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Cover Photo

Lower House Welfare Committee Chairman EGUCHI Kazuo surrounded by opposition party members attempting to prevent the adoption of the ruling coalition's controversial pension reform bill, November 27, 1999. Compliments of the Mainichi Shimbun.

Back Cover Photo

Homeless men queuing in a Kawasaki City park to apply for a place in a shelter over the New Year period, December 29, 1994. Compliments of the Mainichi Shimbun.

Editorial Notes

Personal Names

All personal names are given in the customary order in the native language of the person unless otherwise requested. Hence in Japanese names, the family name is given first, e.g. KOIZUMI Jun'ichiro, and in Western names the family name is given second, e.g. Richard GERE.

Romanization

Due to software limitations circumflexes are used in place of macrons, and omitted in most personal and place names.

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"The excessive expectations raised by Prime Minister KOIZUMI's promises of reform," as one of our writers describes the wave of political optimism unleashed in Japan since the LDP leadership elections earlier this year, at least reflect the nation-wide hope that an end to Japan's prolonged economic recession may finally be just over the horizon. As the articles in this issue of *Social Science Japan* show, however, economic recovery alone will not be a panacea for the many social problems that have surfaced in recent years. Meeting the economic and social challenges posed by the projected "top-heavy" demographic shift, for example, will likely require far-reaching reform and the rethinking of ingrained social stereotypes. This is not to say that the outlook is uniformly bleak, however, as the articles also attest to much in the way of positive change being witnessed in the areas of nursing care, homelessness, and local government administration. Nevertheless, the reforms of KOIZUMI's "ceaseless reform Cabinet," while claiming to "leave no sacred area exempt" (*seiiki nashi*) maintain a stubborn opacity, and it remains to be seen if the Japanese government is up to the task of pursuing the reforms demanded by a society already on the move.

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Dispensing with the "Male Breadwinner" Model for Social Policy

OSAWA Mari

Japanese society entered the 21st century caught in a vicious circle of recession, anxiety, and avoidance of responsibility. The excessive expectations raised by Prime Minister KOIZUMI Junichiro's promises of reform can be understood, therefore, as an inversion of the country's impatience with a government that could not be trusted to lead Japan out of this cycle.

The President of Nikkeiren (the Japan Federation of Employer's Associations), OKUDA Hiroshi, Chairman of the Board of Toyota, while on the one hand finding the cause of the economic slump in a decrease of individual consumption brought on by uncertainty regarding employment and life after retirement, that is, in excessive saving, nevertheless severely restricted wage hikes at the 2001 spring offensive. Was it not employers who, in the first instance rushed to avoid extra personnel costs in their preparations for globalisation (by, for example, introducing international accounting standards)? In line with the employment restructuring of middle-aged and elderly workers, there has been a growing trend towards employers avoiding payment of public welfare liabilities such as the social insurance fee, and women in particular have suffered from the consequent and significant increase in irregular employment practice.

With the decrease in opportunities to find good jobs and with the deterioration of the employment situation in general, the government's social policy system, beginning with the existing social insurance, was exposed as undependable and anxiety among the public increased. Japanese social policy is firmly based on the corporate-centred "male breadwinner" model, to a degree surprising even when compared with other countries. This corporate-centred "male breadwinner" model, which is now literally a useless relic from the previous century, has caused many young women to view marriage and child-raising as a burden and has thus contributed to the declining birthrate. The choice of many young women to eschew this burden has led to a further darkening of the future prospects of pension funding and care services.

While it can be said that during the OBUCHI and MORI administrations the government prioritised economic recovery, their deregulation of employment did not improve the employment situation in the slightest. By putting off much-needed social security reform the government increased citizens' anxiety about their livelihoods and life after retirement. By putting off health insurance reform and repeatedly raising pension contributions and lowering benefits the nation's trust in its leaders was further damaged. Nursing insurance, then, which began to be discussed at the beginning of the 1990s and was legislated in 1997, could be said to be an exception to the



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"lost decade" as far as social security was concerned.

The articles in this edition of *Social Science Japan* covering pension reform each propose dispensing with the "male breadwinner" model, but their approaches to the issue differ. YASHIRO Naohiro's market-based approach is, in fact, the same as that espoused by the KOIZUMI reforms and, while KIMURA Yoko takes a similar position, JINNO Naohiko holds that a solidarity-based approach will help re-instil public confidence in the pension system. In the recent elections for the House of Councillors, although the Liberal Democratic Party under KOIZUMI achieved a clear victory, they did so without revealing the particulars of its plan for reform and, therefore, cannot be said to have fully regained the nation's trust.

The articles on nursing care insurance, as well as each appraising the existing system, all suggest measures for its improvement. Directly after the legislation, nursing care insurance, which was described as the government's trump card for economic recovery with which it would alleviate concerns about life after retirement, was greatly tampered with by ruling party politicians during the year prior to its implementation in April 2000. Arbitrary reductions in charges and limits on services according to family circumstances were announced, leaving the scheme, the main purpose of which as a social insurance system should have been to clarify the relationship between benefits and charges, in a mess. Moreover, while these changes were being forced through, there was no attempt to hide evident hostility towards the concept of "society as a whole supporting care." KAMEI Shizuka, then Chairman of the Policy Research Council, who played a leading role in the changes, even publicly stated that nursing care insurance would cause the loss of the "admirable custom of children caring for their parents." Those who had maintained this "admirable custom" with neither any choice in the matter nor any reward were, of course, women, and nursing care insurance thus represents one step in leaving behind the "male breadwinner" model for social policy.

In order to turn public anxiety into confidence, and even to get to grips with the issues at hand, a pressing business for the government is to restore trust in social security. The key to this is surely a radical restructuring of the corporate-centred "male breadwinner" model. □

On Nursing Care Insurance

Social Security



HIGUCHI Keiko

The 1990s have been described by many now as a 'lost decade' for Japan. Nevertheless, if looked at from a different angle, they can be seen to have been ten years during which the foundation was built for the construction of a civil society in the 21st century, a civil society distinguished by the right to self-determination, choice, participation in policy-making and equal partnership. Below, I comment on the nursing care insurance scheme from the perspectives of citizen's participation and gender equality.

The nursing care insurance scheme, as well as adding impetus to the decentralisation of government power and the increase of local autonomy, has triggered the growth of opportunities for citizen's participation. The implementation of the scheme has, as it were, invigorated a great many local government workers with new optimism, and brought about the training of specialised workers necessary to the scheme's administration. New posts have been created and in most local governments an elite has been recruited to fill them. Nursing care insurance has promoted supra-partisan gatherings of local government heads and stimulated information exchange and policy research among local welfare units. Among citizens, independent surveys of day carers have been carried out and the activities of NGOs (in supervisory capacities) and NPOs (in terms of participation in service provision) are on the increase.

Article 117 paragraph 5 of the Nursing Care Insurance Law (*kaigo hoken hō*) stipulates "consideration of the views of the insured" and in the guidelines provided by the then-Ministry of Health and Welfare, questionnaire surveys and "committees with public participation" are given as examples of ways to incorporate citizens' opinions. Is this not the first time that a ministerial ordinance has included the phrase "public participation"? In fact, a year after the scheme's implementation "committees with public participation" make up only about 30% of these committees, but there is no mistaking the reality that nursing care insurance has brought about a significant improvement in the disclosure of information by the bureaucracy, and a marked increase in citizen's participation in local government.

From the perspective of gender, care has undeniably been a women's issue from the outset. Throughout the 1970s and 1980s, a high rate of inter-generational cohabitation was equated with society's ability to care for the elderly. The 1978 public welfare white paper even declared the high cohabitation rate to be "one of the hidden assets of our country's welfare budget." Although the existence of bedridden elderly and those suffering from senile dementia was already officially recognised, it was taken as read that looking after them was the duty of the woman of the household. As the number of elderly requiring care rose in line with Japanese society's ageing, in order to encourage the practise of at-home care, families that cared for their elderly members were widely commended and rewarded throughout the country. In actual fact, however, it was not "families" that were doing the caring but almost always the woman of the household. With the



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increasingly long-term nature and severity of care required, and with the ageing of the carers themselves the situation came to be known as "care hell" (*kaigo jigoku*). HASHIMOTO Ryutaro, Prime Minister at the time the Diet decided to introduce nursing care insurance, recognised that "in the past Japan has lumped the responsibility for care on the shoulders of our women" and described the rationale behind nursing care insurance to be the provision of society-wide mutual support.

Prior to the introduction of nursing care insurance, there were many who called persistently for the establishment of a system of cash subsidies for carers; however, having considered the position and role of women in Japanese families, women's groups opposed such proposals. Had the proposed cash subsidies been realised, it would surely have slammed the brakes on efforts to ensure that local governments provided a full range of care services.

Nursing care insurance has enabled families and especially women to use external care services with a clear conscience, playing a major role in removing previously existing social barriers. Since being institutionalised as a public system, care, even speaking of which was previously taboo, is now a topic of daily conversation in the family and the neighbourhood.

What is more, nursing care insurance has played a significant part in promoting the participation of women in local government. After the scheme was introduced in 2000, the percentage of women in local assemblies reached a historical high of 6.4%. While 40% of assemblies are still without any women, the appointment of women to nursing care insurance project planning committees is at a level far beyond that in any other field. For example, in September 2000, 65% of such committees in the 120 local authorities in Nagano Prefecture consisted of over 30% women. There have also been a number of women elected to local assemblies on the basis of their activities in the field of care, and the existence of such women assembly members further opens the window of information disclosure to local residents.

The issue of most concern as regards nursing care insurance from the perspective of gender is surely the fact that the scheme's introduction has not led to an increase in stable specialist jobs for women but has, rather, tended to promote irregular civilian employment. There is a need for the formulation of policy that puts a halt to the slide towards unstable low-wage jobs for women while allowing for civilian participation in the provision of care services and fostering a competitive environment. If care has simply been removed from the responsibilities of the "daughter-in-law" and put in the hands of an under-paid "daughter of society" - a transition from one woman to another - this will do little to improve the lot of either the carer or the cared for. This is an issue that, if unresolved, could well lead to the economic poverty of the 20% of the population who by the middle of the 21st century will be elderly women.

□

On Nursing Care Insurance

Social Security



TOCHIMOTO Ichisaburo

The main goals of the nursing care insurance system have been described as promoting at-home care, supporting independence, and releasing women from being forced to stay at home and care for elderly family members. It was these goals that were emphasised by the then-Ministry of Health and Welfare, by members of the advisory panel to the government on the nursing care insurance system, and by academics, critics and journalists as the rationale behind the system's introduction. Also stressed were the alignment of health care with health and welfare, and the correction of imbalances in the financial burden on users of health care and social welfare services. These are certainly entirely appropriate goals for the reform of elderly care. An evaluation of nursing care insurance, then, must verify the extent to which these goals have been realised. For all except that of "releasing women," insofar as a foundation is being formed for future results through the definition of an operational framework, a certain amount of progress has been achieved. As for the plight of women, there has merely been an alleviation, which represents insufficient progress.

The next area that merits evaluation is that of costs and financing. The nursing care insurance system was not introduced with the aim of resolving problems in the existing care program alone. A further goal was to reform the financial structure of social security, and alleviate the state's financial burden in a society with between 20-30% of its citizens over the age of 65. This goal was apparently based on the concept of "intergenerational solidarity", whereby the costs of elderly care would be shared among the generations. To put it another way, this amounts to finding a new supply of resources for elderly care. As it turned out, the insurance premium is paid by all between the ages of 40 and 65 as secondary insurants, and the elderly themselves, that is, all over the age of 65, as primary insurants. In effect, therefore, this system imposes a financial burden on those who have hitherto been known, in the realm of social welfare, as "the elderly, whom in our country have been assumed to be socially disadvantaged." This change is based on the understanding that if one considers their financial assets, the elderly cannot be uniformly designated as economically disadvantaged. Thus, in a society with an increasing proportion of elderly members, nursing care is now paid for by the party concerned, by the elderly themselves. The nursing care insurance system represents a break, therefore, with not only the pension insurance and elderly medical-care systems where the younger generations pay and the elderly benefit, but also with prior systems of social security financing in general. It may seem a minor point, but in this respect the nursing care insurance system deviates from preceding structural norms.

Moreover, when considered from the perspective of the government administration of health and welfare, the introduction of the nursing care



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insurance system had a political goal that goes beyond its *raison d'être* as espoused by the critics and advisory body members described above, and far beyond the resolution of practical issues of care administration. Nursing care insurance was adopted as national public policy - public policy based on *realpolitik* - in order to settle the long-pending question of the reform and dismantling of the existing medical and social welfare apparatus. On the medical side the political goals include: restoring fiscal health to a health insurance system that, for the most part, caters to the health care of the elderly; correcting the structural debt in the national health insurance system; and reducing the number of hospital beds, thereby redistributing social security outlays between "pensions", "medicine" and "welfare and other" from the current ratio of 5:4:1 to 5:3:2. With the main goal being, therefore, the suppression of national health costs, this is an aspect of the reform that will have a negative impact on those who have vested interests in the existing system.

As for the reform of social welfare, elderly welfare, which formerly relied on government funding, is now also covered by social insurance premium payments and individual usage fees. It can be said, then, that the fiscal burden for welfare has been somewhat reduced (however short-term these reductions may be). If social welfare were to be financed by taxes alone, this would impose a huge fiscal burden on the Ministry of Finance and preclude the increase and development of services on financial grounds. Thus, a system was introduced whereby services are supplied according to a social insurance system where supply meets demand. Increasing the number and range of services will be achieved by deregulation and privatisation. One of the political goals behind the establishment of the nursing care insurance scheme, then, was to marketise welfare by changing the structure of the existing social welfare system, and this is an aspect of the issue of which the commission members and critics mentioned above are not aware.

The introduction of nursing care insurance has not only greatly altered the structure of the social welfare system, but has also externally forced the reform of the social welfare implementation system, which had essentially remained unchanged since the war. In fact, it brought about last year's revision of the Social Welfare Occupation Law. Furthermore, the government is now planning the deregulation of social welfare in terms of the privatisation of welfare services and removing the entry restrictions on profit-making enterprises. The development of a competitive environment has come to cause both a radical overhaul of a social welfare industry that currently employs 1.1 million, and the modernisation of its management and administration. One might go so far as to say that the introduction of the nursing care insurance scheme has rocked Japan's social welfare system to the very foundations.

□

On Nursing Care Insurance

Social Security



YOKOYAMA Jun'ichi

A year and three months have passed since the nursing care insurance program was put into operation and, in the meantime, it has become clear that a great number of issues remain unresolved. For one thing, there would appear to be a striking gap between the concept on which the insurance scheme was devised, encapsulated in the slogan "towards a caring society" (*kaigo no shakai-ka*), and the actual operation of the nursing care insurance system. Further, from the very beginning the elderly and their families were not satisfied with the scheme, which dissatisfaction has spread to bureaucratic administrators and welfare workers.

The first problem is the increase in the insurance premium that the elderly pay, and differences in that premium between local governments. Second is the fact that many in the lower income bracket are refraining from using the services on offer because the charge for using the service puts a strain on their finances. Thirdly, elderly people who were receiving care from before the nursing care insurance scheme was implemented have been categorised as "independent" when assessed as to their need for care, and at-home care has been discontinued or they have been obliged to leave care homes. Fourth, the approval process lacks objectivity and fairness. Fifth is the issue of the care plans. Care plans are being drawn up that force unnecessary services on the users and do not incorporate the services that they desire. There have even been cases where when care managers have drawn up at-home care plans, they have boxed the user in by obliging them to use only services from the institution to which the care manager is affiliated. Sixth, since the nursing care insurance program was put into operation, the labour conditions of the home-helpers in particular have deteriorated. Most of the home-helpers are registered as piecework workers and their wages are low. As a result, some companies seeking to recruit home-helpers have received not a single application for work. Furthermore, labour-management conflict in special nursing homes for the elderly is on the increase.

These issues demand immediate measures to improve the nursing care system. Elderly people living at home on social welfare should be exempted from the insurance premium, and the service usage charge should be reduced for those in the lower income bracket. Efforts should be made to prevent the need for nursing and to support the daily life of the elderly. The level at which nursing is required should be changed from the current fifth level to the third level. It should be made obligatory that care plans be submitted to the local authorities, who should work towards inspecting and improving the plans. The financial rewards of nursing care need to be raised, such that measures can be devised to improve the pay of the home-helpers.



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However, in order to make substantial progress "towards a caring society," it is necessary to propose that the nursing care insurance system be replaced with a new public nursing care guarantee system. It is necessary to make such radical changes as abolishing the insurance method and adopting a taxation method; abolishing the system of approving the need for nursing care; delineating care managers' authority and responsibility; and establishing graded usage charges based on level of income or assets.

Dealing effectively with increased numbers of elderly in coming years and increasing the amount of nursing care services (which even now fall short of what is needed) will greatly increase the overall costs of nursing care. Consequently, insurance premiums for the elderly will increase yet further. There are those who propose that in order to avoid this the insurance premium should be collected from the age of twenty, but this would likely meet with opposition from younger generations. Moreover, from now on the business of preventing the need for nursing must be given due consideration, but this has nothing to do with insurance. I propose, therefore, levying a nursing care special purposes tax from income tax, corporate tax and consumption tax. At first, the special purposes tax would be distributed to the local governments in accordance with their projected costs, but after a few years it would be switched to a comprehensive subsidy. This would be with the intention of devolving power to the regions once some kind of national standard for nursing care allocation had been agreed upon. As a second best policy, in line with the strengthening of regional autonomy *vis-à-vis* resources in recent years, an alternative would be a regional welfare tax (a nursing care special purposes tax taken from regional consumption tax).

Abolishing the system of approving the need for nursing care would do away with the need for review visits. Instead, the experts - care managers and doctors - would meet the elderly and their families on a regular basis and, within the limits of their authority and responsibility, design a care plan most suitable to the elderly person in question. Care managers should all be employed by the local government, and raising the standards of care management would require a much improved education system. To become qualified as a care manager, one should be required, on top of having relevant working experience, to have studied both medicine/nursing and welfare.

Charging for usage is unavoidable; however, I would propose a means tested charge system that takes into consideration the plight of the elderly in the lower income bracket.



On Reforming the Pension System

Social Security



JINNO Naohiko

Japan's pension system is suffering the after-effects of what might be described as its original sin. This is because the pension system was implemented under a policy that also assigned the role of investment capital for the promotion of economic growth to a pension fund that, as a measure of social solidarity, was for the purpose of supporting the livelihood of the retired generation.

For this reason, Japan's pension system is a funding system that obliges an individual to save in order to support him/herself post-retirement. That is to say, it is a system whereby the money an individual saves becomes investment capital, thereby raising investment levels, so that the individual's livelihood is supported by the future production boosted by that investment.

However, when the whistle is blown on the high-speed growth of Japan's economy, this investment-based funding system has the opposite effect, causing fiscal failure. This is because if actual economic growth is well below assumed economic growth and society has aged more than according to the hypothesised demographic composition, pension financing by means of the funding system will collapse.

In order to avoid such a collapse, there is no option but to decrease the level of benefits and increase premium levels. Other than that the only option would be to compensate for the shortfall using fiscal reserves. In practise, these three measures have been repeatedly implemented one after the other.

For this reason, Japan's public pension system is currently a "two-storey building" consisting of a basic pension and an income-related pension. Nevertheless, even in this system pension financing is vulnerable to unexpectedly low economic growth and rapid ageing. For effective reform, therefore, I would propose that the basic part of the pension be covered by a value-added tax, and that the income-related pension be privatised.

However, we must not forget the origins of social security in that the system of social security funds arose from the according of legal force to voluntary co-operation on the "factory floor" in the form of benefit activities among labour unions and friendship unions. Indeed, in both France and Germany, a social security fund representative is voted for in elections. Thus the purpose of the social security fund is to provide, by means of voluntary co-operation on the "factory floor," cash as a substitute for wages in the event that wages are lost for a just reason.

If we look at it this way, a pension can also be seen as a co-operative fund that guarantees a substitute income for wages that have been lost for a just



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reason, in this case, superannuation. That is to say, the pension provided as a social security fund should be merged with the wage-related pension (or the corporate income-related pension for employers) that guarantees a fixed percentage of a wage, as shown in figure 1. The basic pension could then be abolished.

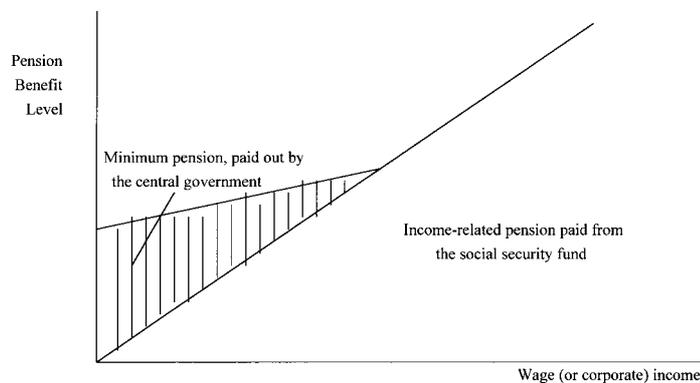


Fig. 1 *Income-related Pension and the Minimum Pension*

Of course, a pension based on voluntary co-operation on the "factory floor," being a co-operative system, should not merely be one of individual savings. The pension should be financed, therefore, not by a funding system, but by a pay-as-you-go system.

To explain the concrete arrangements for pension reform along these lines, a social security tax levied proportional to wage earnings (or corporate income) would be paid into the social security fund. The social security fund, based on the total amount of social security taxes paid by the nation, would provide an earnings-related pension in the following way:

$$\begin{aligned} \text{Annual pension benefit} = & \\ & \{(\text{total amount of paid social security taxes}) \\ & \times (1 + \text{average rate of earnings increase for one person in the workforce}) \\ & \div (\text{average life expectancy} - \text{age at which pension was first drawn}) \} \end{aligned}$$

In this system, the level of benefits is linked to the rate of increase of the working generations' wages, which is dependent on the economic growth rate. That is to say, both the fruits and failures of economic growth will be shared between the working and retired generations.

The breakdown of Japan's pension financing can be found in the original sin of incorporating market principles into the system. The way to overcome the various problems is not to introduce market principles, but to introduce the principle of solidarity to the pension system. □

On Reforming the Pension System

Social Security



KIMURA Yoko

Japan's public pension system has the following features: firstly, the public pension is a "two-storey building." The first level consists of the national pension (the basic pension, or "*kiso nenkin*") to which all citizens between the ages of 20 and 60 subscribe, the aim of which, despite benefits being proportional to the contribution period, is to guarantee a minimum standard of living. The second level consists of a welfare pension subscribed to by the employed (in the case of civil servants, a mutual pension), which aims to guarantee the subscriber's average income before retirement. Secondly, contributors to the national pension fund are divided into three categories. The employed comprise category two, while those of their spouses who earn less than a certain amount (which applies to about 12 million full-time housewives and at least 40,000 at-home husbands) fall into the third category. Those in neither of these categories, for example, farmers, the self-employed, and the unemployed, are lumped together in the first category.

Thirdly, for those in category one, the national pension insurance premium is a fixed amount, the payment of which is voluntary. In category two, the premium (covering both national and welfare pensions) is taxed at the source in proportion to income, while those in category three are exempt from paying the national pension premium. Fourth, it is a fixed benefit-type pension. Fifth, the basic pension operates on a pay-as-you go system, and the welfare pension on a modified funding method. Sixth, the pension for the employed applies only to full-time, or regular, employees. Seventh, entitlement to a bereaved family pension is, at present, limited to women. That is to say, a widower is not entitled to a bereaved family basic pension and the conditions for his entitlement to a bereaved family welfare pension are extremely strict. This is a pension system that assumes a household in which the husband is employed full-time, the wife a full-time housewife and that husband and wife will not get divorced.

In an ageing society with a declining birthrate, however, this pension system is beginning to encounter the following problems: firstly, there is the issue of inter-generational inequity. This is a particularly serious problem in Japan, whose society has aged at the fastest rate in known history. Second is inequity within a generation. In present-day Japan, half of married women work, singles are on the increase, and 20% of all divorces are by couples who have been married for more than twenty years. Moreover, the proportion of non-full-time, or irregular, workers in the labour force is increasing by the year, and the majority of these are women. Despite the serious concern of an insufficient future labour force due to the declining birthrate, the government continues to limit the potential supply of labour by ensuring preferential treatment (exemption from paying the national pension premium) to "full-time housewives" whose husbands earn good salaries. This is a serious problem.



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Thirdly, several million of those in the first category are not paying their national pension premiums, causing a hollowing out of the system. At the same time, the increase of part-time workers means that there is an ageing of contributors to the welfare pension that is developing more rapidly than the ageing of the general population, both of which factors are detrimental to the system.

With these issues in mind, how should Japan's public pension system be reformed? To maintain it as a system to which all are entitled whilst rectifying the inter-generational inequity, the following changes should be made to the structure of the public pension. The first level, the basic pension, should be provided for by the introduction of a consumption tax as a special purpose tax. The second level should consist of a defined contribution plan pension system with each individual having their own pension account, as is the case in Sweden. Everyone with an annual income over a certain level, for example, 600,000yen, should be able to join the defined contribution plans pension, enabling part-time workers to join. At the same time, it would do away with the classification of "full-time housewife" and with the bereaved family pension.

This does not mean to say that the benefit levels of public and corporate pensions would increase thereafter. In such a system, the most important step would be to establish a system of tax breaks on elderly persons' savings such that, regardless of whether or not they were employed, type of work, or gender, an individual would be able to access a fixed amount (for example, 50 million yen) from their public pension, corporate pension or individual savings tax free. It is necessary to establish complementary institutions to support the elderly in their retirement plans.



On Reforming the Pension System

Social Security



YASHIRO Naohiro

Japan's public pension system is revised every five years. The next revision is scheduled for 2004 and, in view of Japan's aging population, should include substantial changes. The basic framework of the current system was formed in 1973 towards the end of the high growth era, at a time when demographic conditions suited such a scheme. However, economic and social conditions began to change shortly thereafter with, for example, the birthrate declining from 2.1 children per family in the 1960-70s to 1.35 in 2000. As a result, Japan's population is predicted to decline from a peak of 128 million in 2007 to 100 million by 2050. Moreover, average life expectancy has reached 77 years for males and 84 years for females; the highest level in the world. The declining birthrate and increasing longevity will push up the ratio of Japan's elderly population (age 65 and above) from 17% in 2000 to 27% in 2025. This high rate of population ageing is a major issue facing public pension reform.

Japan's pension scheme was originally established as a funding scheme, but this principle has gradually deteriorated as necessary adjustments to changing demographic conditions have not been made. As a result, although the pension scheme would appear to be based on a funding scheme, in practice it has become a de facto pay-as-you-go scheme, albeit with substantial reserves (equivalent to 4.2 times the pension payouts of 1997). These reserves, however, fall short of projected future entitlements by 530 trillion yen (a sum roughly equivalent to Japan's GDP). Though the funding system is often said to be vulnerable to the risk of inflation, the pay-as-you-go system is vulnerable to demographic shifts. Indeed, official demographic projections have been constantly over-optimistic by projecting an automatic recovery of the birthrate and putting a cap on longevity.

Based on the current pension scheme, there are substantial intergenerational income transfers between the shrinking younger generations and the present generation of pensioners; those born in 1930 receive benefits worth five times their life-time contributions, and even those of the baby-boom generation born in 1950 are entitled to 50% more benefits. Such inequality between benefits and contributions in the public pension scheme, arising from the projected shrinking population, is not only unfair, but is also a major threat to the sustainability of the scheme. Moreover, this inequality between generations will increase with the declining birthrate and thus a major challenge for pension reform is to make the pension scheme resilient to demographic shifts.

In order to ensure the sustainability of the pension scheme, the first priority is to improve the ratio of contributors to beneficiaries by stimulating the labor force participation of women and the elderly. The labor market participation



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ratio for women (50%) is low by international standards, and there are many wishing to work between the ages of 25 to 40 who could be added to the workforce, given a sufficient supply of child care services. Elderly persons' participation in the labor market has traditionally been high, and unlike many European countries, there is no trend towards early retirement in Japan. However, the current pension scheme does not reflect this state of affairs. The former pension eligibility age, at age 60, was very low in view of Japan having the world's highest life expectancy. Measures to raise it were only begun in 2001 and it will take 12 years to raise it to 65 (the current average of the OECD countries). Also, the age rise only applies to the basic part of the pension, while for the earnings-related portion the eligibility age remains at 60. This adjustment is insufficient in view of the fact that over the last 20 years the average life expectancy of a 65-year-old has increased by five years.

The second priority is to reduce the benefits, rather than increasing the contributions, in order to restore fiscal balance. The current benefit level is set high enough to cover the average living expenses of an elderly couple with the husband's pension alone. The current average level of pension benefits is 42% of average annual earnings in Japan, compared with 35% in France, 31% in the US, 29% in Germany, and 25% in the U.K. The government has already reduced future increases in benefit by 20% by eliminating wage indexation, but an additional reduction of 12.5% could be realized by extending the standard maturity term from the current 40 years to 45 years. Elderly couples will be able to maintain their living standards by combining the pension benefits of both parties. Alternatively, what could be changed is the standard model of a family from a one- to a two-earner household.

The third priority is the privatization of the public pension scheme, or at least the earnings-related portion. In a funding scheme, the principle of the higher the contribution, the larger the benefit works well, but in a pay-as-you-go system, this principle implies that the rich will receive even more in the way of income transfers from younger generations. Further, the funding scheme's sizeable reserves are not necessarily managed efficiently, and may lose out through the financing of unprofitable businesses. Though returns are assured, the balance must be financed by general revenue, increasing the burden on contributors. In both cases, the current level of benefits and compulsory contributions could be reduced by replacing the system with a system of voluntary savings in the market.

To sum up, the current public pension scheme needs to be reformed in line with the rapid ageing and shrinking of Japan's population in order to reduce the increasing burden on future generations, and it is the reduction of this burden that is the key to sustaining the public pension scheme. □

Homelessness: a Slowly Dawning Recognition

Tom GILL

Everyone agrees that homelessness is a problem in Japan today. Nevertheless, there is no consensus on such fundamental issues as how many people are homeless, whether or to what degree their numbers are rising, or even what constitutes homelessness. There is a similar lack of consensus as to the processes by which people become homeless and how one might go about addressing the problem. This is one area of welfare policy that is still in its infancy.

Until quite recently, there was no official central government policy on homelessness. In theory, no-one could become homeless and destitute in Japan because every citizen was either (1) a person capable of self-support or a dependent of such a person; or (2) not capable of self-support, in which case one was eligible for social welfare payments (*seikatsu hogo*, sometimes literally translated as 'livelihood protection'), under article 25 of the Constitution, which guarantees a 'minimum standard of civilized living for every citizen.' In fact this logic has never really worked, because most local authorities refuse many welfare applications. There are two principle reasons for rejecting welfare applications: (a) the applicant has no fixed address; (b) the applicant cannot demonstrate that they are too old, ill or injured to work. These conditions have been established by bureaucratic fiat, not law. At the same time, some people (whose numbers cannot even be guessed at) decline to apply for welfare out of pride, ignorance, fear of the bureaucracy, and so on.

People caught in this poverty trap - unable to support themselves but outside the welfare system - constitute most of today's homeless population. They survive by foraging for scraps, and on handouts from charities or local authorities. The latter is known as 'extra-legal assistance' (*hōgai engo*), meaning that local governments have no legal obligation to provide it. Unlike livelihood protection, which is mainly funded by central government, extra-legal assistance is entirely funded by local authorities. There has been wide variation in how each city has dealt with the problem and policy-making has been at best patchy and ad hoc. Today the central government is only just beginning to get started on a nationwide response to homelessness.

Counting heads

One of the first steps to formulating a homeless policy is to get a grasp of the numbers involved. In October 1999, the Ministry of Health and Welfare released the first ever national survey of homelessness. It generated a headline figure of 20,451 homeless people across Japan, of whom 17,174 were in the five major cities of Tokyo, Yokohama, Kawasaki, Nagoya and Osaka. Eight other large cities accounted for 1,452 people, 23 prefectural



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capitals for a further 706, and 74 smaller towns for a total of 1,119. These figures should be viewed as the absolute minimum when estimating Japan's homeless population. This was not a comprehensive, nationwide survey. Surveys were carried out by different groups - usually NPOs commissioned by local authorities - using different methods and surveying at different times of year. The marked concentration in the five major cities partly reflects a tendency for homeless people to gather in urban centers, where there may be safety in numbers and better access to services. But it also reflects the fact that homeless people in these places are simply easier to count. The question of how many homeless people there may be living in rural or suburban areas, alone or in small groups, is unfathomable.

The figures, moreover, contained some clear anomalies; for example, the fact that Sapporo was the only major city to count its homeless during the winter months when it is well known to have a much bigger homeless population in the summer. Even so, a general increase between 1998 and 1999 suggests that the problem may well be worsening across the nation. Apparently no government surveys were made in 2000, incredibly enough, but I understand from interviews with officials at the Ministry of Health, Labour and Welfare (MHLW), that a new nationwide survey is planned for FY2001.

Budgeting for homelessness

In FY2000, an item for anti-homelessness measures was included in the national budget for the first time. The amount was modest: 972 million yen, rising to 1,080 million yen in the FY2001 budget. The FY2001 allocation covers two main items: 'Strengthening projects for the support of homeless people's independence' (790 million yen) and 'establishing temporary shelters' (220 million yen). The former consists mainly of the costs of running four existing shelters and related medical, nutrition and employment services. The latter principally covers construction costs for two new shelters, one each in Tokyo and Osaka. When completed, there will be six government-run homeless shelters in Japan: three in Osaka (in Oyodo, Yodogawa and Nishinari wards; total capacity 280 people), two in Tokyo (in Shinjuku and Taito wards; 200); and one in Yokohama (Naka ward; 204).

The budget is operated by the MHLW, which was formed out of a merger between the Ministry of Labour and the Ministry of Health and Welfare in the central government reorganization of January 2001. The old ministerial divide still lingers on in the division of labor within the MHLW: the building and operating of shelters is handled by a staff of seven officials at the Regional Welfare Section of the Social Security Bureau (*Shakai Engo-kyoku Chi'iki Fukushi-ka*; ex-MHW), while employment programs for homeless people are operated by a staff of three at the Planning Section of the Elderly and Handicapped Persons Employment Countermeasures Department of



the Employment Stability Bureau (*Shokugyô Antei-kyoku Kôrei/Shôgaisha Koyô Taisaku-bu Kikaku-ka*; ex-MOL).

The latter has a budget of 89 million yen this year, up from 80 million yen last year, representing just under 10% of the total homeless budget. This modest funding pays the salaries of 17 employment counselors, who are based at government employment exchanges in big cities, from which they visit homeless shelters and attempt to find steady employment for those deemed capable of it. This scheme is still in its infancy, but MHLW statistics state that in the first year of operation - the year to April 2001, and bear in mind that the program did not get properly started until well into the year - these counselors dealt with 682 job-seeking homeless people, and succeeded in placing 388 of them in permanent employment and eight more in temporary employment. Most of the jobs are in unskilled occupations such as cleaning work and construction site security. The figures look good, although officials admit that follow-up studies will be needed to see how long these jobs last.

Turning now to the much larger operation of the Regional Welfare Section, as the name suggests this is a part of the ministry that chiefly supports regional initiatives. On November 13, 2000, the head of the Social Welfare Bureau sent out a directive (Social Welfare Directive 2500) to prefectural governors and mayors of major cities, encouraging them to build homeless shelters in those areas where there are 'substantial numbers' of homeless people - a number later defined as 200 or more. The MHLW provides subsidies for the construction and maintenance of these shelters designed to cover 50% of the costs. This approach effectively gives financial rewards to cities and prefectures that take positive steps to deal with homelessness.

The directive also specifies rules for the design and running of shelters, of which I will briefly summarise the most important:

1. No charge for use.
2. Clients can use the shelter for up to six months, or longer in exceptional circumstances. Repeat visits are not prohibited.
3. Clients are to get food, regular baths, enough money to buy underwear and other necessities; and should be given regular medical check-ups and medical treatment where necessary.
4. The will to work is to be nurtured in clients and job introductions supplied where possible.

One of the most important points is the question of who exactly gets to use the centers. The directive defines the target population as 'those among the homeless who have the will to work (*shûrô iyoku*) or the ability to work (*kadô*)



Homelessness: a Slowly Dawning Recognition *continued*

nôryoku). In this the ministry is following a long tradition, by no means unique to Japan, of seeking to differentiate between the worthy and unworthy poor. An internal document, drafted by the old MHW in May 1999 during the planning stage of the new homeless policy and subsequently modified, refines the concept somewhat, dividing the homeless into three categories:

Type 1 : 'People who have the will to work but no job.' Through counseling, temporary shelter and healthcare etc., they are to be found jobs and their independence thereby restored.

Type 2 : 'People who require medical or institutional support.' These people too will have their independence restored, but through welfare systems, including hospitals, old people's homes, and livelihood protection payments etc., rather than employment.

Type 3 : 'People who refuse to take part in society.' These people are to be given 'departure guidance' by the operators of institutions, which appears to mean putting them back on the street, where they are to be given counseling by patrolling welfare caseworkers, local public bodies and the police, who will also administer 'crime prevention guidance.' This is called 'promoting a social response.'

Clearly, the effectiveness of the new policy will depend largely on what proportion of homeless people is deemed to fall into each of those types, and whether local officials will be able to draw the line between differentiation and discrimination in applying the policy. □

For further information

This article was based mainly on interviews with MHLW officials TANAKA Daisaku and SATO Michio. For more on day labourers and homeless, see my book, *Men of Uncertainty* (New York: SUNY Press, 2001). Additional information on homelessness policy in Japanese may be found at these URLs:

http://www1.mhlw.go.jp/houdou/1203/h0308-1_16.html
(outline of government policy on homelessness, with brief international comparisons)

http://www1.mhlw.go.jp/houdou/1112/h1217-1_16.html (national survey data).

The MHLW homepage can be searched at
<http://www1.mhlw.go.jp/search/topj.html>.

The Institute-wide Joint Research Project: an Update

KIKKAWA Takeo

The current Institute-wide Joint Research Project at the Institute of Social Science, "The Lost Decade? Reappraising Contemporary Japan," which was launched last year, is now well underway.

The main subject of the research is Japanese society in the 1990s. The project's first task is to critically evaluate the conventional wisdom that the 1990s was a lost decade, during which Japan missed the opportunity for reform. The project aims, moreover, to empirically identify exactly what did, and what did not, take place in Japan during this decade. The research focuses on the 1990s based on the understanding that this period witnessed and brought to light a remarkable number of structural changes with long-term implications.

The project is distinguished by the following three features:

The first is its **interdisciplinary** aspect. This, of course, is demanded by the research topic, Japanese society in the 1990s, which requires solid and comprehensive analysis. To this end, the research incorporates the perspectives of a variety of academic disciplines, including economics, management, politics, law, and sociology.

The second is the project's **international** dimension. This dimension introduces the perspectives of correlation and comparison. Whilst on the one hand examining the mutual effects of changes in the international framework and trends within Japan, international comparisons will be drawn, and not only with developed countries. Countries and regions that will be comparatively analysed are Japan, America, the European Union, East Asia (including China) Latin America, and Russia and Eastern Europe.

The third is its **logical consistency**. The project aims to construct a new explanatory framework that will be able to integrate the positive evaluation of Japanese society from the oil shocks to the mid-1980s with negative post-bubble evaluations. In other words, building on the results of the Institute of Social Science's previous Institute-wide research projects "Contemporary Japanese Society" and "The Twentieth Century System" the project seeks to put the 1990s in their historical context by analysing the decade from the perspective of the entire twentieth century and in particular within the context of the period since the oil shocks.

In placing the 1990s in their historical context, "globalisation" is often cited as a relevant keyword. If one takes marketisation to be the core of globalisation, a question that needs to be addressed before all others is how those organisations (both corporate and governmental) and societal systems



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The Institute-wide Joint Research Project: an Update *continued*

that have traditionally placed restraints on the market have responded to globalisation. The current Joint Research Project is composed of nine complementary group projects, each of which will tackle this question:

1. Japanese Corporations in the 1990s (Chairs: KIKKAWA Takeo, KUDO Akira)
2. The Japanese Political Economy in Turmoil (Chairs: HIWATARI Nobuhiro, HIRASHIMA Kenji)
3. After the Cold War and Globalisation: Change in the Japanese International Political Economy (Chairs: HIWATARI Nobuhiro, HIRASHIMA Kenji)
4. The Japanese Economy in the 1990s and Macroeconomics (Chair: OTAKI Masayuki)
5. Personnel Management and Job Control of White-collar Workers in Large Firms in an Age of Rapid Transformation—Japan, US, and France (Chair: NAKAMURA Keisuke)
6. Globalization and Welfare States (Chairs: HARADA Sumitaka, KASE Kazutoshi)
7. Comparative Studies of Liberalization, Economic Crises, and Social Restructuring in Asia, Latin America, and Russia/Eastern Europe (Chairs: SUEHIRO Akira, KOMORIDA Akio)
8. Managing Development and Transition in a Globalising World (Chair: NAKAGAWA Junji)
9. The Chinese Economic System in Transition (Chair: TANAKA Nobuyuki)

With the above three features in mind, the research is being carried out with emphasis laid on the following three points:

Firstly, in view of the interdisciplinary nature of the research, the project aspires to the simultaneous pursuit of specialisation and integration. To put this another way, this means that whilst pursuing solid analysis grounded in the respective disciplines of the group projects, interdisciplinary research will be pursued as far as possible. During the academic years 1999 and 2000, the former was carried out by means of the group seminars for each of the group projects, and the latter through the Institute-wide project seminars and the monthly meetings of the project planning committee (1999) and the project steering committee (2000).

Secondly, in line with the international aspect of the research, the project incorporates actual international joint research. In 1999 and 2000, eight international conferences were held. Further, there are currently ten overseas research institutions and 65 overseas researchers co-operating in the research.

Thirdly, in order to ensure an ongoing and lively debate, which is indispensable to securing the logical consistency of the research, particular attention is being paid to keeping the research process open to public scrutiny. Since 1999, various measures have been devised to this end such as the construction of a homepage, and the publication of a newsletter (*Purojekuto Kenkyû News*), Discussion Papers, and the ISS Research Series (*TôkyôDaigaku Shakai Kagaku Kenkyûjo Kenkyû Shiri-zu*), as well as featuring the research in *Shakai Kagaku Kenkyû* (the Institute's Japanese-language academic journal).

Thus the current Institute-wide Joint Research Project, "The Lost Decade? Reappraising Contemporary Japan," is well underway and it is, moreover, possible to indicate two areas in which we anticipate results.

The first is a clarification of the actual state of globalisation. Concerning the nature of globalisation, we aim to shed light on both its material side (for example, the information and communications technology revolution) and its subjective side (its origins, adaptations and resistance to it). Moreover, as regards the origins of globalisation (when and why it started), its consequences, and its direction (towards a borderless world, convergence, or divergence?), we are confident of unearthing new findings.

The second is to verify the responses of 1990s Japan to long-term structural change. One could name the conclusion of the Cold War, the end of the Liberal Democratic Party's uninterrupted rule, the internationalisation of the economy, the stagnation of economic growth, an ageing society, and the transition to a less populated society as examples of long-term structural changes that occurred or came to light during the 1990s - phenomena that have had and will have a profound impact on Japanese society. Japan's response to these structural changes has been, in many cases, remarkably short-sighted. We anticipate that this research will bring the disparity between the long-term structural changes and the short-term responses into sharp relief. Overcoming this disparity is Japan's task for the 21st century. □

For further information

Please refer to the project website: <http://project.iss.u-tokyo.ac.jp/jp/>
(Japanese only).

ISS Contemporary Japan Group at the Institute of Social Science, University of Tokyo

The ISS Contemporary Japan Group serves as a forum for researchers on Japan to receive critical feedback on their work. Researchers visiting Tokyo are invited to contact one of the persons listed below if they would like to make a presentation. Meetings are open to everyone. Please contact Professor HIWATARI Nobuhiro (hiwatari@iss.u-tokyo.ac.jp), Professor ISHIDA Hiroshi (ishida@iss.u-tokyo.ac.jp), or MIURA Mari (miura@iss.u-tokyo.ac.jp) for more information.

The Consequences of Sticky Voting in Mixed Member Electoral Systems: The Implications for Party System Change in Japan

Leonard SCHOPPA and Karen COX
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Feb 15, 2000



In 1994 Japan adopted a "mixed" electoral system for its Lower House, and it has had a similar system in place in its Upper House since 1983. Under such "mixed" systems voters choose representatives simultaneously under both proportional representation (PR) and single member district plurality (SMDP) rules. It is widely accepted that SMDP rules tend to winnow competition down toward two large parties, and evidence suggests a similar effect under mixed systems. Professor SCHOPPA and Karen COX argued, however, that simultaneous balloting under PR rules softens this winnowing effect, operating as a sort of "centrifugal force" that prevents "Duvergerian" gravity from reducing competition as far as it does under pure SMDP systems. Testing for the presence of this force, they compared district level SMDP election results in pure systems such as the United States, Canada, and Britain with results in Japan, Germany, and Italy, and discussed the implications of these findings for party system change in Japan.



Sanction Power, Jurisdiction, and Policymaking: Explaining Telecommunications Policymaking in Japan

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April 18, 2001



In Japan, as in many countries, modes of policymaking vary across issues. Neither the state-centered approach nor the society-centered approach has effectively explained such variation, because neither of them recognizes the importance of the interactions among policy actors. Focusing on the interaction between state and societal actors, Professor KAWABATA explained this variation as owing to the strength of the bureaucracy's sanction power and the exclusivity of its jurisdiction. He supported his argument by examining the Ministry of Posts and Telecommunications' policymaking in the privatization process of Nippon Telegraph and Telephone (NTT), the regulation of telecommunications after NTT privatization, and the promotion of advanced telecommunications. His presentation also covered the Ministry of Economy, Trade and Industry's contemporary economic policymaking, as a further example of his argument's validity with respect to the Japanese bureaucracy.

Administrative Markets in Healthcare Reforms: Market-oriented Policies and the Role of MITI

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June 11, 2001



The weaknesses (and to a lesser extent, the strengths) of Japanese healthcare have been well publicised over the years. It was not until the creation of the Financial Structure Reform Conference in 1996, however, that the system underwent any significant reform. In Benoit LEDUC's view, changes to the Japanese healthcare system since then are mostly a consequence of the administrative markets for policy ideas that emerged between the Ministry of International Trade and Industry, the Ministry of Health and Welfare, and the Ministry of Finance. His argument insisted on these competitive dynamics between the ministries as the means of implementing the market-oriented reforms of the 1990s. Mr. LEDUC's presentation showed how MITI has invested in the field of healthcare, instilling efficiency by creating competition among service providers, which in turn has led to marked improvements in the healthcare system.

The Japan Socialist Party in Opposition: A Democratic Actor?

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July 4, 2001



Japan adopted democracy after the Second World War. A major debate concerns the commitment of its political actors to liberal democracy, especially the commitment of the opposition parties. Researchers have contended that these parties have difficulty internalising democratic values, and describe the Japan Socialist Party (JSP), for instance, either as a political client, or as a radical non-democratic force. Recent works, however, argue that the behaviour of Japan's opposition parties, particularly in recent decades, is indeed democratic. Testing these divergent theses by examining an instance of political crisis, Sigal Ben RAFAEL

argued that an analysis of the July 1950 remilitarization crisis confirms that even fifty years ago, the JSP behaved as a democratic actor.

Japanese-Chinese Security Relations: the Japanese Way of Engagement

Reinhard DRIFTE



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The Japanese-Chinese relationship is one of the most important variables in the formation of a new strategic environment in the Asia Pacific region, and one that has global implications. How Japan manages China's rise to great power status is of crucial importance to regional and global stability as well as to the issue of access to the future's most populous market. Japan's relevance to this process lies in its geographic proximity to China, its political and economic potential, its willingness - for economic as well as political reasons - to use this potential to help China with its economic and social development, and its position as America's major Asian alliance partner.

To deal with China's challenge to the established power constellation, Japan has been pursuing a policy of engagement. In my research project, I critically examine the assumptions and feasibility of this policy, the dualistic nature of which is most often ignored. Engagement aims to steer China towards a peaceful and sustainable path by assisting it with economic policy tools (trade, investment, technology transfer, ODA) while simultaneously hedging against any Chinese strategic breakout or policy failure by means of a military deterrent in the shape of a bilateral alliance with the US, and by political front-building with other Asian countries.

Engagement, however, is most often associated with the liberal school of international relations, giving rise to considerable confusion as this association obfuscates the role of force in engagement policy. In fact, engagement relies as much on realist foundations with its deterrence and balance of power elements as on liberal foundations which stress the positive forces of increasing international economic interdependence and integration, the spreading of international norms, and the establishment of rules and institutions to regulate and enable peaceful co-operation between nations. The real problems of engagement are, therefore, how to deal with the negative dynamics arising from the pursuit of dualistic policy, and how to adjust the emphasis and the robustness, as well as the mix of policy tools, with which goals are pursued.

The liberal-institutional agenda

The bilateral political dialogue encompasses almost all levels of governmental activities and operates at various governmental levels, depending on the issue. However, although widely divergent opinions (for example, on territorial disputes) necessitate more dialogue, a closer look reveals that often even the most basic contacts face considerable obstacles. In the case of military exchanges, China insists on starting with the top level and gradually expanding downwards to the operational (individual unit) level. Yet China has been reluctant to facilitate such high level contacts, often claiming scheduling problems and/or mentioning 'inimical' Japanese defence policies like the 1996 Hashimoto-Clinton reaffirmation of Japan-US

co-operation or the revised Japan-US Guidelines of 1997. Confidence-building contacts are often used as levers to attain concessions from Japan, rather than as tools to create an atmosphere that would facilitate compromises. There also exists a certain disdain for Japan not only because of its past but also due to its lower rank in comparison to the US or other more independently acting Western countries. Moreover, China's military is certainly the sector most negative towards Japan and most reluctant to discard its suspicions. People's Liberation Army officers admit in private that their leadership has intentionally slowed the development of relations or even quietly tried to bring them to a halt.

The economic pillar of engagement depends on trade, FDI and ODA:

1. The involvement of private business (trade, FDI) in China is actively supported by the Japanese government not only for economic interests, but also in the interest of engagement because of its positive contribution to the creation of a more interdependent relationship and China's integration into the global system.
2. China received a total of \$13.18 billion in official development assistance from Japan up to 1998, being Japan's second largest aid recipient after Indonesia, while Japan is for China its biggest aid donor.

Japan's ODA has recently come under fire because of increasing criticisms that it is often wasted, that China does not stick to its conditions, that it should go to areas where there is real need, including the environment, that China is not grateful, that China is itself an ODA donor, and that China spends too much on the military. Moreover, there is a feeling that Japan is losing its ODA leverage on China due to the latter's successful economic modernisation. Nevertheless, ODA is the government's most powerful tool in influencing China and there are, therefore, bureaucratic as well as policy considerations which will guarantee the continuation of high levels of Japanese ODA to China, although the grants may become more conditional, geared more towards projects of direct interest to Japan (environment; hinterland) and away from projects furthering China's military development.

The realist agenda

The military side of the equation relies on Japan's own defence efforts as well as close integration into the Japan-US alliance. Japan's Self Defence Force now ranks behind the US as the second most modern military force in Asia. The Chinese armed forces are vastly more numerous with nominally greater numbers of hardware, but China's nuclear capability aside, Japan's armed forces are superior in terms of technological sophistication. Japan has



the economic potential to expand its military, but its pacifist orientation, the anticipation of offsetting military efforts by other countries (including the US), and Japan's lack of strategic depth put severe constraints on any such development. The reconfirmation of the US-Japan alliance by Prime Minister Hashimoto and President Clinton in April 1996 and the passing of laws to implement the new guidelines for Japan-US military co-operation in case of conflict in spring 1999 would not have been achieved had there only been the more immediate concern about North Korea's security policies. Rather, it was uncertainty about China's future course that concerned Japanese policymakers and facilitated domestic acquiescence if not support.

Chinese developments in the 1990s, a changed domestic situation in Japan, and uncertainties about US security commitments in East Asia have given greater weight to the realist dimension of Japanese engagement.

The following developments in China's security policy have been the most influential on Japan's changed security perception:

1. *China's military growth*

The consistent and relatively high level of budgetary increases for military expenditures, the opaqueness of the military build-up, and China's growing arms exports have received considerable attention in Japan. In 1988-89 China's military budget started to increase above 10 per cent annually. This year, the Chinese government announced a 17.7 % defence budget increase for 2001. The real budget is believed to be around US\$36 billion, with the official figure, then, merely indicating a trend.

2. *Territorial disputes*

The protection of territorial integrity is at the heart of every national security policy. In the case of Japanese-Chinese relations, territorial issues around the Senkaku/Diaoyu Islands and the delimitation of the Exclusive Economic Zone (EEZ) in the East China Sea also involve substantial economic interests (fisheries, seabed resources). As Japan's protection of maritime interests depends on the US, in collaboration with its own Maritime Self-Defence Force (MSDF), alliance considerations are also involved.

A solution of these territorial problems is made difficult by China's reluctance to get involved in serious negotiations, by the tactical need of both sides to fundamentally refute the other's position, and by China's growing encroachment on Japan's EEZ accompanied by the rise of incursions by Chinese oil exploration vessels and naval vessels into Japan's EEZ and even territorial waters.

3. *China's nuclear testing*

The start of a new Chinese nuclear test series in May 1995 at a sensitive

moment in global efforts to enhance the nuclear non-proliferation regime further added to the negative impact created by China's rising military budget and territorial claims. Rather than any immediate perception of threat it was the delicate moment in global nuclear arms control and China's insensitivity towards Japan's anti-nuclear feelings that led to an unprecedented clash with China over the latter's resumption of nuclear testing. Rather than merely sending a formal protest to the Chinese government, as in the past, it prompted the Japanese government to temporarily reduce its grant aid to China.

4. The 1996 Taiwan Strait Confrontation

Arguably the greatest impact on Japan's shifting security perception of China derived from the latter's military exercises and missile tests around Taiwan in 1995-96. These events were very close to Japan's own territory, and they raised concern about China's willingness to use military force (and US willingness to reciprocate), drew attention to China's missile force and proliferation of weapons of mass destruction, and highlighted the role of the unresolved Taiwan issue in Japanese-Chinese relations.

Non-military challenges

As a 'civilian power' with the world's second largest economy Japan is warily watching China's economic problems, including China's long term economic challenge to Japan. There is a much greater awareness in Japan than in the US, let alone Europe, that China may internally disintegrate or become unable to handle its environmental degradation as a result of failed social and economic policies. Japan's concern is that this may lead to considerable refugee streams into China's immediate neighbouring countries. There are already precursors in the form of increasing Chinese illegal immigration to foreign countries, including Japan, piracy in the South China Sea, and Chinese involvement in regional and domestic crime. In the case of pollution, Japan and the Korean peninsula already suffer from Chinese cross-border air and sea pollution.

Although these issues are still minor, particularly if one compares, for example, illegal immigration into Western Europe, they have a very high impact on a relatively crime-free society like Japan, further enhancing the perception of a 'China threat'. Moreover, with the Japanese taking a dim view of the Communist regime's abilities, there is concern that the central government will increasingly lose control.

The problems of engagement

The difficulties of engaging China fall on several levels. The first level is China's perception of Japan's engagement policy. China has made very clear



its opposition to the realist elements of engagement:

1. The recent strengthening of the Japan-US security treaty is seen as an expansion from a bilateral security treaty to the protection of the whole region.
2. The new guidelines are criticised as aimed at containing China and preventing national reunification.
3. China is extremely concerned about Japan's participation in the US-initiated Theatre Missile Defence (TMD) project because it considers TMD to include Taiwan and provide a screen behind which Japan might develop offensive and/or independent military capability.

Even the liberal agenda of engagement carries a sting for China due to its inherent goals of changing the Chinese regime and making China accept international, Western-made rules (for example human rights).

Given the dualistic nature of engagement, do Chinese observers and policymakers perceive engagement as camouflaged containment, or as an acceptable evil with positive elements that deserve maximisation? If the former, the realist dimension of Japanese engagement may ultimately encourage and facilitate the more aggressive impulses of orthodox realist leaders in China's government and military, rather than balance or restrain them.

If the latter, Chinese policies that seem to be responding positively to engagement may merely be a temporary or tactical accommodation aimed at extracting maximum benefit from the economic support strategy of powers like Japan, until China feels strong enough to secure its objectives in a manner less compatible with the maintenance a peaceful and stable world. Or is the astonishing advance of market liberalism in China since 1978 an indication that China will become a responsible and moderate stakeholder in the international system?

On another level, the Japan-US relationship generates other negative dynamics for engagement. What for example is the impact of Japan-US asymmetries in power, interests and policy tools, as well as differences in their domestic environments, on Japan's engagement policy towards China? Are the two countries' interests and policy tools compatible in the long term? For example, it can be argued that both countries have a very different idea about how much should be sacrificed to save Taiwan from a Chinese attack, or how much human rights should be emphasised. These issues create for Japan the classical alliance dilemma of entrapment and abandonment.

Finally, the domestic support base for the liberal agenda of engagement has been weakened by a decline of the pro-China forces in Japanese politics due to generational change, and where they are still strong, notably in the Ministry of Foreign Affairs, they have come under mounting criticism for being soft on China.

Conclusions

There are considerable centrifugal dynamics in the policy of engagement. The Chinese military build-up, domestic change in Japan and uncertainties about US security commitments to East Asia have prompted Japan to strengthen the realist aspect of engagement, thus risking an increase in China's distrust of Japan and sharpening Japan's dilemma of entrapment *vis-à-vis* US military strategy in East Asia.

Since engagement is essentially a policy aimed at buying time for peaceful change in China while it copes with its serious political, social, economic and environmental problems, Japan must reconsider the mix of policies in its liberal and realist agendas in order to make engagement more effective in good time. Bilaterally Japan has to make ODA more relevant to China's current major economic and ecological problems. But even Japan's economic interaction with China, including ODA, risks enhancing the environmental and political damage caused by economic growth. A more sincere attitude towards the past on Japan's behalf would not only force China to abandon its suspicions towards Japan, but would deprive it of a strong lever against Japan.

The most difficult adjustments would have to be made concerning the policies associated with the realist agenda of engagement as they are so dependent on the US-Japan alliance and, therefore, hostage to US consent. For both countries, the hedging element of engagement should include measures not only to strengthen the bilateral alliance, but also to prevent an economic or ecological collapse in China. Japan and the US will have to work much more seriously together to cope with the negative dynamics of the triangular Japan-US-China relationship. The inclusion of Japan in TMD, let alone that of Taiwan, would wreak havoc with security in East Asia. Japan and the US will ultimately have to include China into a regional security system to take over some functions of America's Northeast Asian security alliances with Japan and Korea (for example the 'cap in the bottle' function). Merely 'explaining' to China the inoffensive intentions of the new guidelines and their nongeographic meaning is not convincing and contradicts Japan's insistence on Chinese military transparency. Some consideration might therefore be given to an East Asian equivalent of 'Partnership for Peace' to reduce China's concerns.

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