

Japan's response to the crisis

Japan is facing two major problems: First, economic growth has declined deeply. The economy, second in size in the world behind the United States, shrank at an annualized rate of 12.1 percent in the fourth quarter of 2008 – the sharpest decline since World War II. Second, the country may need to undergo structural changes if it is to readjust to the changing world economy and increase the economic growth potential. Japan once developed quickly thanks to its export-driven growth model; nowadays it suffers because of its high reliance on international demand.

In April 2009 the government announced a monthly economic report to keep the public updated about the developments. These reports showed that the Japanese economic downturn continued until mid 2009. This was mirrored in significant reductions in exports, as well as lower production and corporate earnings.

Although the first growth figures were released in August, the signs of recovery are stable. To stabilize domestic demand and initialize structural change, Japan's government has made an unprecedented stimulus effort. By now there have been three stimulus packages, which, among other measures, contain a number of measures in the field of social security.

The crisis in Japan: impacts and modes of transmission

The most important effect of the crisis on Japan is the lack of global demand. Japan's high dependency on the world market, coupled with a lack of international demand for Japanese products, led to historically low exports without a sign of recovery until now.

According to data released by the Finance Ministry, the balance of trade in January 2009 reached a deficit of ¥952.6 billion (approximately US\$9.8 billion), the largest deficit since 1979. Moreover, January 2009 was the 4th consecutive month with a trade deficit. Exports declined by 49.4 per cent year-on-year in February 2009. At the same time, the current recession and the lack of confidence in the economic future affect domestic demand, and led to a 43 percent decline in imports. In March 2009, Japan's exports to the United States dropped by 58.3 percent and those to Europe declined by 54.7 percent.

Significant fall in output in key industries

Japan's key industry is the manufacturing industry, especially automobiles and electronics, which are affected severely. The example of the automobile industry illustrates this vividly: In 2008 the global vehicle production of the 12 Japanese car companies was reduced by 1.9 million units and fell far behind their original production targets. More specifically, the domestic vehicle production dived a record 41 percent from a year earlier to 576,539 units – the steepest fall since 1967. The situation in 2009 is even worse: Both production, domestic sales and exports are down. In February 2009 Nissan had the greatest decline with a drop of 68.8 percent in vehicles destined for the local market and a 37.8 percent drop in those meant for export. Apart from reduced production, the car companies carry out large-scale layoffs. The number of casual workers losing their jobs may exceed 14,000.

Constraints on public budgets

Japan's public burden is expected to rise as a result of the crisis. According to the Ministry of Finance, the public burden ratio (the sum of taxes and social security payments as well as national and local government budget deficits as a percentage of national income) is expected to reach 47.7%, the third highest ratio for as long as records have been kept. This would mean a 1 percent increase from earlier estimates for the fiscal year 2008-2009, a deterioration caused by reduced tax revenues for central and local governments and resulting growth in fiscal deficits.

Pessimistic economic prospects

Japan's economy is expected to shrink by 6.6 percent in 2009. According to Kyodo News, the Cabinet of Japan estimated that on a nominal basis, unadjusted for price changes, GDP growth for the fiscal year 2009-10 (starting in April 2009) will be around 0.1 percent. The Cabinet also estimated that if the current recession becomes deeper and more prolonged, and the world economic slump lasts into 2010, the Japanese economy might see annual economic contractions of 0.5 to 0.9 percent annually over the next decade.

General crisis response in Japan

The Government's primary concern is to prevent the economic situation from deteriorating further, focusing on employment and on solving the problem of insufficient funds for enterprises. This is followed by increased investment and an adjustment of policies to gradually change the model of highly export-dependent economic growth.

To this end, the Government set a record-high ¥88.55 trillion budget for the fiscal year 2009-2010 (ending March 2010). In April 2009 it announced a ¥15.4 trillion stimulus plan, equal to 3 percent of GDP, which brought Japan's total stimulus spending since autumn 2008 to ¥27 trillion. This is by far the largest economic stimulus programme Japan has ever had, aimed at helping to avoid the kind of stagnation that Japan already experienced in the so-called lost decade of the 1990s.

The stimulus package will be invested chiefly in the environment and employment, and includes objectives such as cutting greenhouse gas emissions by 50 percent by 2050 to create a "low-carbon society", and softening negative consequences of having an aging population by improving social security infrastructure. The Government expected the new economic stimulus package to promote economic growth of 2 percentage points in the 2009 fiscal year, and create 4 million jobs by 2020.

To finance its latest stimulus package, the Government will issue treasury bonds worth more than ¥10 trillion. Following this, the total amount of treasury bonds in Japan in the fiscal year 2009 will exceed tax revenues. Japan's financial situation is already weak and will thereby worsen, adding extra burdens to the future. The question of whether the stimulus package will succeed in sustaining people's income, rebuild their confidence and shore up domestic demand remains open and requires further observation.

Social security in Japan

Since World War II Japan's social security system has been workplace- or company- centred. Enterprises are responsible for various benefits and pension funds for employees, both current and retired. In the meantime, Japanese companies set up the life-long employment system, which normally meant that the employee could work in one company until retirement, and generally did

not lay off permanent staff. In the past, this system has helped keeping the unemployment rate low, even in difficult economic times.

Unemployment insurance

Partly because of the low unemployment rate, the Government only spent about 0.3 percent of GDP on unemployment benefits in the past. Costs may have also been low because the group of people with the highest probability of being unemployed – the growing group of casual employees – tend not to meet the eligibility criteria for benefits. The qualifying period after which a worker becomes eligible for unemployment benefits is one year. The contract periods of casual employees may be as short as two months, and they may therefore be excluded from unemployment insurance benefits. According to the Ministry of Health, Labour and Welfare there are 55.3 million workers in Japan, 34.5 percent of whom are casual workers. Half of these cannot join the unemployment insurance.

Pensions

Generally speaking, old-age pension in Japan is split into two different programs: the National Pension and the Employees' Pension systems. The National Pension scheme was started in 1961 and covers Old-Age Basic Pensions, Old-Age Welfare Pensions, Disability Pensions and Survivors' Pensions. All persons residing in Japan aged 20 to 60 participate in the National Pension scheme. Voluntary coverage is available for persons aged 60 to 64 and for Japanese citizens residing abroad. The minimum qualifying period for Old-Age National Pension is 25 years worth of periods of coverage. No supplements are paid for spouses or children in the Old-Age National Pension Scheme. The Japanese Employees' Pension Insurance scheme was started in 1942 and includes salaried workers contributing to the Employees' Pension Insurance (Old-Age Employees' Pension) and public-service workers and others contributing to Mutual Aid Associations. Just over 50 percent of all Japanese residents (who already participate in the National Pension scheme) also participate in the employee pension systems. Many rules are equal to those of the National Pension Scheme, but a supplement for dependent spouse and children may be paid.

Impact of the crisis on social security

The crisis has unveiled a central weakness of Japan's social security system, which is the reliance on the stability of companies. Until the end of 2008 some 240,000 employees were laid off as a result of the crisis, making the unemployment rate rise sharply from 0.4 to 4.4 percent. About one third of these unemployed persons are casual workers, few of whom are covered by the social security system.

Decline in pension fund assets

In February 2009 Japan's public pension fund – the world's largest – reported a record ¥5.7 trillion (US\$59 billion) loss on its investments for the period October-December 2008. This was the Government Pension Investment Fund's (GPIF) biggest quarterly loss since it started investing in asset markets in 2001. The return on its investments dropped to negative 6.09 percent during that quarter. Japanese pension funds are now adjusting their asset management style, and practice higher "diversification".

Japanese crisis response in the field of social security

Japan's Government plans to channel spending toward four main areas: strengthening the safety net for the unemployed and providing financing for small- and medium-sized companies; improving health care, nursing and child care; subsidizing the development and use of solar energy and environmental-friendly technologies; and starting public-works projects to help regional economies. Revisions of the tax system are also included in the economic plan.

Immediate action

The government will provide US\$5.9 billion to the "employment adjustment subsidy" that helps companies that retain their employees. Measures also include US\$6.9 billion for job training and unemployment benefits. The government recently decided to lower the qualifying period for unemployment insurance to six months, in order to offer unemployment benefits to casual workers who have worked for the same employer during this period. In addition, the Government is putting pressure on employers, especially large companies, to sign long-term contracts with casual workers, in order to cover more workers under the traditional social security system. For the fiscal year 2009, the contribution to the unemployment insurance scheme will be lowered 0.4 percent, as a temporary measure, to reduce non-wage labour costs. Moreover, the Government provides insurance benefits to jobseekers that have difficulties in finding new jobs, for a maximum of 60 days, and funds have been made available for unemployed persons who do not qualify for unemployment benefits, so they can receive state support for three years on the condition that they undergo training.

General social security reform plans

Meanwhile the Government considers modifying the social security system in the medium and long-term. Various proposals for pension system reform have been put forward, and the Government's National Council on Social Security has put forward an array of options for the future course of the social security system, including medical and nursing care services. All the proposals share the basic assumption that the consumption tax will have to have a double-digit rate in the future if it is to meet the need of social security spending. If the system remains unaltered, this would lead to an annual increase in the cost of social security of about ¥800 billion. As the Government is worried about the nation's severe fiscal situation, however, it has compiled a budget that foresees cuts of ¥220 billion annually from the projected increase in social security costs. This leads to major constraints in the medical and welfare sectors. Furthermore, sufficient permanent financial resources for social security have not yet been secured, although the Government's share of funding of the basic pension will be raised from the current 33 percent to 50 percent as of this fiscal year. The Government's efforts, which are aimed at securing economic recovery and stabilizing and strengthening the social security systems, are indispensable. In their basic policy for overhauling the tax system in the medium term, the Government and the ruling parties specified an increase in the consumption tax rate as of the fiscal year 2011 provided the economy recovered. The raised tax would have to be used solely for social security purposes and renamed as a social security tax.

Conclusions

The economic crisis that has engulfed the world is instilling anxiety in Japanese people's lives. The government obviously has to focus on economic reconstruction and recovery, and expanding social security benefits can make a major contribution to these efforts. The prospect of social security, now and in the future, brings security and confidence into people's lives, and this creates a favourable environment for consumption and helps the economy to regain strength.

Next to the immediate crisis response measures, which are to ease the burden on irregular employees in particular, a substantial social security reform in the medium term should be pursued. The gap in social security between regular and irregular employees needs to be bridged.

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