Desperately Seeking Welfare

Gee whiz. This time Ez Vogel has really come up with a Japanese miracle. It is a welfare system that does everything anyone could possibly want. It is cheap, rejecting the welfare state concept, and avoiding a heavy state burden. It provides ample coverage, but with only the very old and infirm becoming dependent on the state. It imbues people with a sense of purpose, self-respect and group effort while avoiding despair and degradation. And it does not create a feeling of entitlement. What is more, the public seems to be happy with the system.1

Such a system would, indeed, be a ‘‘miracle’’ in the purest sense, namely something that defies reason and expectations. So, before proclaiming it too widely, one should take a closer look at the situation.

It is true that the Japanese government, which had lagged far behind on social security and welfare, made a great leap forward during the 1960s and 1970s. During that period, it put together a system that compares favorably with most advanced countries. It established assorted pension plans for civil servants, company employees, self-employed and others. Most of these are contributory. But there are also schemes
for those too poor, old or infirm to take care of themselves. There is an extensive network of health insurance that includes virtually everybody. Plus unemployment insurance.

Naturally, since there are various schemes, the contributions and benefits will differ. As a general rule, those who are best off are the civil servants, employees of large companies and members of farm cooperatives. Employees of small companies, temporary workers in general, owners of small shops and the like do considerably less well. This continues and accentuates the divisions that existed during their working lives and might rile some. But ordinary Japanese, who are accustomed to such distinctions and know from experience that they are not "entitled" to anything else accept it as inevitable.

The real problem, however, is how a government can keep down costs while running a comprehensive welfare system. One way is by making the benefits smallish, such as the meager sums paid out to jobless for quite short periods. Another is by limiting the beneficiaries of unpaid welfare, which is clearly done. The trickiest technique is unique to Japan. While most employees are expected to retire at the age of 55, pensions are only paid out as of 60, leaving citizens with a gap when they are not covered.

But the chief explanation of the thus far low-cost operation is much simpler. It evolved during a period when the economy was expanding rapidly and there were very few beneficiaries because most of the population was young and working. Such a felicitous situation could not possibly continue. There may be more unemployed at times. And it is certain that there will be more elderly. In fact, with a rapidly increasing life expectancy (75 for men, 81 for women), the population will soon be undergoing the fastest aging any country has ever experienced. From 11% in 1988, the share of people over 65 is projected to reach 24% by 2020.

This implies that, to keep the system intact and give the