

## Financing of welfare systems in Japan

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In an imminent aging society, the Japanese government is being forced to raise, to some extent, its welfare expenditure for the aged. This effort is, however, connected to a notion of a Japanese type of Welfare Society, which is based on the idea of a small government on the one hand and the idea of self-help or mutual help within a family and a community on the other hand. The increase in welfare expenditures, therefore, must be limited and accompanied by some problems.

This paper describes the status quo and problems of Japanese social welfare finance.<sup>1)</sup>

### 1. A feature of public finance in Japan

To investigate Japanese features of Public Finance, national accounts may be useful. Three items of general government expenditure are compared among six countries in table 1.

General government final consumption expenditure as a percentage of gross national expenditure (GNE) in Japan is very low compared to other countries. A main reason for this is that the number of public officials is low in Japan.

General government social security transfers as a percentage of GNE in Japan is also quite low, as it is the U.S. This seems to reflect a low level of National basic pension benefits, which is a pension mainly for the self-employed.

On the other hand, general government capital formation as a percent-

Table 1 General Government as a Percentage of Gross National Expenditure (1985)

	Japan <sup>1)</sup>	U. S.	Britain	W. Germany	France	Sweden
General Government Final Consumption Expenditure <sup>2)</sup>	9.8	18.1	21.0	19.8	16.4	28.6
General Government Capital Formation	4.8	1.6	2.0	2.2	3.0	3.3 <sup>3)</sup>
General Government Social Security Transfers	11.6	10.9	13.7	16.0	26.5	18.7
Total of three items	26.2	30.6	36.7	38.0	45.9	50.6

1) 1986, 2) including military expenditure, 3) gross fixed capital formation  
source: Japanese Ministry of Finance, *Zaiseitokei (Public Finance Statistics)*,  
SBC, *Nationalräkenskaper 1970, 1975-1987*

age of GNE in Japan is quite high, three times as much as in the U.S. and more than double that of Britain or W.Germany.

Features of Japanese Public Finance, therefore, can be said to be a low level of social welfare, including both welfare transfer and welfare services, and a high level of investment in such things as roads and harbors.

## 2. Short history

We can divide the period from the 1960s to today, into 4 periods, the 1960s, 1970s, 1980s, and 1990s, when we set out to analyse social welfare and adopt a financial aspect.

I would like to summarise the features of each period.

1960s: The first priority of economic and social policies was laid upon rapid economic growth. Promotion of social welfare was, at best, the second priority and actually was carried out as a treatment to arising problems in the rapid economic growth. The establishment of the national pension insurance system and the national health insurance system in the early 60s are good examples. The huge movement of population from rural areas to metropolitan cities, which arose as a result of the rapid economic growth, made many people's lives unstable in the latter areas. The

insurance systems were needed to make those people to some extent stable and safe.

1970s: A lot of urban problems arose as a result of overpopulation in big cities. One problem was a shortage of infrastructures for human living and another was social costs such as pollution. The former involves a shortage of housing, water supply & sewage, and need for day services for children and schools. Citizen's movements, which seek more infrastructures, more public services, and less pollution, were strong enough that mayors and governors in many cities and prefectures were replaced in the late 60s and the beginning of the 70s. The central government was also forced by these movements to make social welfare better than earlier. 1973 was called the first year of welfare. In that year a free medical care system for the aged and an indexation of pension benefits were introduced. In the previous year child allowance and government grants to private schools and universities came into effect. To solve problems created by sparsity of population in rural areas, a new law came into force in 1970.

After the first oil crisis and a deep depression following the crisis, no new welfare systems were introduced any more. Welfare expenditure, however, was still expanding until the end of the 70s.

1980s: Under an effect of the new liberalism, Japanese government carried out cuts or restraints in expenditures with some exceptions like the defence and ODA expenditures according to a recommendation of the second Ad Hoc commission on Administrative Reforms. The Japanese National Railways, the Japanese Telegraph and Telephone Public Corporation and the Japanese Tobacco and Salt Public Corporation were privatised. A plan to reduce the full number of public officers was implemented. The free medical care system for the aged was abolished. Central government grants to local government were cut, as grants for management costs of social welfare institutions were lowered from eight tenths to half of

standard costs, which are decided by the central government and always less than real costs. Wage increases in the public sector, which are realized according to a recommendation of the National Personnel Authority every year, were frozen or restrained. Premiums for social insurance and many fees like tuition were raised. Finally, a consumption tax, which is a variant of VAT, was introduced in 1989. We could list many more examples.

On the other hand, expenditure for public works was untied to jump again in the middle of 1980s at the pressure of foreign countries, especially the USA.

1990s: Expenditure restraints are still in force. Taking the imminent aging society into consideration, however, the Japanese government made a ten years strategy of health and welfare for the aged, the so called "Gold Plan". This strategy involves rapid increases in the number of home helpers, beds in short stay services, day service centers, special nursing homes for the aged (an official translation of Tokuyo), and halfway houses of health care for the aged, etc. The goal of this strategy is shown below.

Table 2 Main Goal of the Gold Plan

	1989	1992	2000
For Community Care			
Home Helper (persons)	31,405	46,405	100,000
Short Stay (beds)	4,274	15,674	50,000
Day service Center	1,080	3,480	10,000
Center for supporting the family caring	0	1,200	10,000
For Institutional Care			
Special Nursing Home (beds)	162,000	171,267 <sup>1)</sup>	240,000
Half Way House of Health Care (beds)	27,811	42,061 <sup>1)</sup>	280,000
Care (or Service) House (persons)	200	715 <sup>1)</sup>	100,000
Welfare Center in Sparsely Populated Area	0		400

1) 1991

Table 3 The Gold Plan and a Nursing care Framework

1986 The aged in need of nursing care 600,000 persons

at home 38.3% (230,000 persons)	hospital 41.7% (250,000 persons)	special nursing home 20% (120,000)
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2000 The aged in need of nursing care 1,000,000 persons

at home ca.35% (330,000-350,000)	halfway house ca.28% (260,000-300,000)	hospital ca.12% (100-140t)	special nursing home ca.24% (240,000)
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The number of home helpers per 100,000 persons will be 76.2 in the year 2000 according to this strategy. The number in Sweden, however, was 883.9 in 1990. Japanese promotion of social welfare for the aged is far inferior to that of Nordic countries.

The number of aged in need of care was 600,000 persons in 1986, of which 38.3% (230,000) were cared for at home, 41.7% (250,000) in hospitals, and 20% (120,000) in special nursing homes. In 2000 this number is estimated to increase to 1 million, of which about 35% (330,000-370,000) will be cared for at home, about 28% (260,000-300,000) in halfway houses of health care, about 12% (100,000-140,000) in hospitals, and about 24% in special nursing homes. The most drastic change is that many of the aged being cared for in hospitals will move to halfway houses of health care which are usually privately owned and managed.

The eight laws concerning social welfare were revised in 1990, gave responsibility for domiciliary services attributes to municipalities. Municipalities, however, can entrust these services to the charge of private corporations. All municipalities and prefectures have to make plans for health care and welfare for the aged by next march.

### 3. Relationship between central and local government

There are three levels of government, municipalities, prefectures, and the central government. Many social services such as child care are provided by local governments.

Japan is, however, a centralized country, firstly because it has many agency proxy administrations which are delegated by the central government to mayors or governors. They have to practice these administrations as agencies of central government.

These administrations are separate from the local government's own administrations in certain respects. First, local governments cannot decide regulations in the case of agency proxy administration. Second, local assemblies cannot investigate the process and results of these administrations. Third, each minister commands and superintends these administrations. Fourth, ministers can bring a suit against mayors or governors to execute these administrations.

There are also many ordinances, mandates and notices concerning these administrations.

In 1949 the Shoup Mission, which was headed by Professor Carl S. Shoup of Columbia University, published his Report on Japanese Taxation, in which the mission described three general principles about the division of functions among the various levels of government.

“1. So far as possible or practicable, the functions of the three levels of government should be clearly demarcated, ……”

2. Each function would be allocated to that level of government which is equipped by virtue of its size, its power, and financial resources to perform it efficiently.

3. In the interests of local autonomy each function would be given to the lowest appropriate level of government.”<sup>2)</sup>

These proposals were not achieved and the agency proxy administrations, which was the basis of a strong government before the war, has remained. The allocation of functions to three levels of government is still as complex as in the post war period.

The second reason why Japan is a centralized country is that there are a lot of specific grants from the central government to local governments by which the central government controls local government expenditures. Today about two thirds of tax revenues are collected by central government and the rest by local governments. Almost half of the central government's tax revenues are distributed to local governments as both general grants (tax equalization grants) and specific grants. As a result, two thirds of government expenditures are spent by local governments.

Specific grants have two types, one has provisions in law (the legal grant), and the other is decided by parliament as part of a budget every year (the budgetary grant). The purpose of specific grants is that the central government carries out its policy on the level of local government. The legal grant, however, can be thought as an obligation of the central government to implement social services on the level of local government. The budgetary grant, on the other hand, is a strict way that central government controls local government. Almost all governors of prefectures and many mayors of municipalities visit many ministries and representatives to request such grants in order to secure as much as possible.

There are lots of specific grants, especially in departments of agriculture, public works, education and social welfare. These grants are distributed in a vertically divided administration, which is thought to be quite inefficient.

There are two grant computing methods: the addition method, in which a grant is computed on the basis of all necessary costs, and the standard unit price method, in which a grant is computed on the basis of standard

Table 4 Rate Decrease of Specific Grants related to Social Welfare

	1984	1985	1986-88	1989-
public assistance	8/10	7/10	7/10	3/4
expense for welfare placement institution for the physically handicapped institution for the mentally retarded protection facility for women welfare institution for the aged child welfare institution	8/10	7/10	1/2	1/2
welfare at home	1/3	1/3		1/2
short stay			1/2	
day service			1/2	
home helper			1/3	
child-rearing allowance for a guardian	10/10	8/10	7/10	3/4

source : Social Welfare Institution, *Hukusikokka no Seihukankankei*  
(*Relation among Governments in Welfare States*), 1992, p.218.

costs that are decided by each Ministry. The former method is applied to public works like roads and harbors, the latter to public works of housing, day care centers for children and social welfare. In the case of the standard unit price method there are excessive burdens on local governments, especially municipalities.

The rate of grants in the department of social welfare was 80% before the reforms in 1985 and 1986, in which the rates of grant was lowered to 50%, as shown in table 4. This cut was one of the reasons that public child day care etc. was reduced.

Since the second half of 1980s, decentralization has been ongoing.

The first Council on Administrative Reforms, which succeeded the second Ad Hoc commission on Administrative Reforms, published a report on the way to enforce administrative reforms in 1985, in which transformation of some agency proxy administrations, which were mentioned above,

Table 5 Financing of local welfare expenditures

Prefecture										
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
national specific grants	36.0	36.1	35.8	34.9	34.6	29.8	25.4	25.2	24.7	25.1
general resources of revenue	53.8	53.4	53.3	54.4	54.9	59.4	64.7	65.1	65.9	65.2
local debts	1.6	1.5	1.8	1.6	1.1	1.4	0.8	0.6	0.6	0.6
others	8.6	9.0	9.1	9.1	9.4	9.4	9.1	9.1	8.8	9.1
Municipality										
national specific grants	43.8	43.1	43.1	39.2	39.2	34.5	30.5	29.4	28.3	27.9
prefecture grant	8.5	8.4	8.2	6.6	6.5	6.9	7.6	7.6	7.9	7.9
general resources of revenue	37.2	38.0	38.3	43.1	43.6	48.3	51.3	52.2	53.1	53.7
local debts	2.4	2.3	2.0	1.8	1.4	1.3	1.3	1.2	1.2	1.1
others	8.1	8.2	8.4	9.3	9.3	9.0	9.3	9.6	9.5	9.4

source : Social Welfare Institution, *Hukusikokka no Seihukankankei*  
(*Relation among Governments in Welfare States*), 1992, p.224.

to the local government's own administrations, which are not principally controlled by central government, and transfer of some central government administrations to local governments were written.

In 1987, 18 items of social welfare administrations were transferred from the agency proxy administration to local government administration, for example, short term admission of handicapped (prefecture), admission to homes for the aged (prefecture or municipality), and admission of children to child day care centers (municipality).

This reform was, however, accompanied by a grant cut, so that this did not always mean support of local self government. It can be said that the purpose of these reforms was an expenditure cut by the central government to local governments.

Table 5 shows changes in financial structure as a percentage of local welfare expenditures from 1980 to 1989. What can be noticed is, on the one hand, that national specific grants had been lowered from 36.0% to 25.1% in prefectures and from 43.8% to 27.9% in municipalities. Especially these

percentages fell sharply in 1985 and 1986 in both governments.

On the other hand, general resources of revenue, which involve tax revenues and general grants, had increased from 53.8% to 65.2% in prefectures and 37.2% to 53.7% in municipalities. Central government said that the cut in the specific grant was made up for by additional general grants and permission for additional local bond issues. Local bond issues as percentages of local welfare revenues, however, was decreased from 1980 to 1990 in both governments. Moreover, there is no research showing that additional general grants fully made up for the cut in specific grants.

#### 4. Changes in local welfare expenditure

Local welfare expenditures are divided mainly among four items, social welfare expenditure, old age welfare expenditure, child welfare expenditure, and public assistance. Changes in these items as a percentage of total local welfare expenditure are shown in table 6.

The public assistance occupied almost half of local welfare expenditure in 1965. This item, however, has decreased to 18.0% over 25 years. On the other hand old age welfare expenditure has increased from 8% in 1970 to 24.9% in 1990. This expenditure is expected to increase further in the near fu-

Table 6 Details of local welfare expenditures<sup>1)</sup>

	social welfare expenditure	old age welfare expenditure	child welfare expenditure	public assistance	disaster relief expenditure
1965	25.6	<sup>2)</sup>	25.5	48.3	0.6
1970	20.2	8.0	32.2	39.4	0.3
1975	19.4	18.7	35.2	26.5	0.2
1980	20.0	21.8	32.9	25.3	0.1
1985	21.9	20.7	30.9	26.4	0.1
1990	26.4	24.9	30.5	18.0	0.1

1) Net expenditures including both prefectures and municipalities

2) included in social welfare expenditure

source : Ministry Administration.

ture. Child welfare expenditure increased in the second half of the 1960s and in the 1970s. This expenditure, however, fell again in the 1980s. Social welfare expenditure was about 20% from 1970 to 1985, and increased to 26.4% in 1990.

## 5. Financing of special nursing homes for the aged

In this section I would like to clarify financing of special nursing homes for the aged. This home takes care of the aged who need usual nursing care because of special physical or mental handicaps.

To distinguish this home, however, the numbers of doctors, nurses and care workers, which have to be arranged, are compared between hospitals for the aged, the half way houses of health care for the aged, and the special nursing homes for the aged.

As shown in table 5, a full-time doctor need not be arranged in the special nursing home and only 3 nurses are needed there. Instead, 22 care workers are provided in a special nursing home for 100 persons. The number of nurses and care workers is fewer than in nursing homes in the U.S., where the number of nurses is 10.4 and the number of care workers is 29.8. As you can see, medical care is quite insufficient in these Japanese special nursing homes.

The number of special nursing homes, of which 265 are public ones and the remaining 2,138 are social welfare juridical persons which are private

Table 7 Arrangement of staffs in three institutions<sup>1)</sup> for the aged

	doctor	nurse	care worker
hospital for the aged	3	17	13
half way house of health care for the aged	1	7-10	15-18
special nursing home for aged	1 <sup>2)</sup>	3	22

1) institutions for 100 persons

2) full time doctor is not necessary

source : Ministry of Health and Welfare.

ones entrusted by municipalities, has increased from 152 in 1970 to 2,403 in 1991. The capacity of homes has also risen from 11,280 persons in 1970 to 171,267 persons in 1991. The capacity will be 240,000 persons in the year 2000 according to the Gold Plan.

Costs for one person for a month in a special nursing home are determined by the central government and it varies by area, capacity of home and year. This is called the expense for welfare placement (sochihi).

The expense for the welfare placement in 1991 was ¥216,570 in homes for 100 persons, of which ¥156,100 is personnel and management expenses and of which ¥60,470 is living costs like costs for food and drink and expenses for heat and light.

Part of these expenses are paid for by the aged him/herself and/or persons responsible for these dependent family members. 50% of the balance of these expenses is paid for by the central government and the same amount by local government.

In 1980 the standard of charges changed. Before the overhaul there was no charge to persons responsible for dependent family members if the aged themselves paid their charges no matter how little the amounts were. Since then persons responsible for dependent family members have had responsibility to pay charges, if charges to the aged themselves are below the cost of the welfare placement.

Before the reform, charges of the aged themselves were determined on the base of income tax and municipal income tax, which they pay. The charges, however, came to depend on revenues which deduct taxes, social insurance charges, medical expenses, etc. from their full income including pension benefits after that.

In 1980 the maximum charge to the aged themselves was ¥30,000. It has increased to ¥220,000 in the period from July 1992 to June 1993. There are 39 classes of charges.

Charges to persons responsible for dependent family members depend on the amount of municipal income tax which these persons paid in the previous year. The maximum charge is the full amount of the expense for welfare placement. There are 18 classes of charges.

Before the overhaul there was a principle that welfare costs must be paid according to the tax paid by people who pay welfare costs and therefore there is no welfare cost without tax. As a result of the overhaul in 1980, this principle has been ruined and now many people who do not pay taxes have to pay the costs.

In 1986 the definition of the person responsible for dependent family members was broadened. The definition before the overhaul was a person who lived with an aged or a person who sends living costs to the aged. This definition has broadened to include his/her spouse or his/her child who live in the same municipality.

There are three main problems in these overhauls. The first problem is that not only the aged themselves but also persons responsible for dependent family members are obliged to pay high costs. Costs have been raised on the one hand, and state grants have been cut, which we mentioned above, on the other hand.

The second problem is that broadening the definition of persons responsible for dependent family members is not rational because it is unusual for all children to live in the same municipality. A child who happens to live in the same municipality as his/her parents may have to pay charges, though other children who live in other municipalities need not pay.

The third problem is that two reforms had a bad effect on family relations. The parents' hope not to want to be taken care of by their children may be trampled.

I would like to give an example related to charges in a special nursing home. This home, located in the north part of Japan, is called Keiai home.

Table 8 Charges of a special nursing home<sup>1)</sup>

	1981	1984	1987
The aged themselves			
persons who paid (persons)	22	25	44
sum of charges (yen per month)	128,100	274,200	958,100
average charge (yen per month)	5,823	10,968	21,775
maximum charge (yen per month)	30,000	43,600	120,000
minimum charge (yen per month)	100	1,000	1,000
persons who did not pay (persons)	28	25	6
persons responsible for dependent family members			
persons who paid	—	21	27
sum of charge	—	242,600	529,200
average charge	—	11,552	19,600
maximum charge	—	50,500	102,900
minimum charge	—	4,200	4,500
persons who did not pay	—	29	23

1) An example of Keiaien in Iwate prefecture

source : T.Naruse, S.Ozawa, H.Takeda, T.Yamamoto, *Hukusikaikaku to Hukusihojokin (Welfare Reforms and Welfare Grants)*, 1989, p.64.

50 people lived in this home in 1981, 22 of whom paid costs. The sum of costs to 22 persons was ¥128,100 per month. An average charge per person was ¥5,823. 28 people did not pay any charges. The maximum charge paid by one of them was ¥30,000 and the minimum charge was ¥100.

In 1987 50 people lived in this home, the same as in 1981. The number of people who paid charges, however, was 44, double that in 1981. The sum of charges for 44 people was ¥958,100 per month. The average charge on a person had grown to ¥21,775, almost four times as much as in 1981. Only six people did not pay any charge. The maximum charge became ¥120,000 (four times as much as in 1981) and the minimum charge ¥1,000.

There was nobody responsible for dependent family members who paid charges in 1981. The number of such persons who paid charges was, however, 27 in 1987. The sum of charges to 27 persons was ¥529,200. An average charge was ¥19,600. 23 persons did not pay any charges. The

maximum charge was ¥102,900 and the minimum charge ¥4,500.

There are 244 private fee-charging homes for the aged, in which 24,276 persons 60 years or older were living on July 1, 1992. These homes are not considered welfare institutions officially and are only allowed to provide services for daily lives such as meals for the elderly. There are no subsidies to them so that the only charges, which elderly people there, pay are a full revenue.

These homes are of four types. Good health is a prerequisite to move into the most common type of the home (more than 60% of all homes). Nursing care, however, can be taken when it becomes necessary for him/her after moving in this type. Almost 20% of homes contain both healthy persons and persons in need of care. In about 10% of homes there are only people in need of care. The rest have a prerequisite that all tenants do not need care in homes. In the last type, tenants have to move out if they need any care.

Tenants have to pay almost ¥20-30 million when they move into a home, and ¥90,000-160,000 every month as management expenses and food expenses.

In the future old persons who move into institutions may be divided into three classes. The first class can pay ¥130,000-150,000 every month so that they move into private fee-charging homes which supply nursing care. The second class of people, who can pay about ¥50,000 a month may move into a half way house of health care for the aged which is also privately owned and managed. Only the last class of people who cannot pay ¥50,000 a month may move into the special nursing homes for the aged.

## 6. Conclusion

What was made clear in this paper is summarized below.

(1) Japan is an investment state rather than a welfare state.

(2) Although welfare expenditures jumped up as a result of welfare reforms in the 1970s, these have been restricted since the 1980s on the grounds of the notion of a Japanese type of welfare society.

(3) Many agency proxy administrations of the central government and many national specific grants make Japanese administrations centralized. In the 1980s and the 1990s there is a trend in which administrations are, to some extent, decentralized. This trend, however, is accompanied by grants cuts which raised general sources of revenue in local welfare expenditures and individual welfare burdens.

(4) Old age welfare expenditures as a percentage of local welfare expenditure have increased since 1970 except in the first half of the 1980s.

(5) In an imminent aging society, the Japanese government made the so-called Gold Plan, which improved both community care and institutional care. The goal of this plan, which will be achieved in 2000, is not sufficient for elderly.

(6) In special nursing homes for the aged, not only elderly themselves but also people responsible for dependent family members have to pay high charges now. In this point a feature of the Japanese type of Welfare Society reveals itself.

#### Endnotes

1. This paper was presented at the 3rd International Conference for Comparative Studies on Social Welfare, on August 1-4, 1993, at Patzcuaro, Mexico.
2. *Report on Japanese Taxation by the Shoup Mission*, 1949, volume III, p.A6.