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Analyzing Benefit and Burden of Japan's Social Welfare by Age Group: Cutbacks in Preferential Treatment of the Elderly Urgently Needed

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There is an endless stream of complaints about tax burden being too heavy or the government not spending money where it should be spent. Such discontent is rooted in difficulty in realizing how much public benefit we receive and burden we bear. An analysis by age group reveals a strong bias of Japan's public benefit payments towards the elderly, which is by far above the global average. A policy shift emphasizing the children and youth as human resources for the future is urgently needed.

Analyzing Individual Benefit and Burden by Age Group

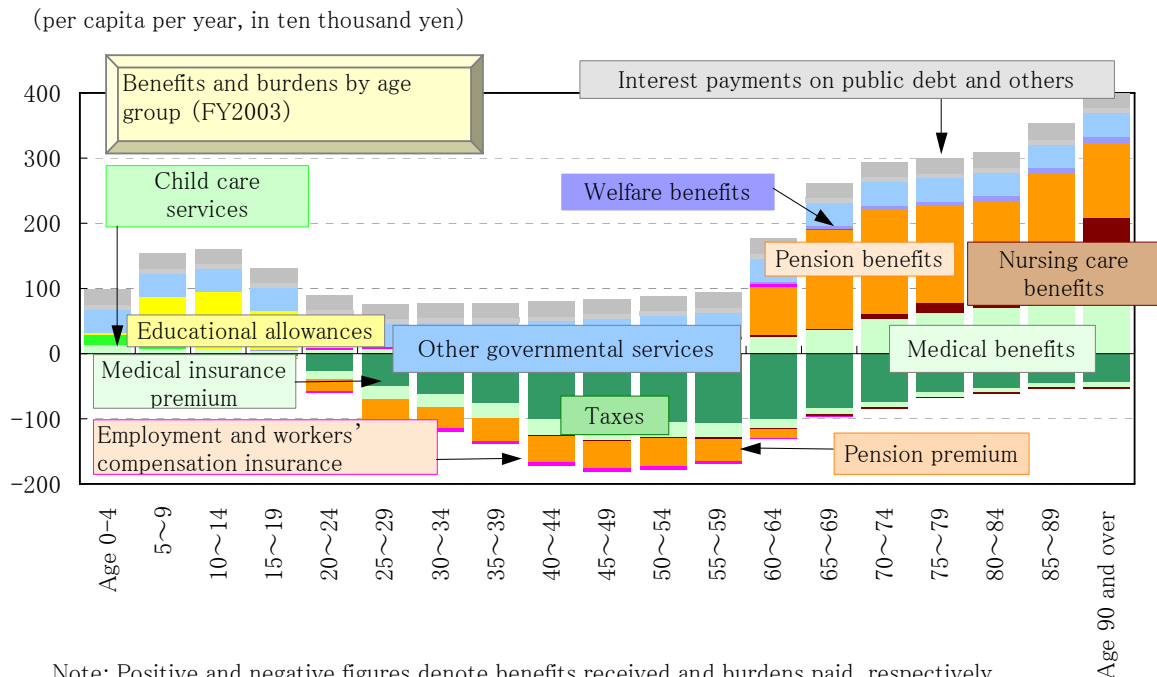
From the viewpoint of the public, fiscal deficits mean benefits they receive in the form of governmental services and public works are exceeding taxes and social security premiums they pay. Apart from the future plans for the deficit repayment, the current generation of people may be considered to be reaping more benefit than the burden on them.

This notwithstanding, many voice the need for the government to expand spending programs, while others point out that taxes and social security premiums are too high. Such discontent may in part result from the lack of accurate information on government revenues and expenditures on an individual payer/beneficiary basis. With that in mind, estimated benefits and burdens by age group are shown in the exhibit below.

Baby boomers turning to beneficiaries: reform is urgently needed

The expenditures of national and local governments including entitlement programs amounted to 213 trillion yen in 2003, roughly half of which was spent on the public good in the form of various governmental services and public investments. The other half was directly paid out to individuals as social security and other benefits. The latter is called transfer income, which includes social security payments from public pension plans and medical, nursing care and employment insurance programs, as well as educational allowances, welfare benefits and child care services provided by national and local governments.

Benefits for the elderly mounting to three to four million yen per annum



“These benefit payments reflect the current structure of Japan’s welfare system. By analyzing the age structure of the payments, one can assess the importance that each program attaches to different age groups and the relative significance of the program in the overall system. This exhibit clearly shows that the elderly are best treated. They receive a markedly higher share of payments in the form of pension, medical and nursing-care benefits. Those at ninety years old and over, for example, received as much as four million yen per capita in various benefits. Benefit payments related to children, dependent population on the other end of the spectrum, received a much smaller share in the form of child care support and educational allowances. The benefit payments to the working age population were also low and mainly consisted of those which are risk-oriented in nature including welfare, unemployment and workers’ compensation benefits.

Income transfer of this magnitude is not sustainable in Japan, whose population is rapidly aging amid falling birthrates. The country is already faced with very large fiscal deficits and it is impossible to maintain the same level of benefit payments to an increasingly greater number of the elderly population. In 2007, baby boomers will start to turn from cost bearers to beneficiaries. A reform is a matter of urgency.

Investing in Human Resources for the Future Necessary

Social security payments in Japan are disproportionately skewed towards the elderly. In the UK, one of the leading welfare states, medical benefit expenditures to the elderly (65 years old and over) were 3.4 times those to the population under 65 years old, compared

with a remarkably high ratio of 4.9 times in Japan. (Source: OECD Health Data 2002) Conversely, family-oriented benefit payments such as child allowances as a share of GDP was 2.2% in the UK, which far exceeded 0.6% in Japan. (Source: National Institute of Population and Social Security Research, The Cost of Social Security in Japan, Fiscal Year 2003)

These findings seem to suggest that preferential treatment of the elderly is offered at the cost of adequate support to child raising. Even though the recent issue of economic disparity may be exaggerated in some respects, disparity among the juveniles at the start of their life is a serious problem. Given the economic affluence of Japan today, effective measures must be taken immediately if the number of children who do not have access to adequate child care or education due to poverty is in fact increasing. The principal source of economic growth is human resources. It may be high time to position children in the focus of income transfer policy and reconsider child care services and educational allowances as investments in the future. We are at a crossroad to ponder and decide what Japan should be in the years to come.

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