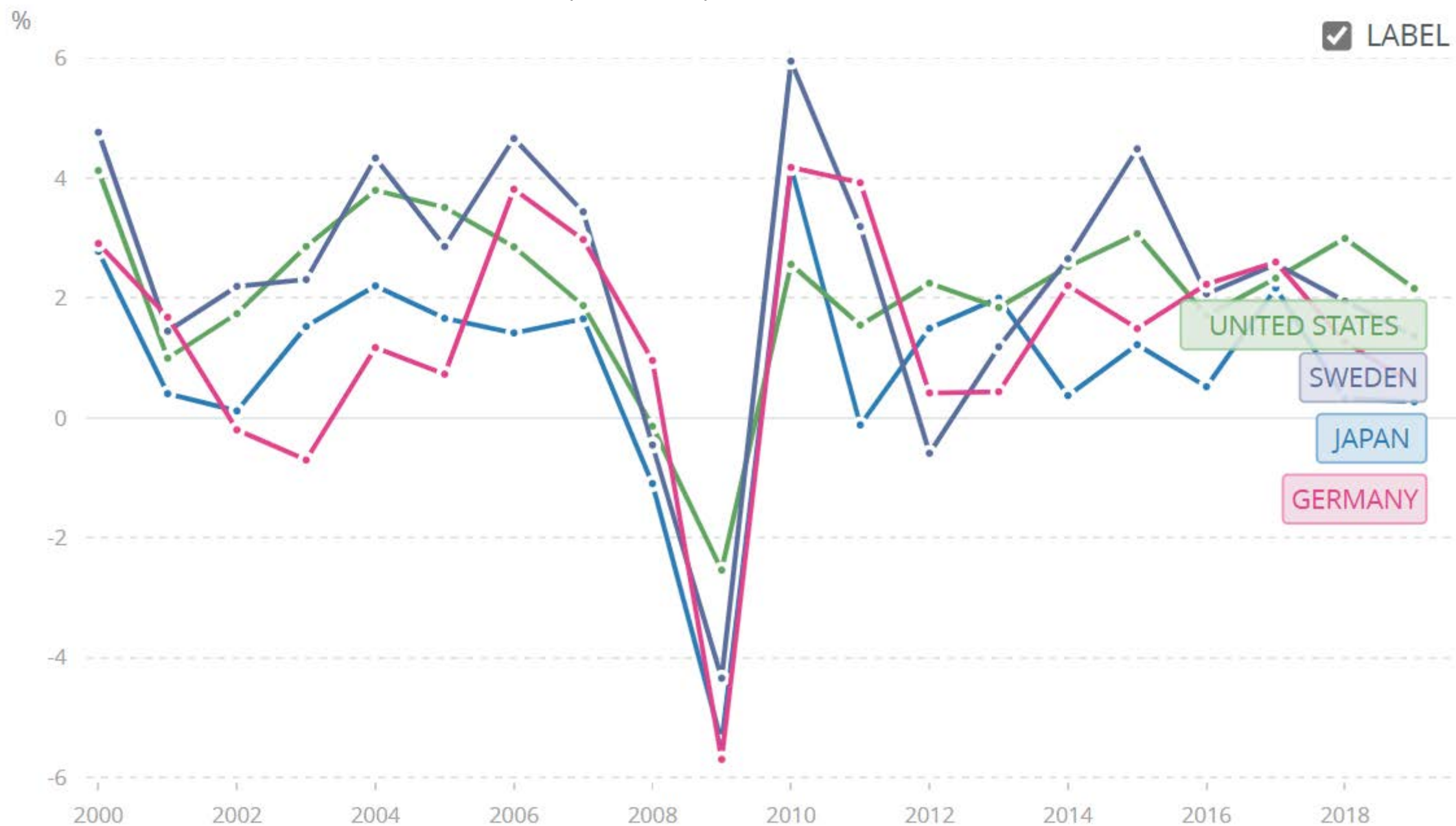
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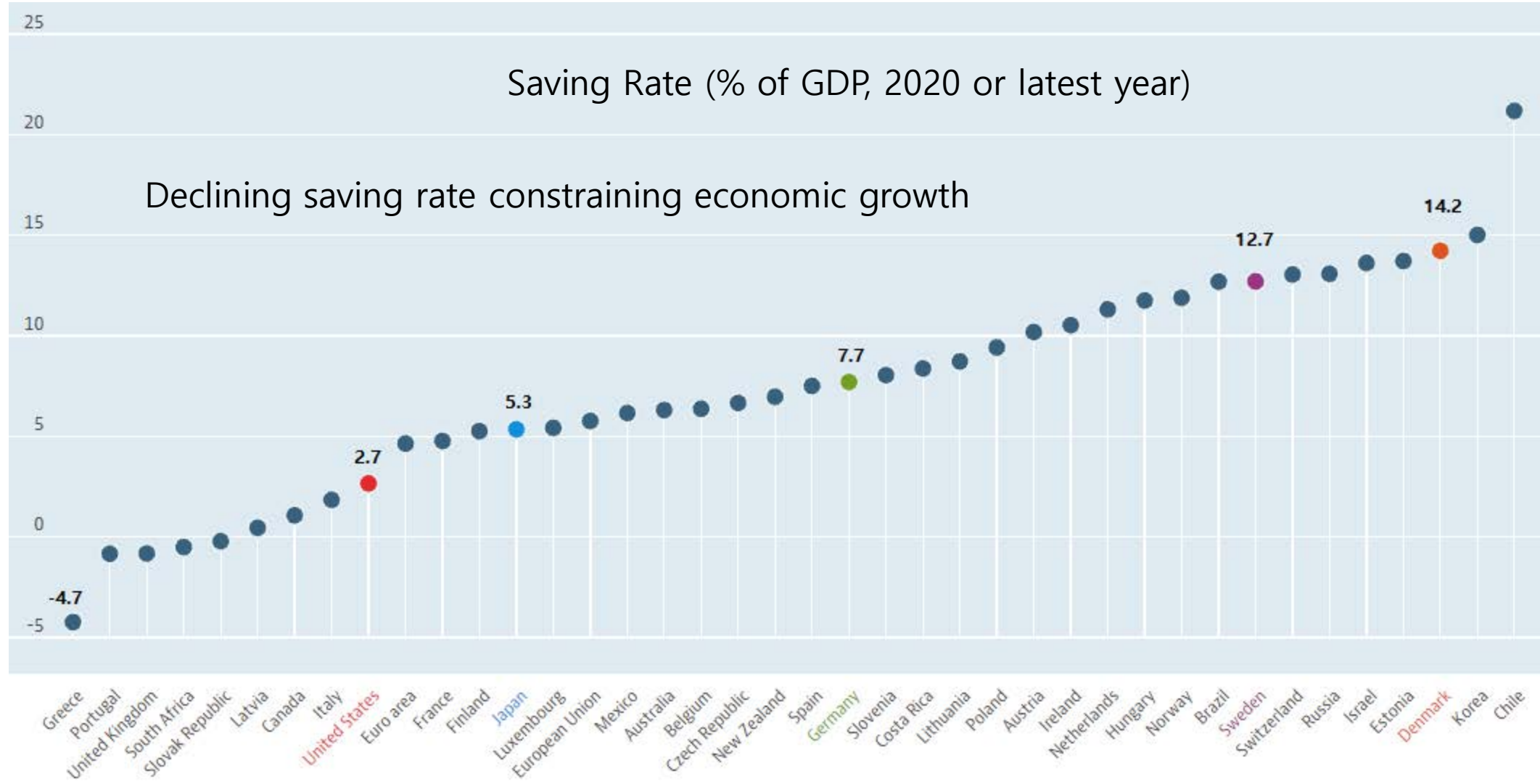


Source: World Bank national accounts data, and OECD National Accounts data files.

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GDP Growth Rate(annual %)



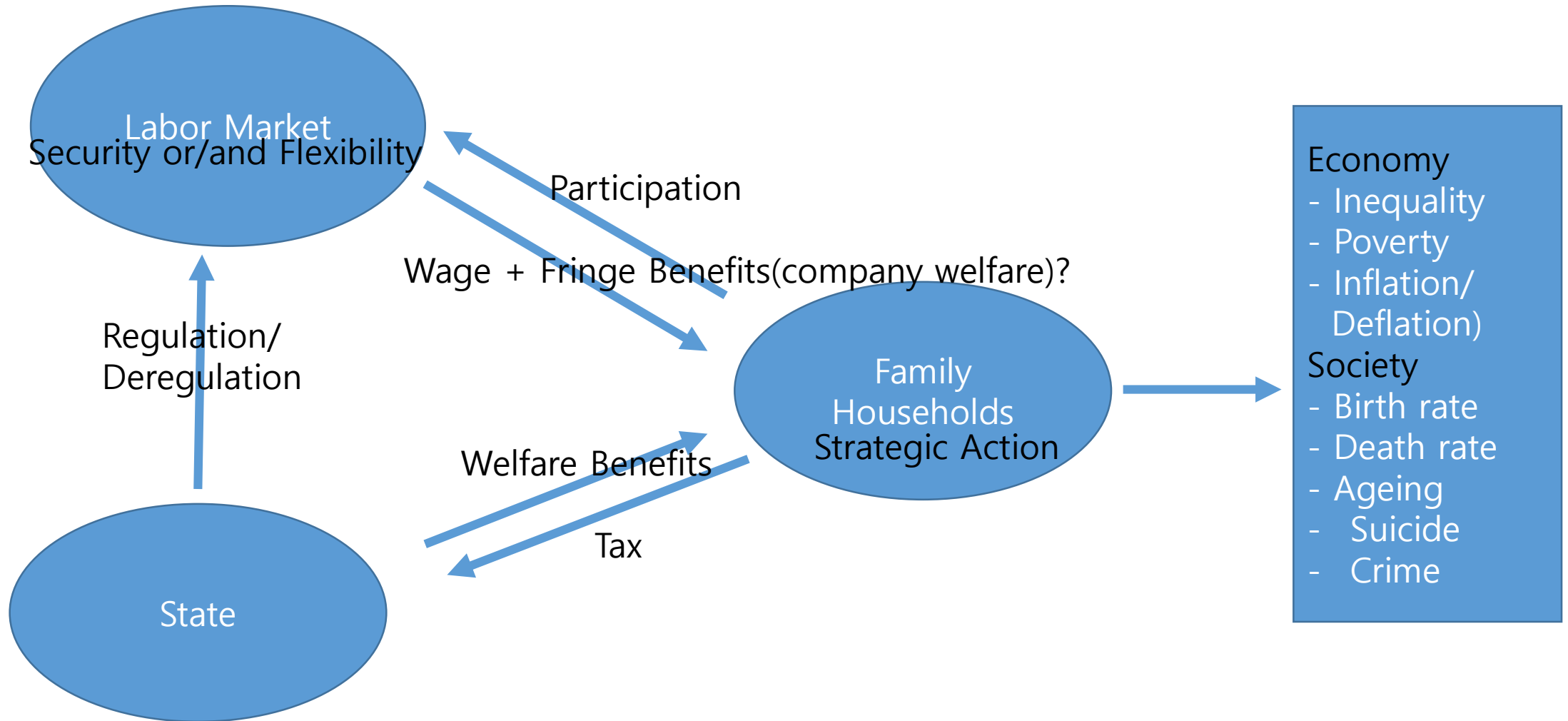


Source: OECD (2021), Saving rate (indicator). doi: 10.1787/ff2e64d4-en (Accessed on 30 September 2021)

2. Labor markets and welfare in Japan and the USA

- Welfare providers
 - 1) Family
 - 2) State
 - 3) the Market
- In Japan, the state and company has played as a welfare provider(seniority wage + comprehensive company welfare)
- Japanese companies pay employees additional expenses by 30%.
 - Legal welfare expenses: Unemployment insurance, pension insurance, long-term care insurance,
 - Non-legal welfare expenses: Company housing and commuting, medical insurance, family allowance, gifts of family celebration and condolence, mutual aid, insurance, culture and recreation, and asset formation.
- In the USA, the state has played as a minimalist welfare provider for targeted social groups by the means-test.

Welfare Capitalism Scheme

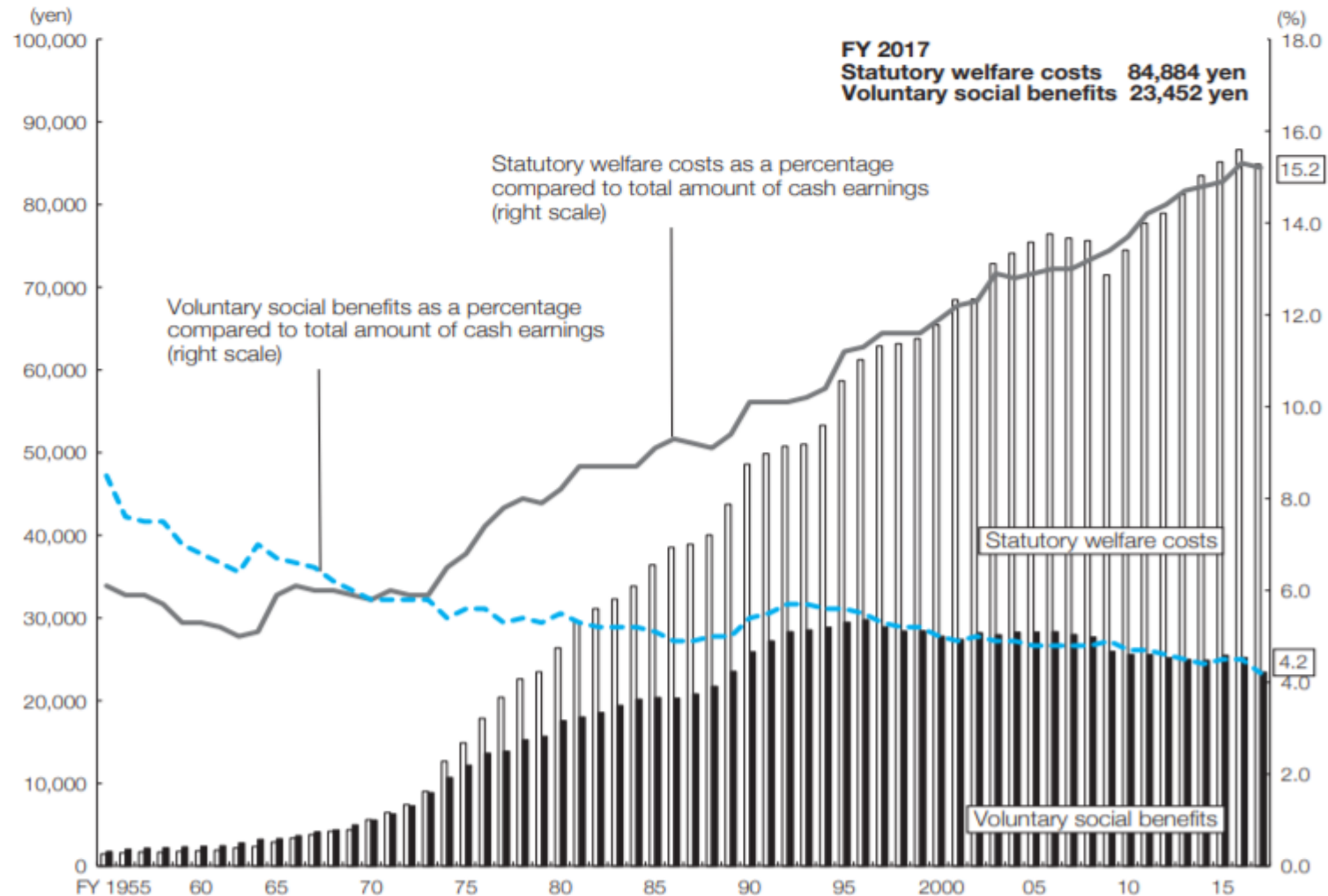


- Japan
 - The maximalist interventionist approach to the economy (the developmental state)
 - Enduring dual labor market by company size
 - New dual labor market by gendered employment status
 - The Japanese style of management and company welfare
 - The conservative(minimalist) approach to welfare by the state
- USA
 - The minimalist approach to the market (the liberal state)
 - The minimalist approach to welfare (AFDC, now TANF)
 - Labor market segmentation by race and ethnicity
 - High labor market flexibility

Company Welfare in Japan

Average monthly labor cost per regular employee

- Core companies
 - Seniority wage
 - Lifetime employment
 - Company unionism
 - Company welfare

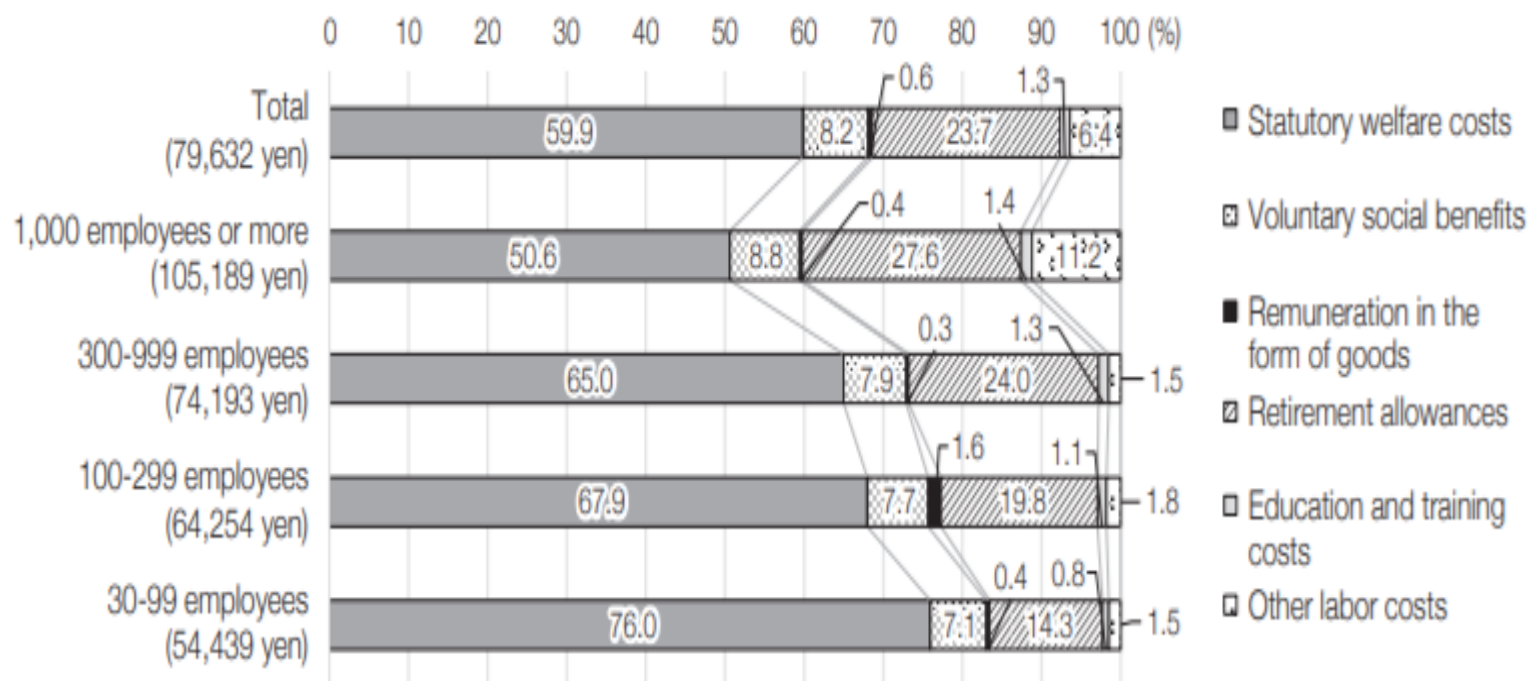


Source: Prepared on the basis of Japan Business Federation, "Results of Survey on Corporate Welfare Expenditures for FY 2017," 2018.

Source: Ryoji Nakamura(2020), "Fringe Benefits" Japan Labor Review 4(21), p. 15.

Average monthly labor cost other than cash earning per regular employee in Japan (2016)

- Disparity between large companies and SMEs: 30-99 employees get one fourth of that 1,000 employees or more



Source: Prepared on the basis of MHLW, "General Survey on Working Conditions 2016," 2017.

Source: Ryoji Nakamura(2020), "Fringe Benefits" Japan Labor Review 4(21), p. 19

- Lifetime employment in Japan and the flexible market in the USA:
Length of service over 10 years:
44.7% (Japan) and 29.1% (US)

Composition of Employees by Length of Service

(%)

Country	< 1	1 to < 3	3 to < 5	5 to < 10	10 to < 15	15 to < 20	20+ (years)
Japan ¹⁾	7.4	14.4	13.3	20.2	12.5	10.0	22.2
United States ²⁾	21.1	11.2	16.6	21.8	12.5	6.1	10.6
	< 1	1 to < 6	6 to < 12 (months)	1 to < 3	3 to < 5	5 to < 10	10+ (years)
Canada ³⁾	—	11.3	8.4	21.0	13.5	17.1	28.7
United Kingdom	2.1	4.7	7.9	14.1	16.3	23.9	31.0
Germany	3.1	5.1	7.5	12.6	12.2	16.3	43.2
France	4.5	4.8	4.7	8.8	12.6	19.2	45.3
Italy	2.6	4.2	4.3	9.6	12.3	20.3	46.6
Netherlands	3.0	5.8	7.2	13.2	15.4	18.5	36.9
Belgium	2.8	4.6	6.2	12.0	12.2	18.5	43.6
Denmark	4.8	8.1	8.9	16.8	16.7	17.1	27.6
Sweden	7.8	6.0	7.2	11.1	12.8	18.0	37.1
Finland	7.9	6.6	7.7	10.9	12.7	16.7	37.4
Norway	2.8	5.1	8.4	14.5	16.7	18.6	34.0
Austria	3.0	6.5	6.8	10.4	14.2	19.5	39.7
South Korea	7.2	17.1	11.2	21.6	11.0	13.8	18.1
Australia ³⁾	4.1	8.3	10.2	22.9	16.5	17.5	20.5

Sources: (Japan) Ministry of Health, Labour and Welfare (2012), *Basic Survey on Wage Structure 2011*

(United States) U.S. Department of Labor (2012), *Employee Tenure in 2012*

(Other countries) OECD Database (<http://stats.oecd.org/>), *Employment by Job Tenure Intervals 2012*

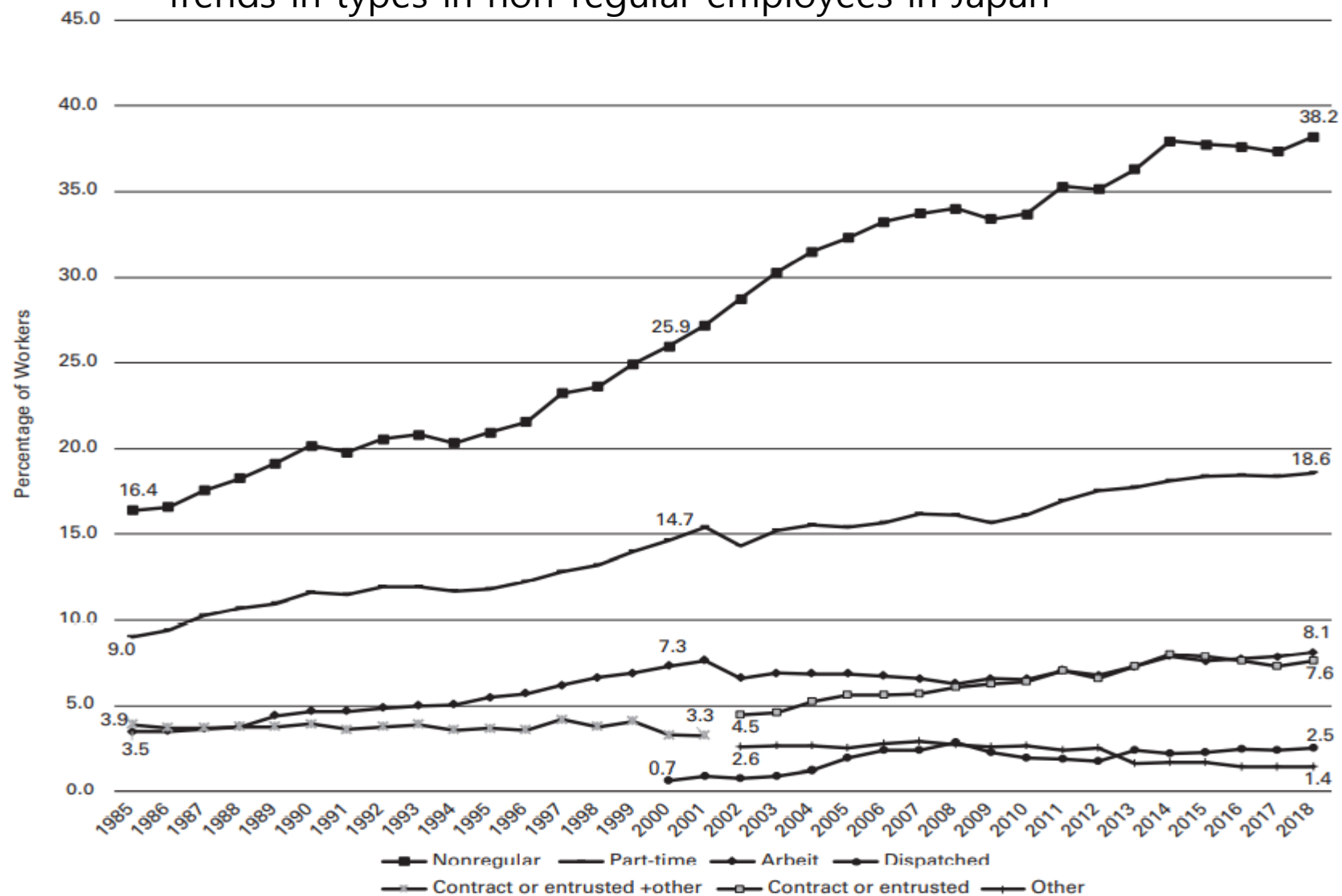
Notes: 1) As of June 30, 2011

2) As of January 2012

3) Figures for 2010

Source: JILPT(2016), Labor Situation in Japan and Its Analysis: General Overview 2015/2016, p. 74.

Increasing segmentation of the labor market: Trends in types in non-regular employees in Japan



Source: Statistics of Japan(2020), Annual Report on the Labour Force Survey

Gender and non-regular workers in Japan (1985-2018)

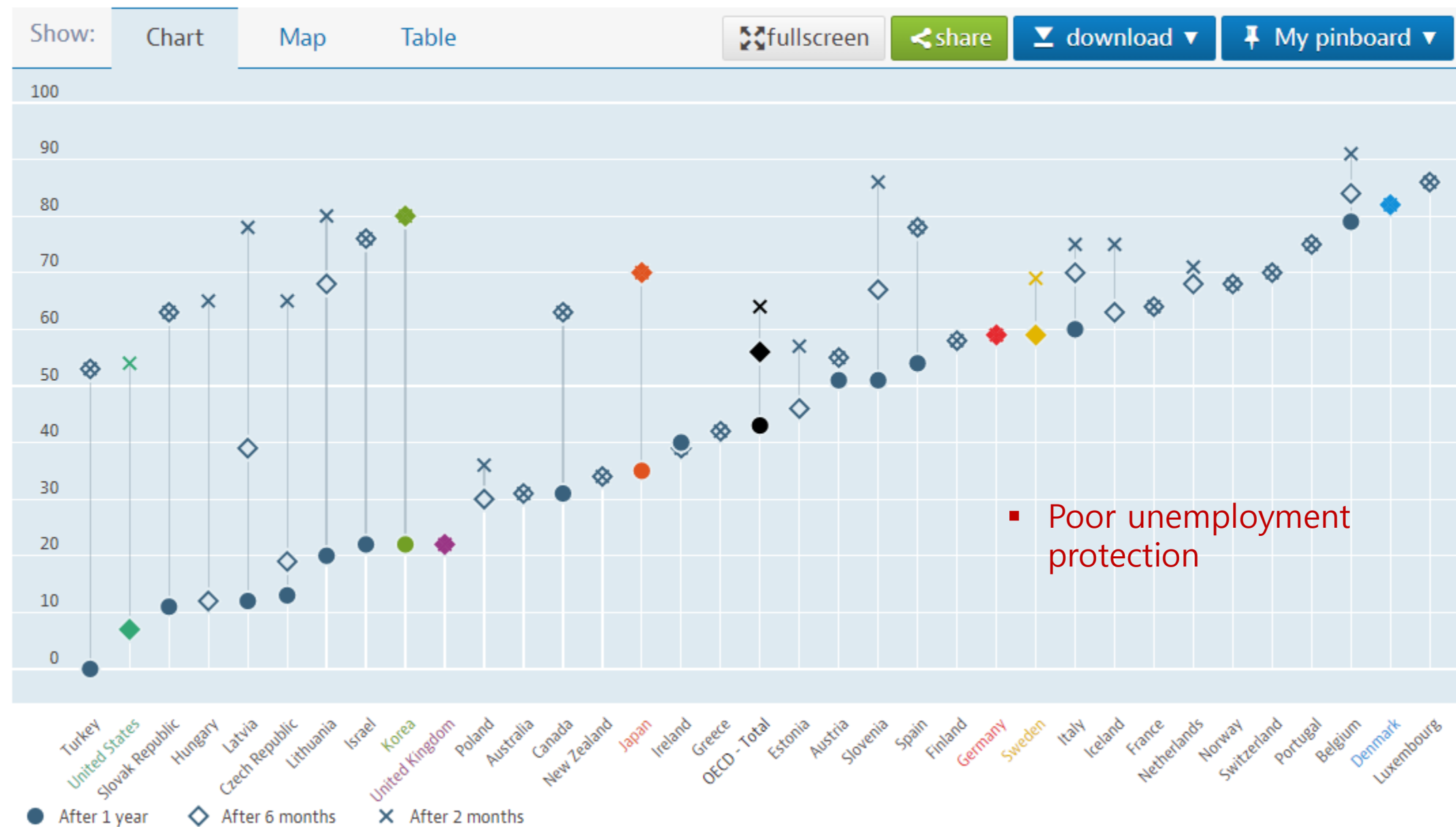


Source: Statistics of Japan(2020), Annual Report on the Labour Force Survey

Benefits in unemployment, share of previous income

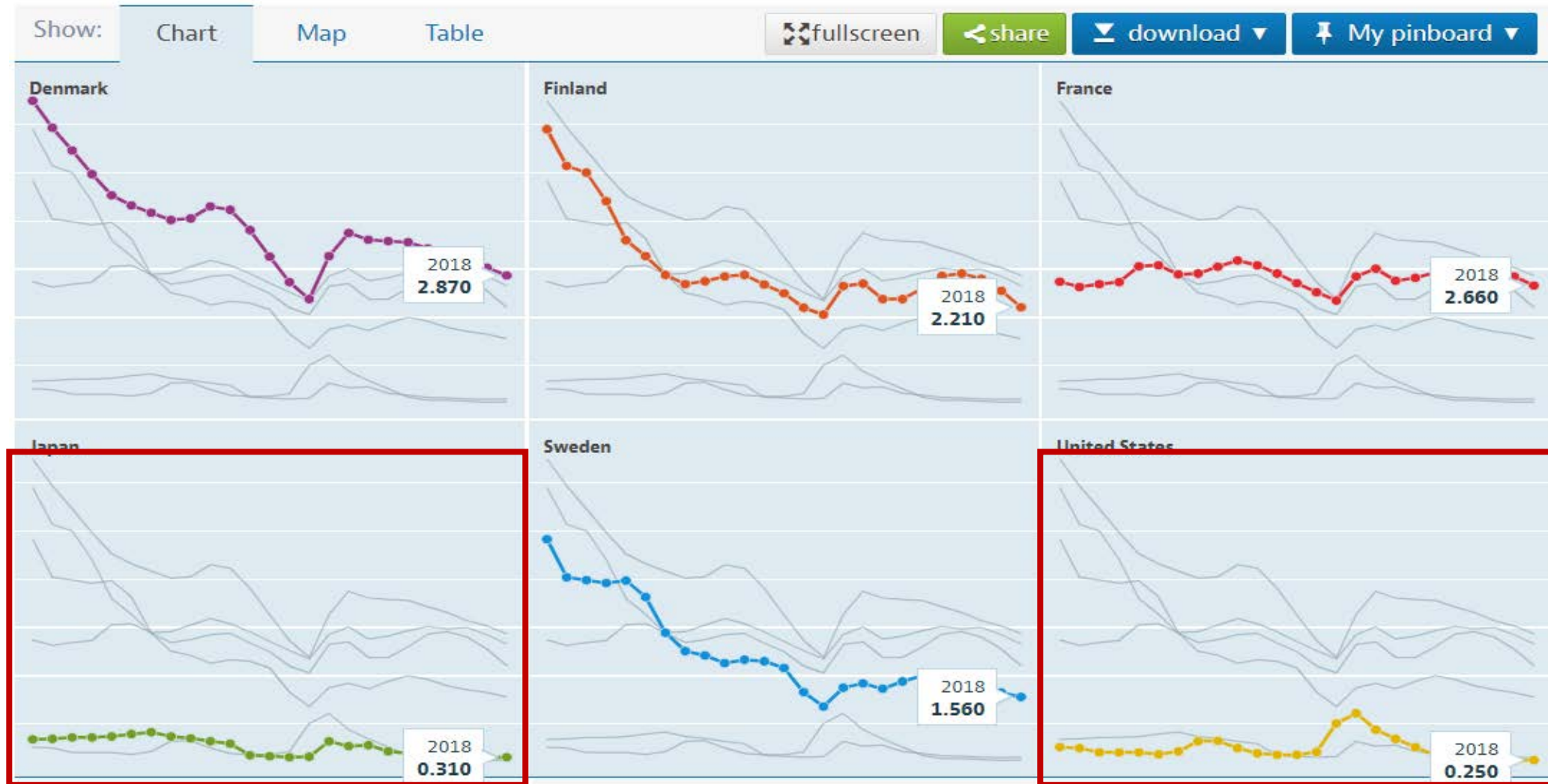
After 1 year / After 6 months / After 2 months, % of previous in-work income, 2020 or latest available

Source: Benefits and wages: Net replacement rates in unemployment



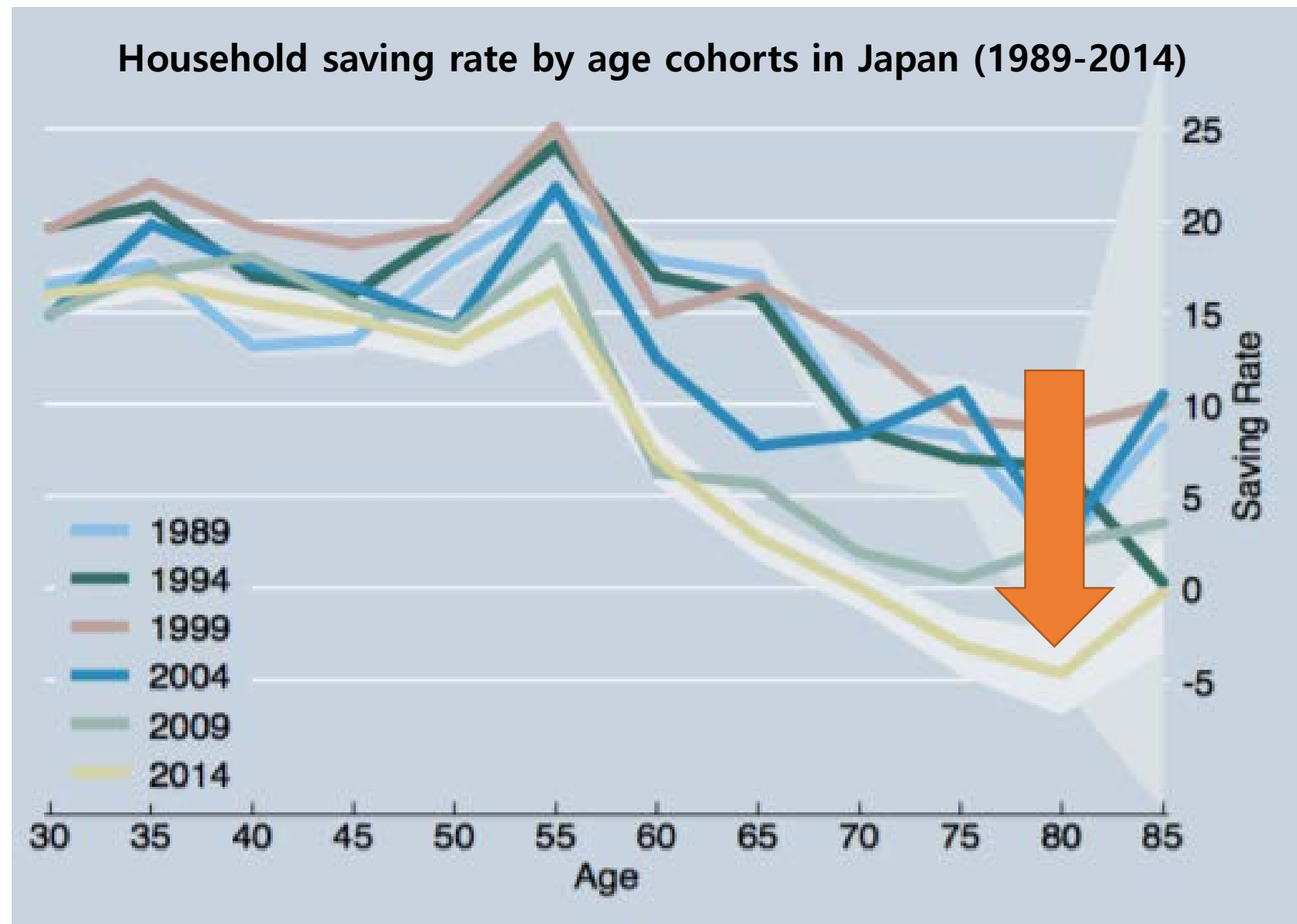
Public spending on labour markets Total, % of GDP, 1994 – 2018

Source: Labour market programmes: expenditure and participants



Source: OECD (2021), Public spending on labour markets (indicator). doi: 10.1787/911b8753-en (Accessed on 30 September 2021)

- Continuous declining saving rate
- Causes: ageing (35%) and interest rate and pension benefit levels(65%)

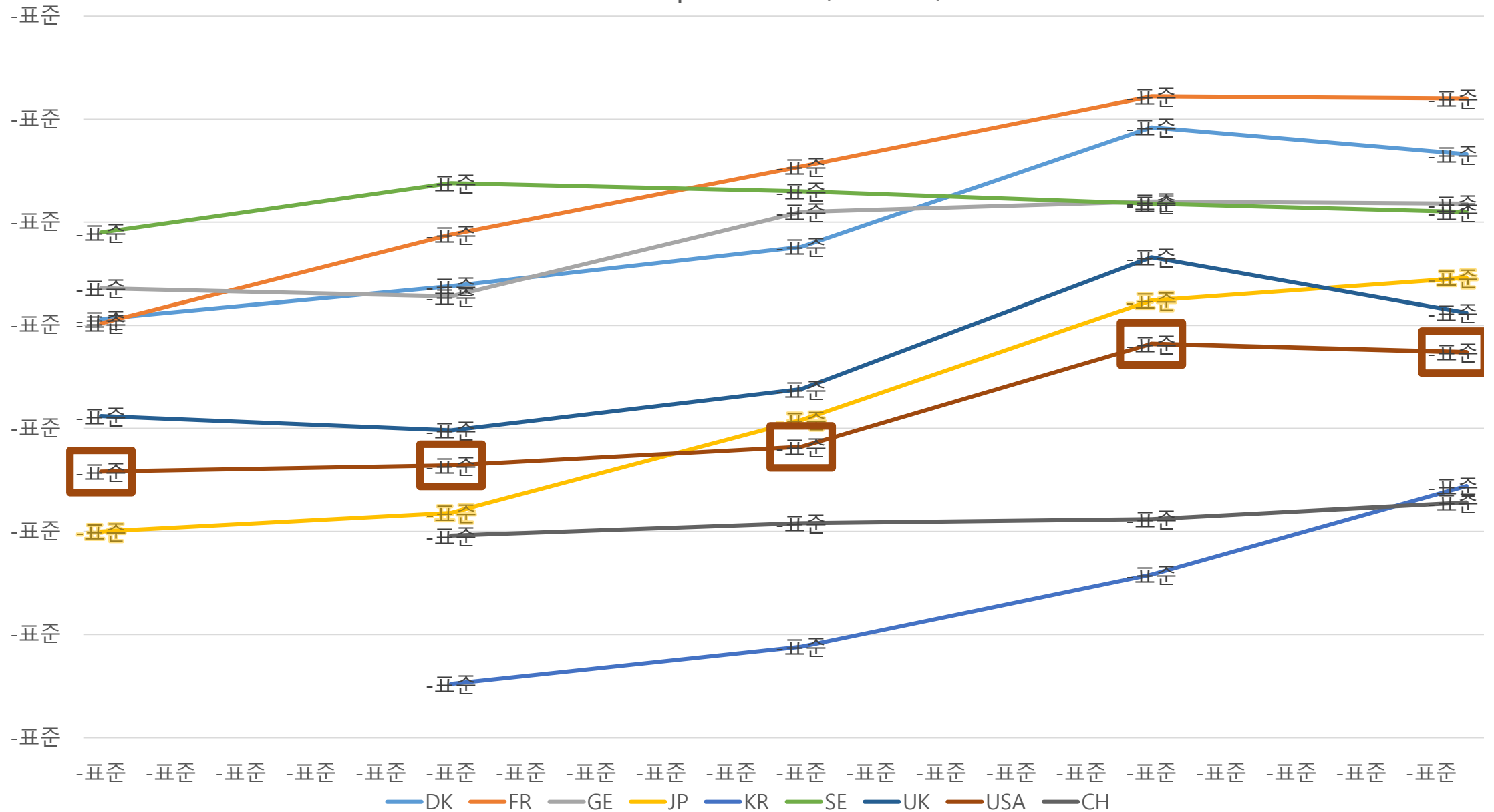


Source: Unayama Takashi and Taro Uno(2018), "Household Savings Rate in National Accounts and Household Surveys in Japan," Discussion Papers (Japanese), Research Institute of Economy, Trade and Industry (RIETI). p.21.

Welfare in Japan and the USA

- Low social expenditure
- Small public sector employment

Social Expenditure(% GDP)



Source: OECD.Stat (Data extracted on 07 Sep 2021 11:34 UTC (GMT) from [OECD.Stat](https://data.oecd.org/))

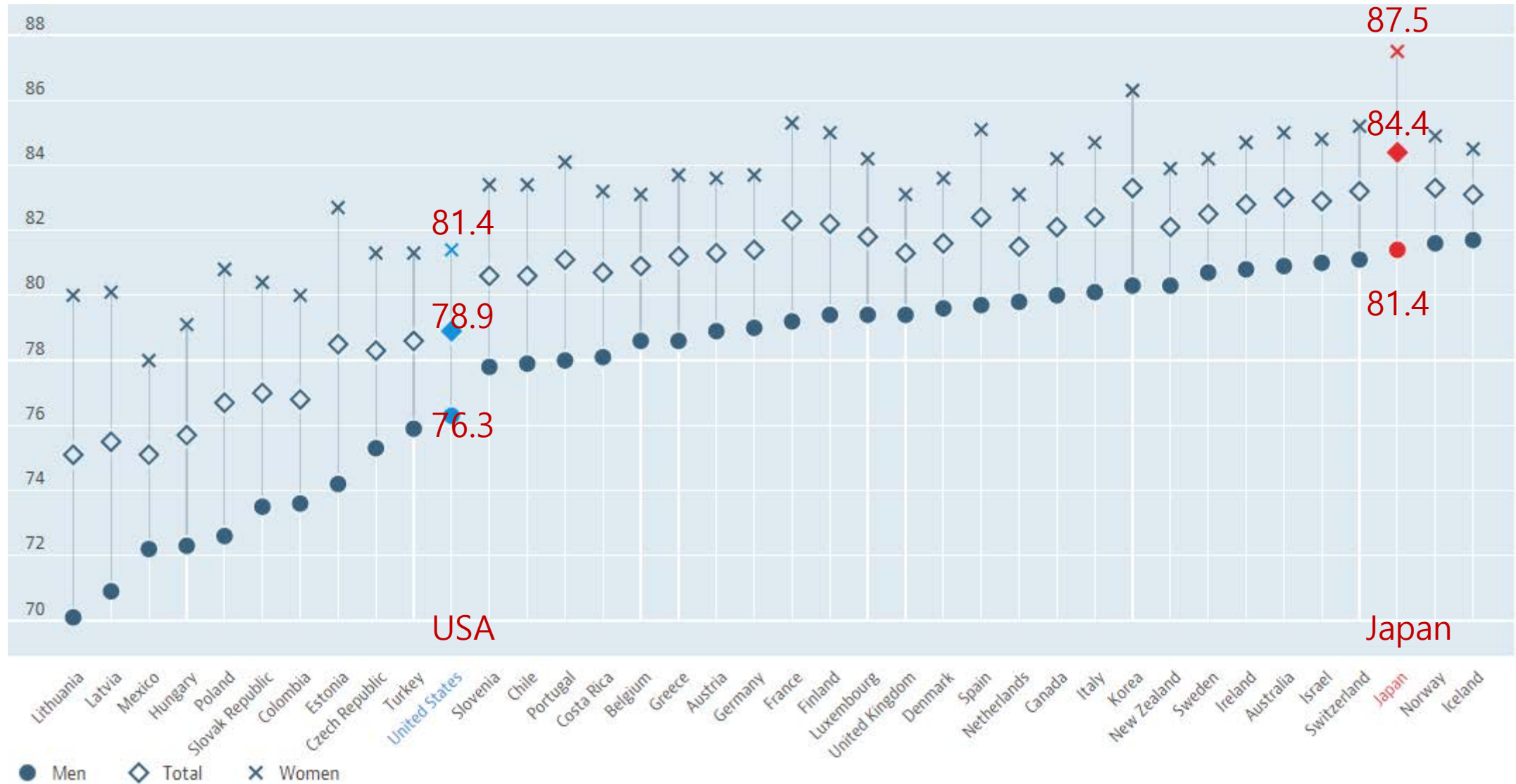
Social Expenditure, Social Benefits without OSB, Social Investment

- Considering the difference in the aging in Japan and the USA, the per capita OSB in the USA is larger than that in Japan.

	a)Total Social Expenditure (% of GDP)	a) Old-age and Survivors Benefits(OSB)	b) Elderly populatio n	a) Social Benefits except OSB
Denmark	29.2	8.0	20.04	21.2
Sweden	26.0	7.2	20.06	18.8
France	31.0	8.0	20.85	23.0
Germany	25.4	10.2	21.86	15.3
United Kingdom	20.5	5.6	18.65	14.9
Australia	16.9	4.0	16.32	12.9
USA	18.4	7.1	16.89	11.3
Japan	22.3	9.4	28.79	12.9
South Korea	10.1	2.8	15.69	7.3
Chile	11.4	2.8	12.12	8.6

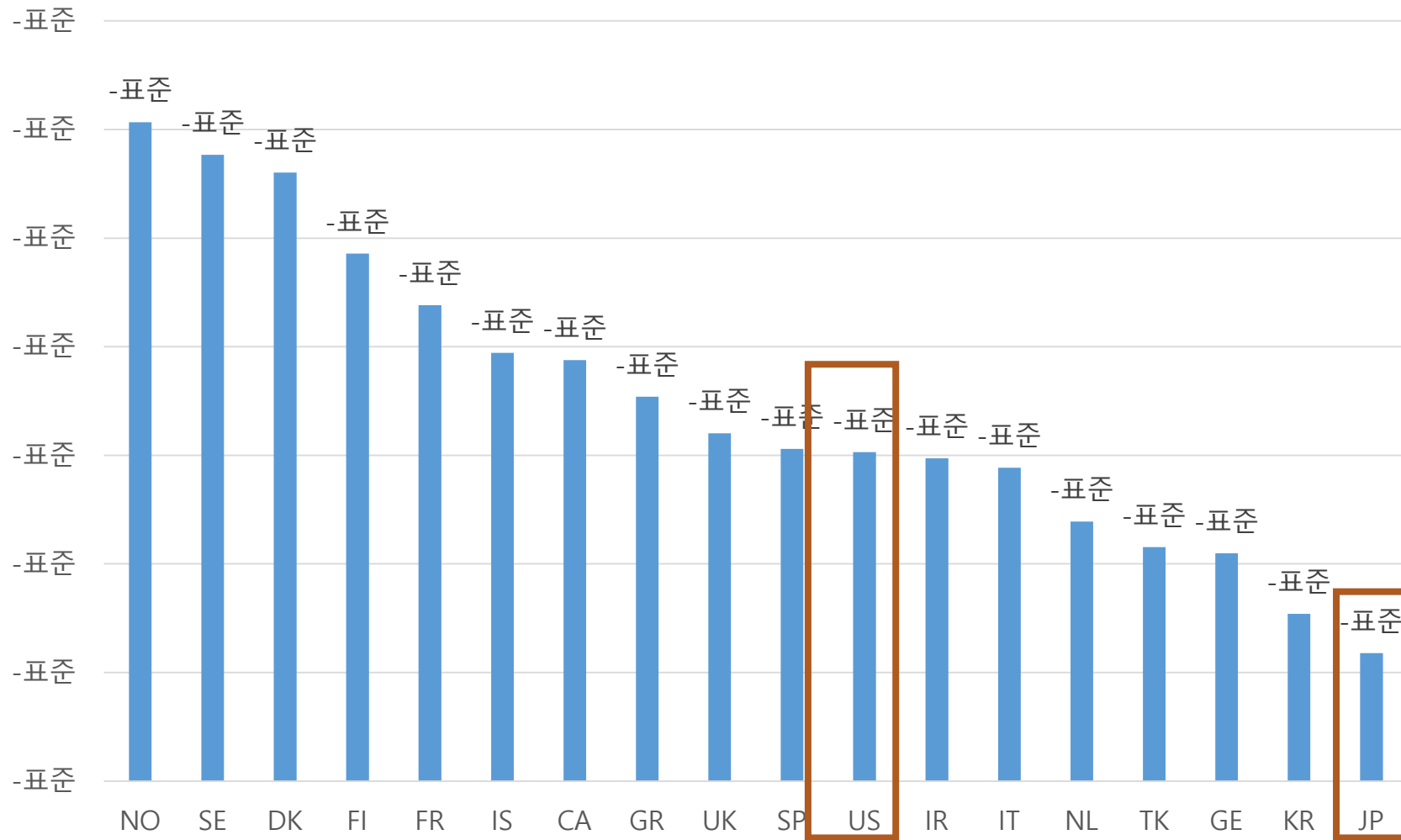
Source: a) OECD.Stat (Data extracted on 07 Sep 2021 11:34 UTC (GMT) from [OECD.Stat](https://data.oecd.org/)) and
b) OECD (2021), Elderly population (indicator). doi: 10.1787/8d805ea1-en (Accessed on 29 September 2021)

Life expectancy at birth in OECD (2020 or the latest year)



Source: OECD (2021), Life expectancy at birth (indicator). doi: 10.1787/27e0fc9d-en (Accessed on 29 September 2021)

Share of Public Employment (% of total employment)(2017)

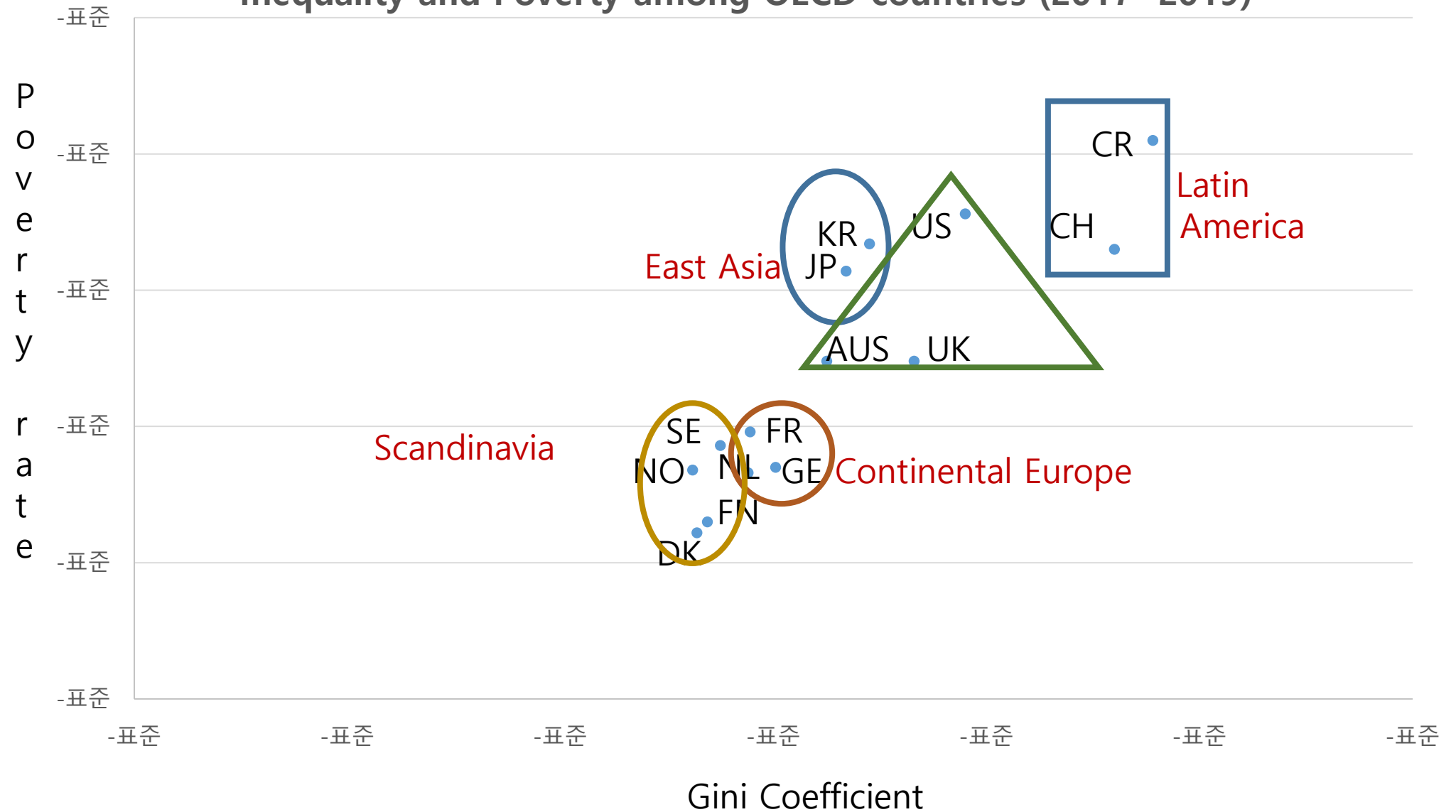


Source: OECD.Stat (Data extracted on 30 Sep 2021 11:42 UTC (GMT) from [OECD.Stat](https://data.oecd.org/))

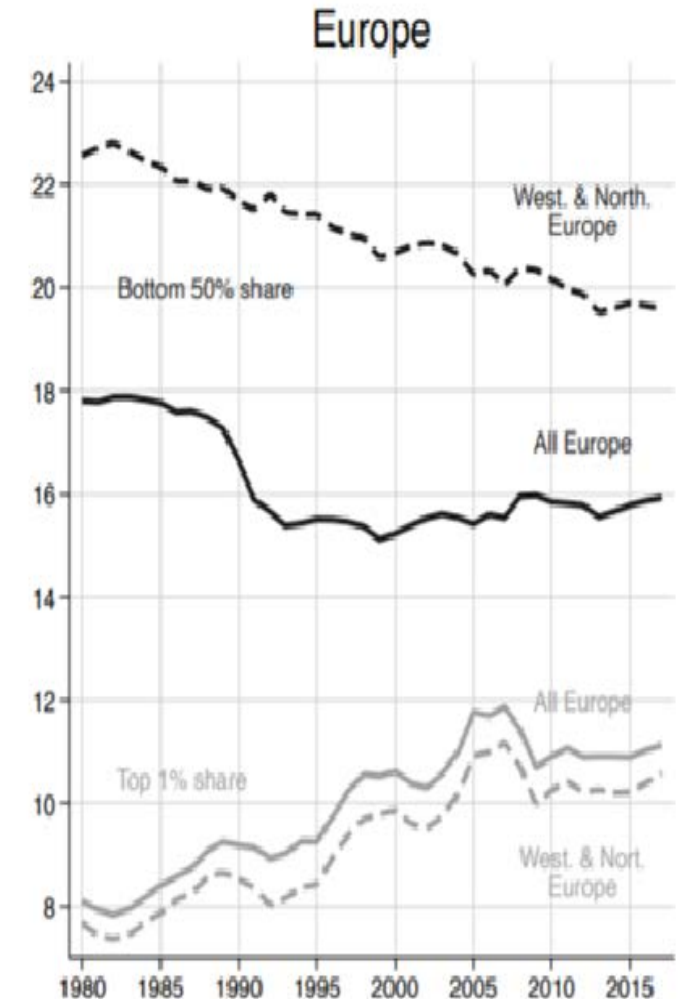
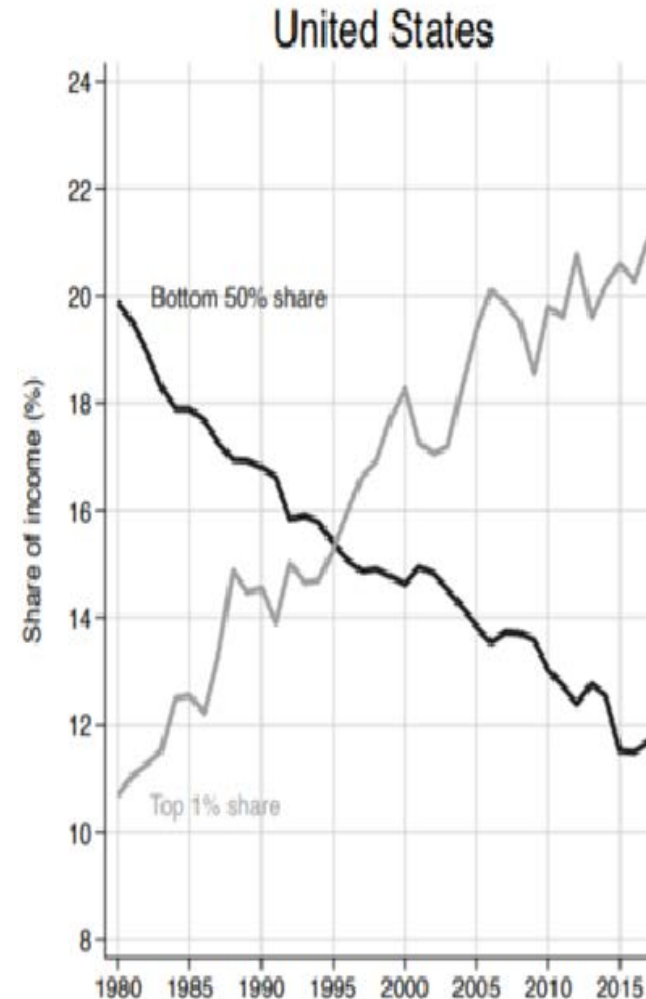
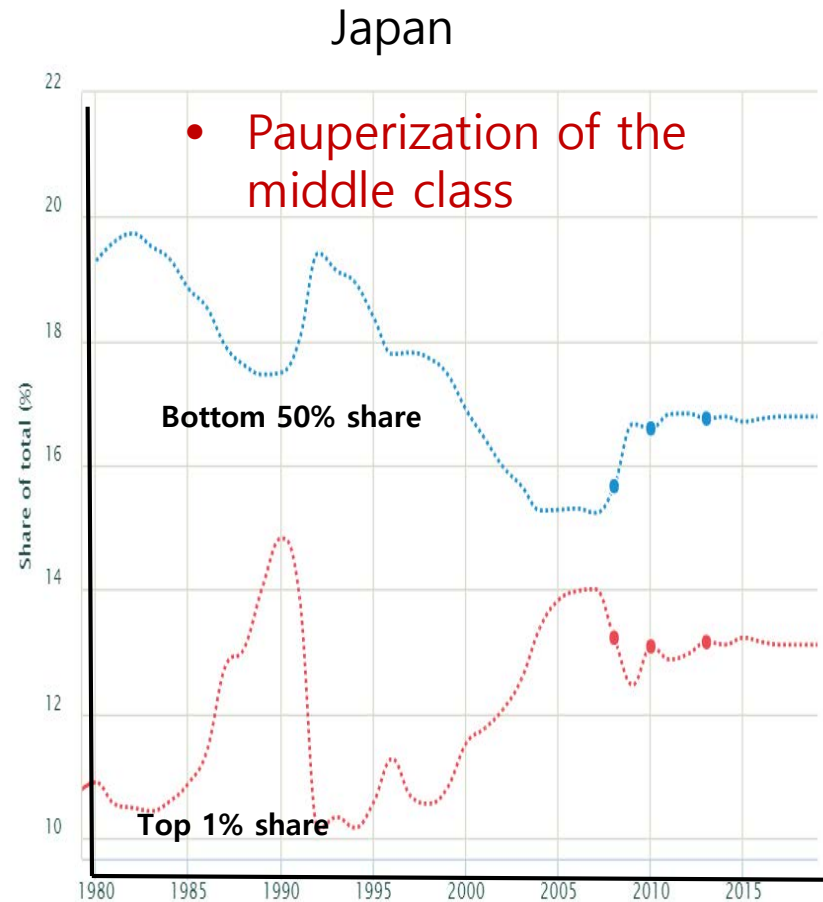
Social Disorder

- Hazard of social reproduction
 - Inequality
 - Poverty
 - Low birth rate
- Social Disruption
 - Unemployment
 - Crime
 - Suicide
 - Homicide

Inequality and Poverty among OECD countries (2017~2019)



Share of income



Source: For Japan, World Inequality Database (<https://wid.world/country/japan>) and For United States and Europe, Thomas Blanchet, Lucas Chancel, Amory Getin (2020) Why is Europe more equal than the United States? WID. Working Paper 2020/19 p. 49.

Relative poverty rate in Japan (1985-2015)



Source: Comprehensive Survey of Living Conditions, Ministry of Health, Labour and Welfare

Source: National Institute of Population and Social Security Research (2019), Population and Social Security in Japan, p. 2.

Japan's rising child poverty exposes true cost of two decades of economic decline

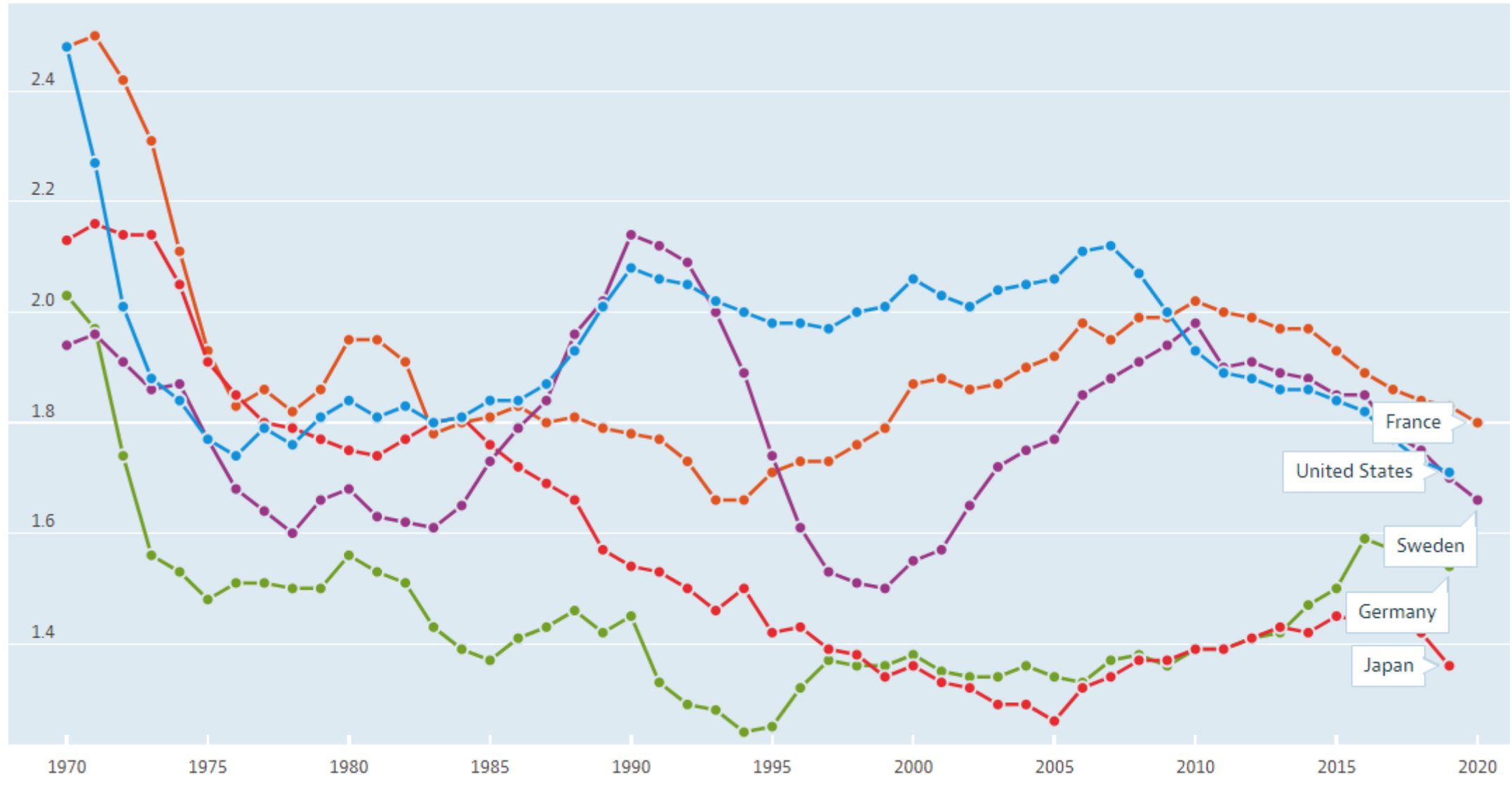
Soup kitchens have sprung up to provide meals for some of the estimated 3.5 million children officially living in poverty in one of world's richest countries



▲ Volunteers prepare meals at a children's cafeteria in Kawaguchi, Saitama prefecture, Japan. Photograph: Justin McCurry/The Guardian

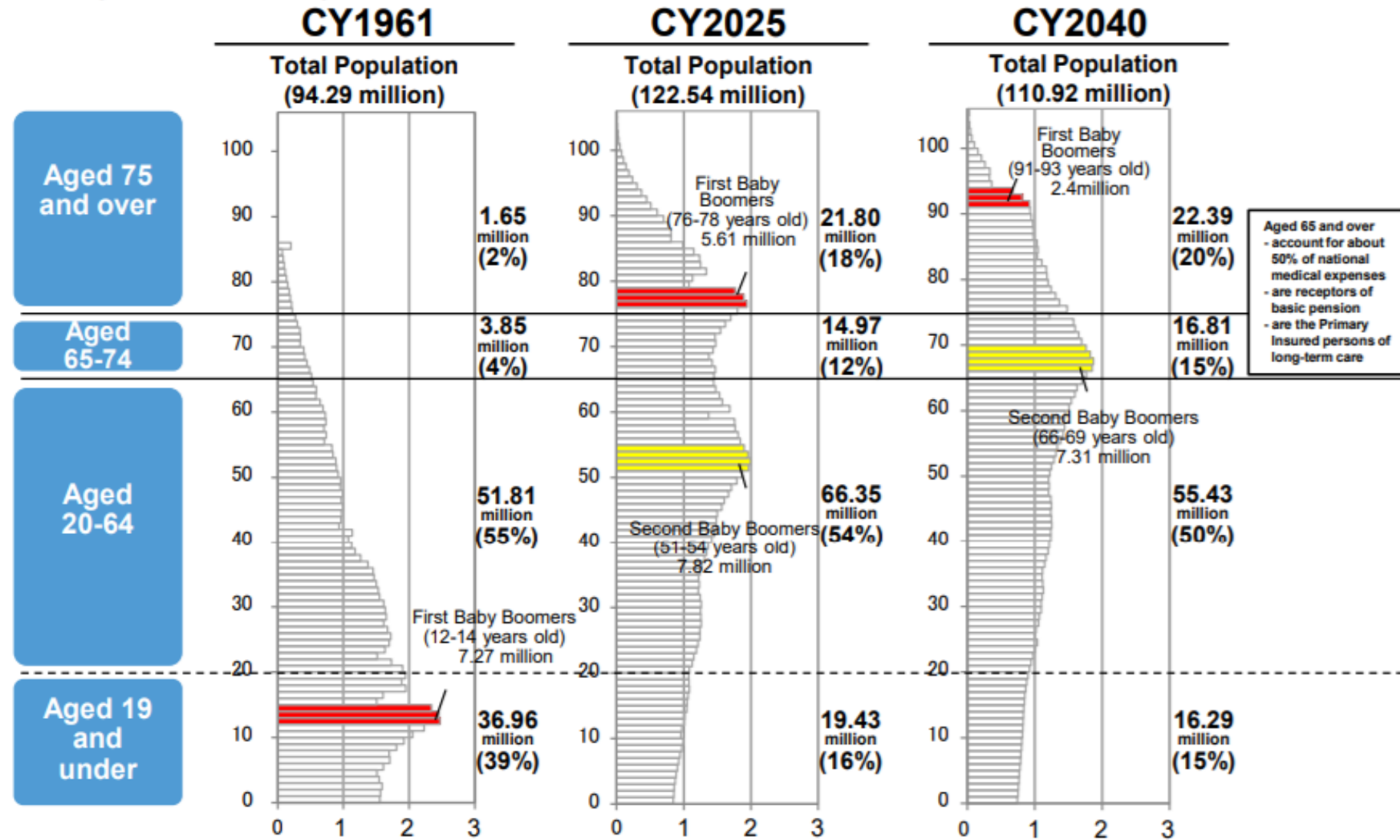
Source: Justin Murray(2017), "Japan's rising child poverty exposes true cost of two decades of economic decline," The Guardian 17 January 2017.

Fertility Rate (1970-2020)



OECD (2021), Fertility rates (indicator). doi: 10.1787/8272fb01-en (Accessed on 30 September 2021)

Demographic Changes in Japan

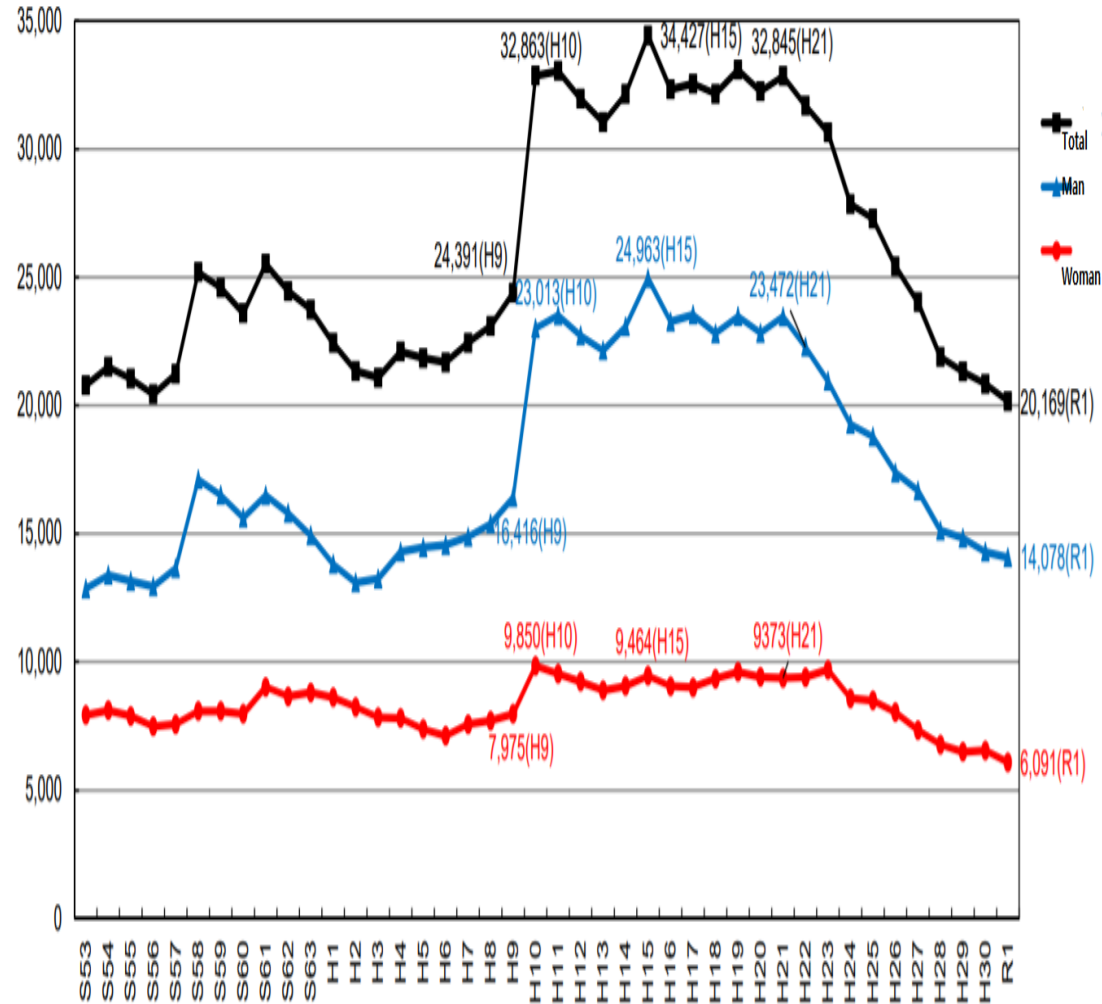


(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Japanese Future Demographic Projection (April 2017)"

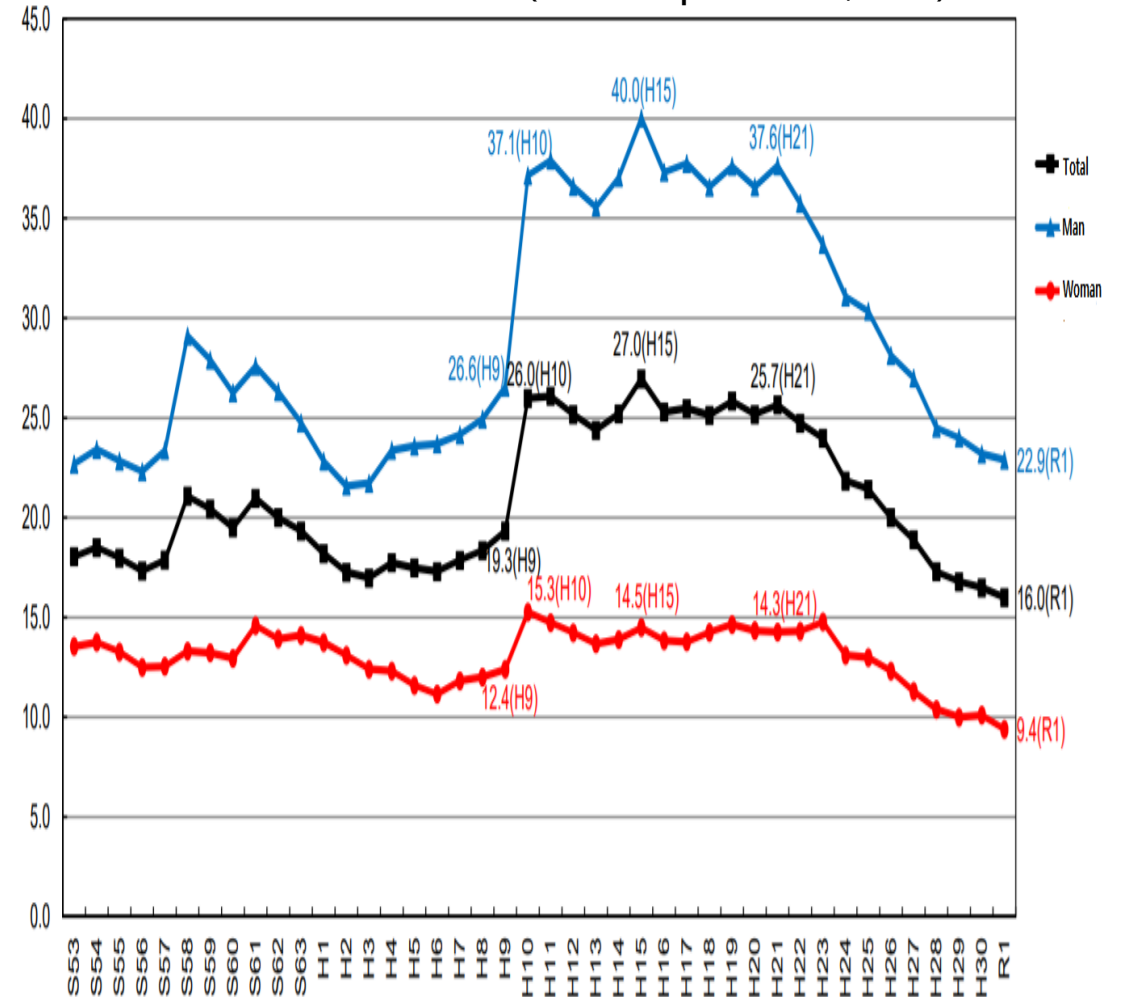
(Note) The first baby boomers are those who were born in 1947-49. The second baby boomers are those who were born in 1971-74. Okinawa prefecture is not included in 1961. 85-years-olds in 1961 includes aged 85 and over. 105-years-olds in 2025 and 2040 include aged 105 and over.

Trend of suicide in Japan(1978-2019)

The number of suicide



The rate of suicide (death per 100,000)

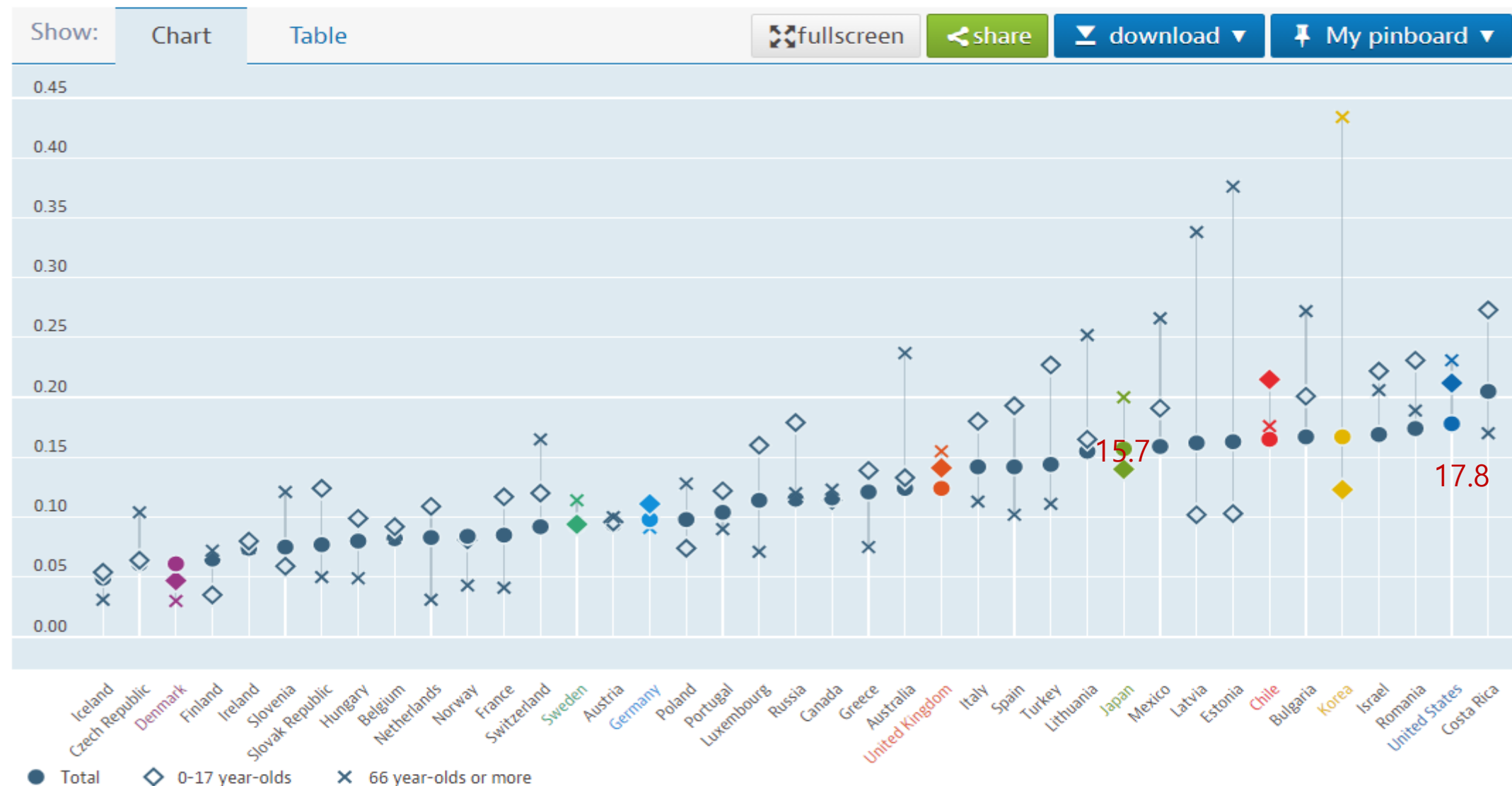


Crime-related in Japan (2018)

- 50,578 in prison
- 20,840 suicide
- 915 homicide

Poverty rate Total / 0-17 year-olds / 66 year-olds or more, Ratio, 2020 or latest available

Source: Income distribution



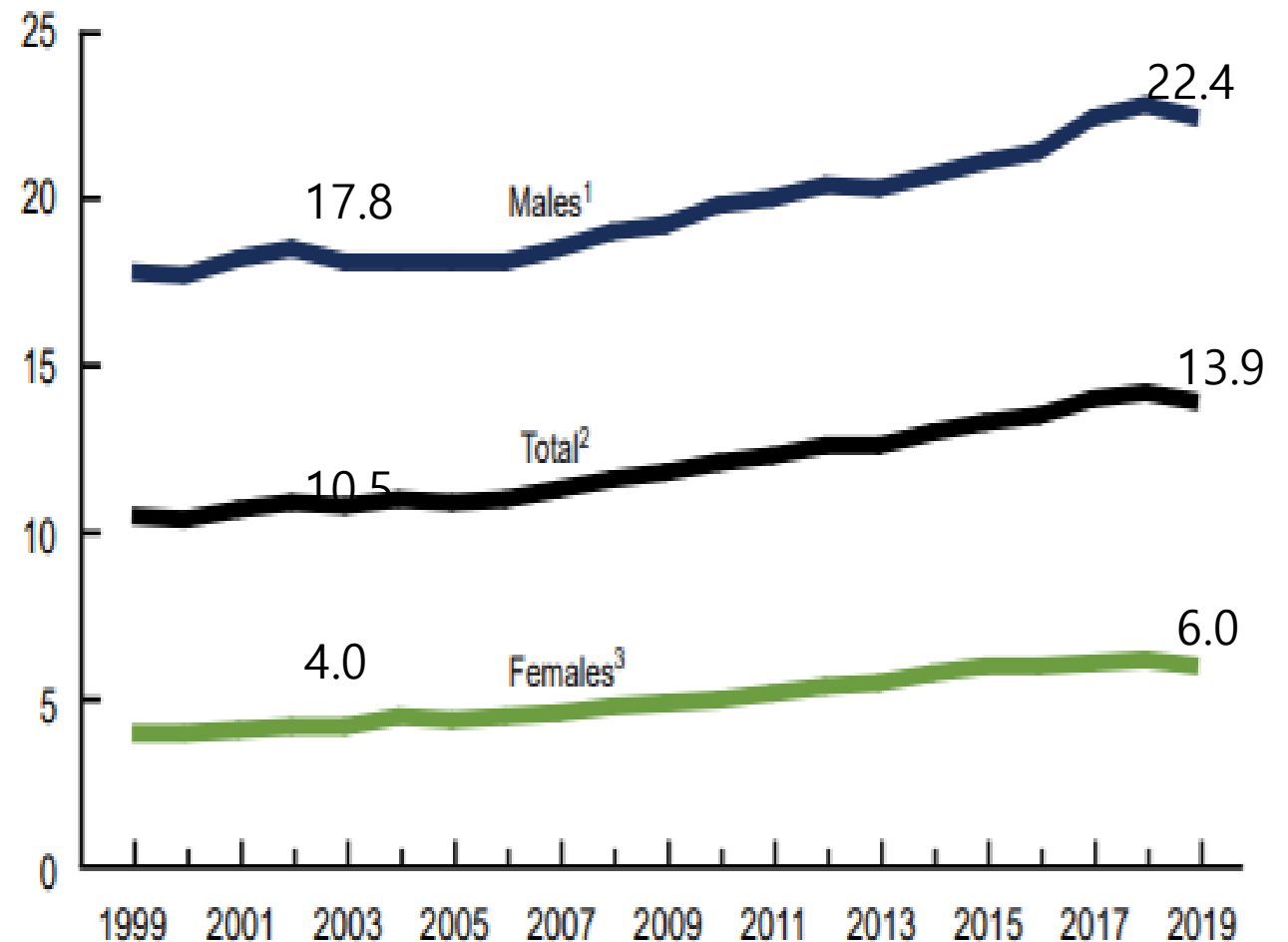
Source: OECD (2021), Poverty rate (indicator). doi: 10.1787/0fe1315d-en (Accessed on 23 September 2021)

Poverty in the USA

- The working poor
 - The poverty rate of workers aged 18 to 64 was 5 percent (7.6 million) in 2020.
- The non-working poor
 - The poverty rate of non workers who did not work at least 1 week during the year was 28.8 percent in 2020.

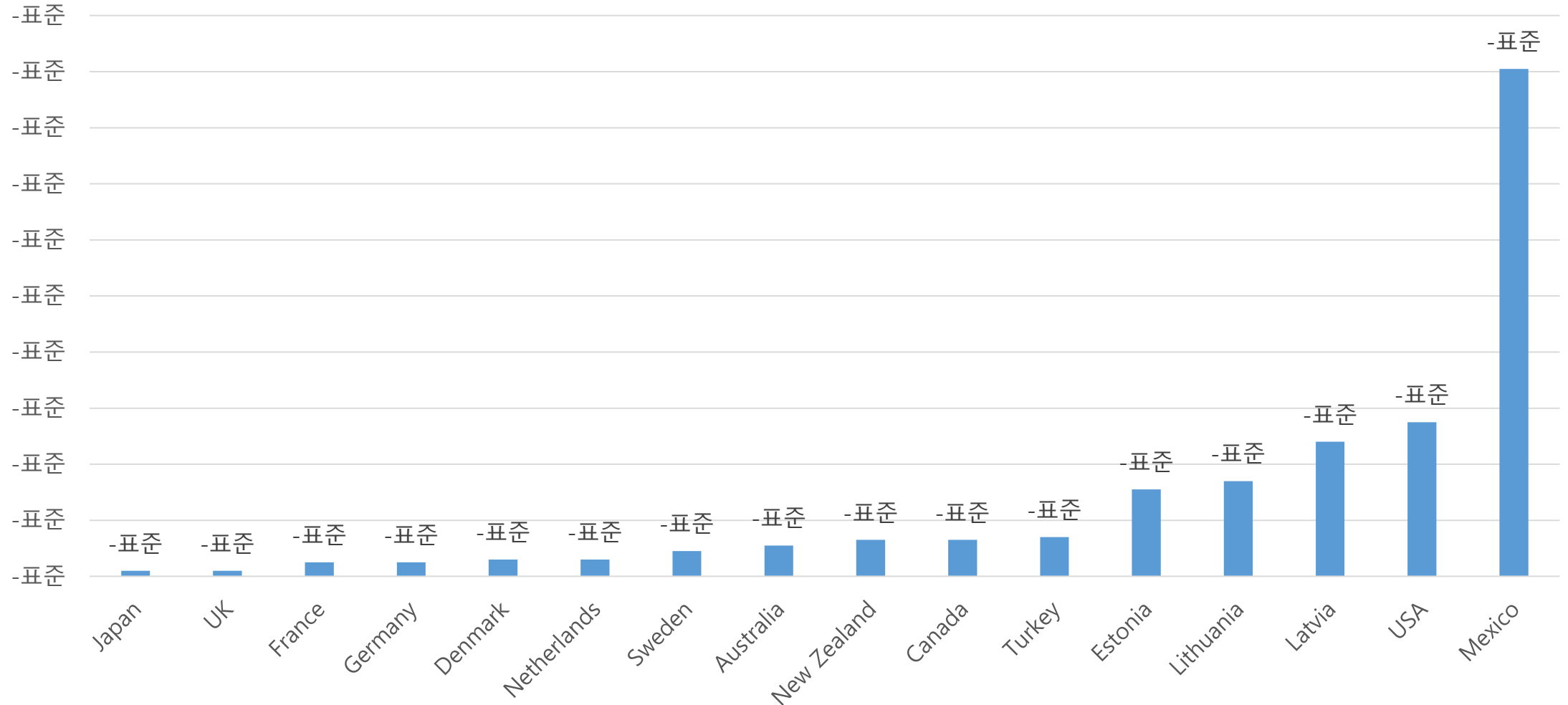
Suicide in the USA

- 1.4 million suicide attempts(2018)
- 47,511 suicide (2019)
- More than twice suicide than homicide(19,141) (2019)
- 10th causes of death



Source: Hedegaard Holly, Sally C. Curtin, and Margaret Warner (2021), "Suicide Mortality in the United States, 1999–2019," NCHS Data Brief, N. 398, p.1.

Homicide rate (per 100,000 population)



Source: OECD Health Data: Causes of Mortality", OECD Health Statistics (database), http://stats.oecd.org/Index.aspx?DataSetCode=HEALTH_STAT.

Welfare-Crime Link

- The higher inequality, the more crime.
- Unemployment benefits tend to reduce crime, and the USA provides the lowest unemployment benefits to the unemployed among the wealthy countries.
- Japan shows the lowest homicide rate but the highest rate of suicide among the wealthy countries.
- The USA shows the highest homicide rate and the highest rate of suicide among the wealthy countries.

3. Reforms in Japan and the USA

Old Abenomics (2012-2014)

1. Aggressive monetary policy
 - Price stabilization target - 2%
 - Quantitative and qualitative easing → beneficial to owners of real estate and stocks.
 - * The strong risk-averse attitude of the ordinary people
2. Flexible fiscal policy
 - An emergency stimulus package
3. Growth strategy by promoting private investment
 - Deregulation

- **New Abenomics** (2015-2020)

"For the society in which 100 million people can be active."

- 1) The three old policies
- 2) Raising birth rate
- 3) Reducing children's burden of caring old parents
- 4) Work-style reform

Evaluation of Abe's reform

- Failed to escape from the continuous deflation
- The government debt skyrocketed to 250%
- Structural reform failed due to the dispute within the government

Reform in the USA

Unlike Abe, Bill Clinton and Barack carried out welfare reform under the hostile political environment since the Republicans were the majority at the congress. The contested politics in the USA limited the possibility of structural reform from the beginning.

- In 1996, Bill Clinton introduced the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), called "workfare" or "welfare to work".
- The AFDC(Aid to Families with Dependent Children) was replaced by the TANF(Temporary Assistance of Needy Families).

Obama care (the Patient Protection and Affordable Care Act)

Background

- higher health care spending, worse outcome
- twice larger health care spending than the average OECD country
- the highest chronic disease burden
- the lowest life expectancy
- the highest suicide rate of the wealthy countries

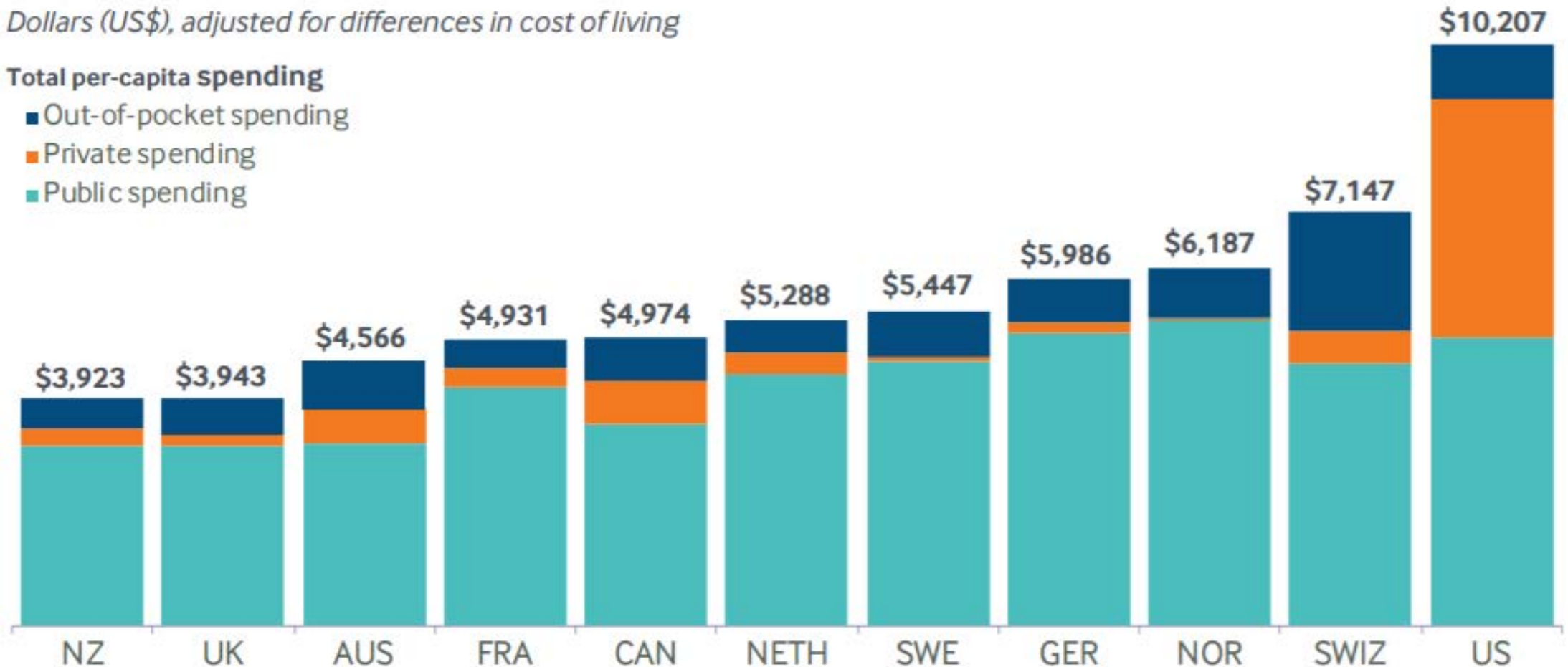
- US health care reform in 2010
- Regulatory overhaul
- Coverage expansion

Health Care Spending per Capita by Source of Funding, 2018

Dollars (US\$), adjusted for differences in cost of living

Total per-capita spending

- Out-of-pocket spending
- Private spending
- Public spending



Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes?* (Commonwealth Fund, Jan. 020). <https://doi.org/10.26099/7avy-fc29>

Evaluation of the reform in the USA

- How to deviate from the extremely high inequality and poverty was not on the policy agenda even in the democratic government.
- The contested bi-partisan politics tended to hamper the discourse on alternative policies in recent years.
- Social welfare issues are political issues dividing social class and race. The residual welfare state restricts the possibility of forming a class alliance and racial solidarity in making policies for institutional changes.

4. Conclusion

- The recent experiences of policy makings and implementation in Japan and the USA reveals that a short-sighted way of thinking of reform tends to reproduce the problems.
- Both Japan and the USA failed to solve the socio-economic problems derived from the labor market and social change in the past three decades.
- With the lagged welfare, both countries have faced the economic difficulty in exit from social disorder such as crime and suicide as well as low birth rate.
- The reform initiated by Japan and the USA displays that the discourse on policy alternatives should take into account of welfare-economic growth linkage as well as welfare-crime linkage.
- It also shows that the politics is crucial for building new policies and new institutions.