

Voters (Finally) in Command: The Changing Japanese Welfare State

By Margarita Estévez-Abe

Japan's welfare system has long favored the elderly. But with the bursting of the economic bubble in the early 1990s, the needs of younger, working Japanese have become increasingly apparent.

But as political scientist Margarita Estévez-Abe demonstrates, it took important electoral reform for these younger voices to be heard.

OBSERVERS OF JAPANESE POLITICS often marvel at how nothing much seems to change, year after year and decade after decade. The Liberal Democratic Party's (LDP) rule continued, for example, despite the end of the Cold War, the bursting of the bubble economy at the end of the 1980s and early 1990s, numerous political scandals since and a steady shift in social mores. Yet, underneath this apparent continuity, a lot has changed in Japanese politics over the last few years. This essay illustrates the nature of these changes by focusing on Japan's welfare system.

Before we can talk about changes, we need to describe first the welfare state that developed in postwar Japan. Simply stated, it contained four characteristics.

FOUR WELFARE-STATE PILLARS

First, Japan's social spending was skewed in favor of the elderly. Japan has not been known for the profligacy of its social spending. In this respect, its welfare state resembled the US rather than any European state. Although Japan developed a national health care system, overall social spending remained meager when compared to European countries. Japan spent very little on unemployment benefits, housing subsidies, family allowances and social services. The lion's share of social spending was allocated to old-age pensions and health care. Needless to say, a large bulk of the health care spending also went to the elderly. In contrast, working families received very few benefits and services.

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Second, postwar Japan relied less on orthodox social security programs than on their functional equivalents, which typically were targeted at specific groups. For instance, while Japan did not provide generous unemployment benefits, the government used industrial policy and other tools to protect companies and their workforce. Japan's famous "convoy system" involved bureaucratic control over both entry and exit from a product market sector. Thus, the system allowed the state to protect "insiders." The Japanese government also spent huge sums of money on public works and agricultural subsidies to prop up employment and income levels in rural areas.

Third, social welfare was typically mediated through one's employer. Thus, from the perspective of the employees of large companies, housing and family benefits came from the employer rather than the government, which nonetheless provided large companies with lucrative tax deductions for their corporate welfare costs. Employees of large companies were not the only ones whose welfare was mediated by work. Many self-employed occupations — including farmers — received benefits through their work. The Japanese government used its industrial policy to protect the jobs of selected self-employed groups. Industrial policy, in short, functioned as a type of social policy. Furthermore, Japan's social security system itself emphasized the importance of one's work. Japan's public pension and health care schemes

were fragmented along occupational lines. Large companies, for instance, were allowed to opt out of the national old-age pension and health care schemes to set up their own insurance programs. The only exception was health care for the elderly. Citizens who were 70 and older enrolled in the same health care plan regardless of their previous or current occupation.

Fourth, many of Japan's welfare programs accumulated surplus funds. Almost all of the major social security programs were contributory schemes — except for health care for the elderly — and they were designed to accumulate reserves. This was true of social security programs for the elderly as well as for unemployment insurance (called Employment Insurance). Aside from the social security schemes, the government promoted savings-oriented equivalents. It offered tax incentives for corporate savings programs that helped workers save for down payments on homes and life insurance programs. The government itself competed against the private insurance industry through Japan's Post Office, which offered life insurance plans as well as various other annuity and savings programs. Bureaucrats directly or indirectly controlled most of the capital raised in this way. Money raised via the Postal System was diverted to the government's Fiscal Investment and Loan Program, which in turn, lent to different arms of the bureaucracy including major public banks (called financial corpora-

tions). Money in private life insurance was also under tight bureaucratic control. Reserves in various social security programs were pooled in special accounts controlled by whichever ministry oversaw a specific social security program.

HIDDEN PROBLEMS

A range of potential problems in the welfare system remained hidden during the economic growth period of the 1960s and the early 1970s. Japan had a young population, so the bias in favor of the elderly did not initially cause any financial problems. If anything, the government saved by not providing generous benefits to its working age population. Work-based welfare also helped to minimize labor conflicts in the corporate sector. Even public works and agricultural subsidies seemed like a good way to redistribute wealth from Japan's urban industrial centers to poor rural areas. No less important, the vast reserves of money in the hands of bureaucrats caused little problem when public financial corporations actually invested the money in industry and infrastructure. Furthermore, these reserves permitted the Japanese government to expand its activities well beyond what its small tax revenue base would otherwise permit.

As soon as the economy slowed down in the mid-1970s, many of the virtues of the Japanese welfare system became widely acknowledged vices. Piece-meal reforms followed, but the onset of the bubble economy delayed any major reforms. When the bubble burst, the vices in the welfare state began to cause major problems.

The age-bias meant that rapid aging affected Japanese government expenditures much more drastically than in other advanced industrial societies. The dearth of benefits and services for working age citizens and their families meant increasing inequalities. Government wanted more women to work to increase the number of tax payers, yet it offered little policy support for women — especially mothers — to balance work and family.

The work-based nature of the welfare system also began to pose problems. Changes in the economic climate forced many firms to rethink

their personnel management practices as well as their commitment to corporate welfare. Because employers were exempt from enrolling irregular, or contract, workers in mandatory social security schemes (such as unemployment insurance and pension schemes), large firms began to hire cheaper irregular workers. The rise of irregular work and inadequate support for working mothers created a vicious circle of fertility declines.

Japan's highly targeted social protection such as public works programs, agricultural subsidies and anti-competitive regulations became another source of problems. Anti-competitive regulations hindered entrepreneurial activities at the very time when the economy needed new job creation. Targeted social protection for the few meant higher tax burdens for the many. Japan's capital-accumulating welfare system also revealed its inner problems. The Japanese long believed they had one of the most devoted and competent bureaucracies in the modern world. They were shell-shocked to learn the degree to which bureaucrats had abused their control over the nation's welfare funds. Lacking any serious oversight, a lot of the money was spent on pet projects — often to finance the post-retirement careers and lucrative salaries of the officials administering the funds.

Why did Japan create such a problem-ridden welfare system and do nothing to mend its problems for so long? And are things going to change?

STRUCTURAL DILEMMAS

The answers to these questions lie in Japan's political institutions. For most of the postwar period, Japan relied upon an electoral system that made politicians seek support from a few key social groups. Japan's multi-member electoral districts allowed candidates to secure election (or re-election) by catering to an organized group. Politicians from the ruling party could garner support by exchanging policy favors for votes. Targeted forms of social protection facilitated this exchange. Of course, Japan was not the only postwar democracy with so-called multi-member districts. Many European countries had both a proportional representation system and multi-member districts.

Yet Japan's multi-member districts were different. Countries with proportional representation tend to develop strong parties because individual candidates from the same party do not compete against one another. If anything, they share a collective interest in boosting their parties' overall vote shares, which proportionally translate into a share of parliamentary seats. Japan was peculiar in that multiple candidates from the ruling Liberal Democratic Party would compete against one another in the same district. The LDP's overall vote share within the district, therefore, mattered little for individual candidates. All they cared about was that none of their colleagues would snatch votes away from them. If one LDP candidate attracted too many LDP votes, the candidate could cause the others to lose. An optimal vote allocation among LDP candidates within the same district was a priority for the party's continuing grip on power.

In a system like this, a universal welfare program — no matter how efficient — was not very desirable. Every LDP member needed a little something to claim as his (rarely her) own. Again, a highly targeted way of delivering social protection better suited the LDP's electoral strategy. Working families in urban areas did not get much of the government budget, because few LDP politicians relied on their votes. The LDP was willing to extend protection to big business, which was their financier, but not to workers and their families.

Why did this continue for so long despite its obvious problems? While the same electoral system remained, the same incentive to reward the few to the detriment of the many persisted. So, the few that were electorally important always took precedence over the many.

An example of what happened in health care illustrates this point nicely. The LDP resisted any major overhaul of the health care system for a long time. It continued to shift the rising cost of health care for the elderly onto the working age population. Elderly patients paid almost nothing for medical treatments and prescription drugs, while physicians could profit by prescribing even unnecessary drugs. It was no coincidence that

Japan's Medical Association was one of the key constituent groups for the LDP.

Why couldn't angry urban voters get rid of the LDP? Bluntly stated, the LDP manipulated the electoral system. It did so by refusing to reassign Diet seats as the population in electoral districts shifted. The urbanization that began in the 1960s meant that fewer and fewer voters remained in rural areas. By not redistricting, the LDP could successfully continue to gain votes — mostly in rural districts. With most political parties catering to their own organized constituent groups, unorganized urban voters had little choice any way.

CHANGE, FINALLY

As long as the same electoral system continued, the LDP was happy to give bureaucrats ample discretion. Senior LDP politicians possessed influence over different bureaucratic units. Bureaucrats helped their LDP allies to oil the political machine in exchange for decision-making discretion. LDP politicians could not care less if bureaucrats abused this discretion, so far as they helped them deliver benefits to their constituents.

All this began to change when Japan reformed its electoral system in 1994. The new system for the Lower House now consists of two tiers. The first uses single-member districts, where politicians can no longer win by co-opting a small, organized group. Candidates now need to appeal to a wider spectrum of voters. The second tier uses proportional representation, which makes political parties very important units of choice for voters. Because single-member districts produce highly volatile swings, it has empowered Japanese voters. They can punish or reward the ruling party for its failures and successes in ways that were impossible before.

The new electoral system transformed political dynamics. A whole chain of reforms has occurred as a result. Japan's health care and postal savings system were reformed in the wake of the change. Some anti-competitive regulations were scaled back. In contrast, benefits and services for the working-age population have been expanded. Coverage of unemployment benefits

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was extended to include some irregular workers. Policies that help mothers balance work and family have been promoted, too. All these changes would have been very difficult under the old institutional context. Many of these reforms occurred under Prime Minister Junichiro Koizumi, and many observers attribute them to his political skills. No matter how talented, however, he would not have been able to carry out these reforms had the old institutional context not changed.

BREAKING THE POLITICAL-BUREAUCRATIC ALLIANCE

One final point: the relationship between politicians and bureaucrats continues to change. Under the new electoral system, the ruling party gets punished for any major government failure. Knowing this, the opposition parties — most importantly, the Democratic Party of Japan — have

been spending a lot of time ferreting-out bureaucratic scandals. One of these involves the disappearance of tens of thousands of public pension records. Shocked by this bureaucratic incompetence, even many LDP politicians now want to reconsider the power of bureaucrats. The scope of bureaucratic discretion that once benefited individual LDP politicians has today become a potential electoral liability.

Understanding the implication of Japan's new political institutions is critical in predicting the future course of Japanese politics. To put it briefly, Japan has opted for political institutions that make it resemble the United Kingdom — this means, a stronger prime minister, a cabinet-led rather than bureaucratic government and the development of two large political parties.

These changes are intended to speed up decision-making and to make the government more directly accountable to voters. Japan still faces one more institutional hurdle before it becomes like the UK: its strong Upper House. Unlike the UK, which is de facto uni-cameral, Japan has a strong Upper House with veto power. The Upper House continues to use an electoral system that favors organized groups over unorganized voters. If Japan is to adopt a new more concentrated power structure with stronger voter-accountability, the Upper House needs to go.

If Japan succeeds here, the Japanese welfare state is likely to change even more drastically. It is likely to reduce targeted forms of social protection further, and move to a more universal welfare state. The benefit levels might be reduced, but more people will enjoy the basic minimum safety net owed to all citizens.

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