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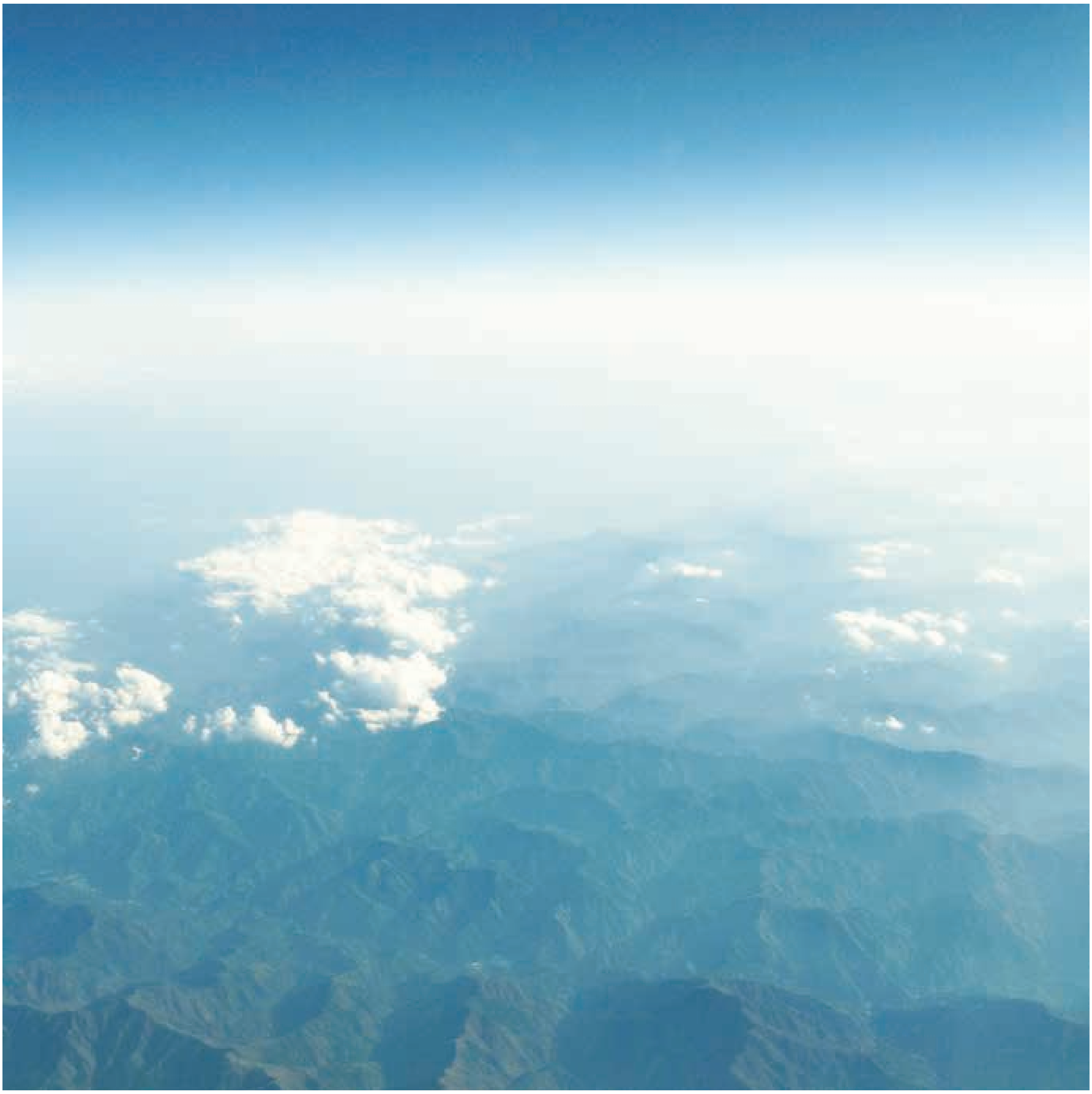

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ORIGINAL ARTICLE

The Exploration of Financial Resources of Financial Adjustment System and Social Welfare in Japan

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ABSTRACT

In Japan, the reform of social welfare finance has been performed under the circumstance of the deterioration of finance and the fundamental change of welfare policy. Since the late 1980's, the rate of National Treasury Subsidy for the social welfare services had been reduced and the Package Reform of Three Issues in 2004 has brought a great change in the financial relationship between central and local governments.

This study aims to provide reference materials for the preparation of the plan to allot the social welfare finances between central and local governments in South Korea by analyzing the contents and actual situation of financial adjustment system of Japan and analyzing and considering the adjustment of finance between central and local governments.

The government of Japan that has confronted accumulated problems has attempt to solve those problems with the marketization, decentralization and the increase of Consumption Tax, which means that central government shares the burden with market and local governments; the continuous and rapid increase of the demand of social security and social welfare services, the low rate of economic growth and the insufficient financial resources, the low fiscal self-reliance ratio of local governments, the deepening of regional inequality, etc.

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According to the Ministry of Health, Labour and Welfare, the share of central government for the public expense for the social security related expenditure is expected to increase to 59 trillion Yen (11.5% of National Income) in 2025 from 26 trillion Yen in 2004 (Ministry of Health, Labour and Welfare, 2012). Under the difficult situation that Government Bonds Outstanding, which is the debt of state, is projected to be over 709 trillion Yen (end of FY 2012), the increase of social security related expenditure is going to be a bigger burden on the central and local governments.

＜Key-words＞
Finance, financial adjustment system, social security, decentralization, finance of social welfare
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Ⅰ. Introduction

The financial condition of Japan has been deteriorated due to the long-term economic depression, disaster caused by an earthquake and increase of social security expenditure that new issuances of government bonds grew up to 55.8 trillion Yen in 2011, which was the highest issuance ever. Even though the fiscal deficit to GDP ratio of Japan is relatively lower than the U.S., U.K. and Greece, Portugal and Spain that are struggling with financial crisis, the outstanding government securities to GDP ratio is 200%(2010), which is much higher than even Greece.

Japan of which population has rapidly aged is the first ranked longevity country in the world. Tokyo was already the world's most populous metropolis[1]in the seventeenth century, two hundred years before Commodore Matthew Perry forced Japan to open to the outside world. In Japan after war, aging as well as high growth has rapidly proceeded. In Japan, 21.5 percent of the population is over sixty-five and 10 percent is over seventy in 2010. By 2050, 40 percent of Japan's 85 million people will be older than sixty-five. In 2005, Japan became the first modern, industrial nation to shrink in population for reasons unrelated to war or disease (Ted C. Fishman 2011).

Welfare policy of Japan in the situation of low fertility and high life expectancy has changed in the process of policy formation and its implementation; especially it has been asserted that existing welfare system for the elderly needs to be reformed since 1980's. Since the late 1980's, Japan's welfare policy has fundamentally changed from Japanese style welfare society strategy based on the reinforcement of family function. Japanese government instituted the Ten-Year Strategy to Promote the health and welfare for the elderly and prepare the long-term care service, which is commonly known as the Gold

[1] Tokyo then had over a million inhabitants, roughly twice as many as London at the time.(Ted C. Fishman 2011)

Received
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Accepted
September 19,2012

Published
October 31,2012

Plan (December, 1989), Health Care and Welfare for the Elderly (1993) and New Gold Plan (1994) (橋本久子 2002). Long-Term Care Insurance Act was passed in December, 1997 and enacted on April 1, 2000.

The implementation of Long-Term Care Insurance System has fundamentally changed the then welfare system, which was implemented by public fund (Hye-Jeong Yoon, 2005). As Long-term Care Insurance has been implemented, the changes of delivery system of welfare services for elderly persons and the marketization of welfare could be considered as the biggest ones. Before the implementation of Long-term Care Insurance in Japan, the supply and uses of welfare services for elderly person were performed based on the Measures System that administration takes responsibility for and determines everything; the services prescribed in the measures of administration are provided by social welfare foundations and the balance between demand and supply of the services is controlled by administration. As the Long-term Care Insurance was implemented, however, the qualifications to be providers for in-home service were softened and various business entities could be the providers such as corporations, incorporated companies, private profit companies, NPO, medical corporations and individuals. In addition, the system was changed to supply the services to the users based on the contract and to directly involve the administration in the service supply. It means that the conversion 'from measures to contract' has fundamentally carried out (Chang-Wan, Han et al., 2009).

Under the circumstances of the deterioration of finance and the fundamental change of welfare policy, social welfare finance also has been reformed. Since the late 1980's, the subsidy rate of National Treasury subsidy for the social welfare projects has cut back and "The Reform Package of Three Issues", which has implemented in 2004, drastically changed the financial relationship between central and local governments.

This study aims to provide reference materials for the preparation of the plan to allot the social welfare finances between central and local governments in South Korea by analyzing the contents and actual situation of financial adjustment system of Japan and analyzing and considering the adjustment of finance between central and local governments.

Ⅱ. The Finance and Financial Adjustment System in Japan

1) The Financial Adjustment System in Japan

Under the influence of the European Charter of Municipal Liberties in 1985, which was called as the portmanteau of globalization and localization, Japan has been decentralized in diverse ways; Resolution for the Promotion of Decentralization was adopted by the National Diet in 1993 and Promoting Decentralization Act was enacted in 1995. Since Package Promoting Decentralization Act was enacted in 2000, the decentralization has

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

more accelerated; in the Koizumi Cabinet, the decentralization of tax revenues has begun based on the Reform Package of Three Issues (川田一義　2007).

Furthermore, in December, 2012, Decentralization Reform Promotion Law came into force and the Second Stage of Decentralization Reform has begun. While the ratio of tax revenue between central and local government was 3:2, that of expenditure between them was 3:2; in results, the differences of finances between central and local governments have been produced and they have been made up for by supplying local allocation tax grants from tax revenue of National Treasury to local governments.

In the Japanese budget of FY 2012, local allocation tax grants is 18.7% of total expenditure of general account, which is ranked next to the social security (29.2%) and national debt service (24.3%) and the reason that its reduction cannot be avoided for the reform for the financial soundness.

Local Allocation Tax, which has reached its peak of 21.7 trillion Yen in 2000, has continuously decreased by the reform of financial structure due to the deterioration of national finance. Especially in 2004 when the reform package of three issues[2] began being implemented, Local Allocation Tax was cut back to 12% across-the-board and each local government confronted the shocks of Local Allocation Tax that had each local government re-examine all projects, abolish funds and issue local government bonds.

Local Allocation Tax drastically increased while tax revenues decreased after the burst of bubble economy in Japan; since the finance of local governments has deteriorated in 1993, the deficit of special account has grown, because they have been financed through the special grants from general account or the borrowing from special account of Local Allocation Tax.

To make up for the deficit of finance, the system that regards the debt that includes local government bonds to make up for the deficit financing as Local Allocation Tax was introduced; that is, Local governments issue local government bonds to make up for the deficit financing and then repay with Local Allocation Tax (川田一義　2007).

In this situation, Local Allocation Tax has been deteriorated into the security system for local finance; as local governments have spent more money for the constructions of roads, harbors and school, Local Allocation Tax has increased.

Even though the sectors of education, public works and welfare are generally subsidized by central government, Local Allocation Tax is also partly spent for those. For example, when implementing a project that the half of its budget is subsidized by central government, local governments are supposed to pay only half of its budget. However, in

[2] The financial adjustment system that was implemented by the Koizumi Cabinet between 2004 and 2006. The reform includes measures ① to abolish national subsidies, ② to transfer tax bases from central government to the local government and ③ to review the system of Local Allocation Tax; the name of Trinity Reform was given by attempting to reform these three issues at the same time.

Received
July 12,2012

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Published
October 31,2012

Asian Journal of Human Services , VOL.3 105-130

this project, the local governments that have small amount of tax revenue finance its own share with Local Allocation Tax or debt and they pay back with additional Local Allocation Tax.

The central government has controlled local governments through Local Allocation Tax and local governments have financed projects with small amount of their share. Because local governments implemented public works competitively as the reflationary measures before the burst of bubble economy in Japan and central government paid them back with Local Allocation Tax, both Local Allocation Tax and national debt rapidly increased.

2) The Finance of Japan

Since the global financial crisis, the finance of Japan has been drastically deteriorated, which is proven by the rise of consumption tax. The government of Japan has raised consumption tax to solve the problems; national debt of over 1000 trillion Yen, the increase of the demand of social welfare services due to the rapid increase of the elderly and the economic depression that seems to be extended and fixed. The government of Japan intends to raise the current consumption tax of 5% to 8% in April, 2014 and 10% in October, 2015. This Consumption Tax Act was passed by the House of Representatives in June 26, 2012 and is under discussion by the House of Councilors currently.

① The Tax Revenue and Expenditure of Finance of the Government of Japan

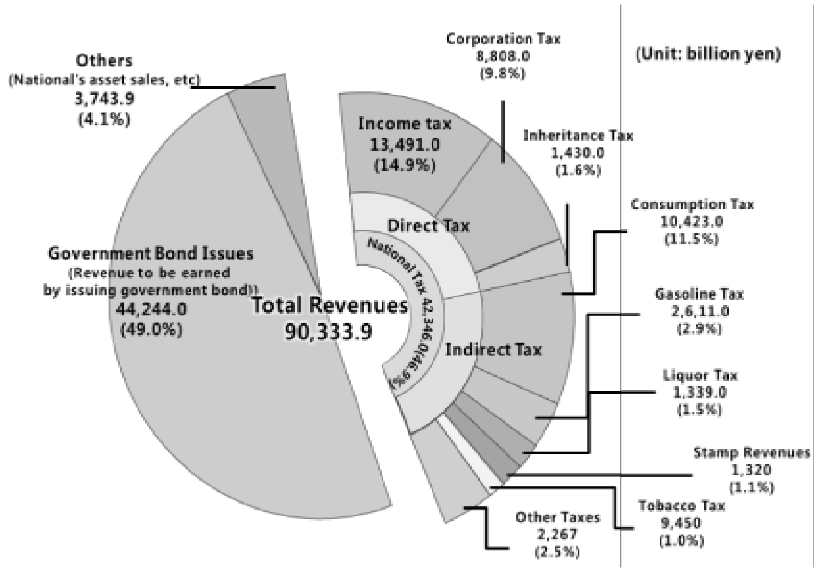
In the budget of FY 2012, the tax revenue is less than 50% of total revenues and the Government Bond Issues, which hold 49%, may be considered as the debt of future generations.

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

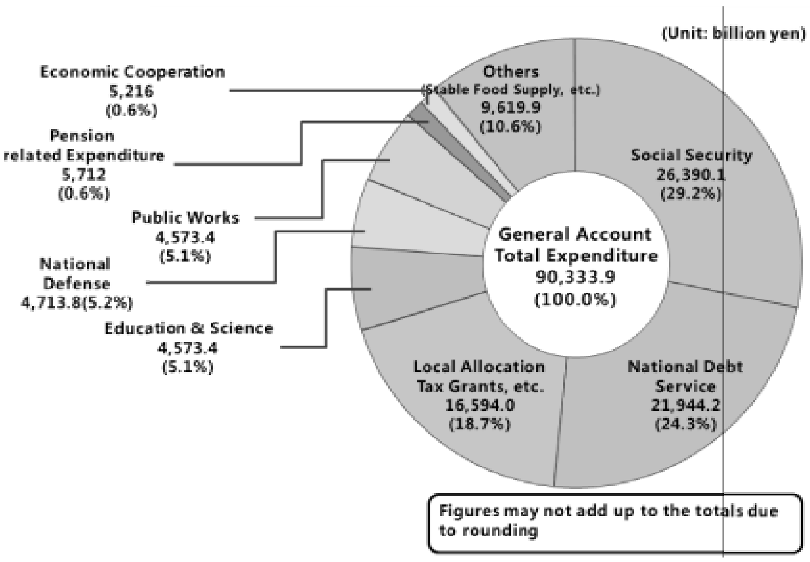
Figure 1. Finance of Japan in 2012 (Tax Revenue, the Budget of Fiscal Year 2012



Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

Among the expenditure items of FY 2012, the social security related expenditure holds 29.2% of total expenditure and the expenditures of social security, national debt service and Local allocation Tax hold 70% of total expenditure, which can be considered to present the necessity of financial reform.

Figure 2. Finance of Japan in 2012 (Expenditure, the Budget of Fiscal Year 2012



Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

Received
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September 19,2012

Published
October 31,2012

Table 1. The Budget Framework of General Account of FY 2012 of the Government of Japan

(Unit: billion Yen)

	FY2011 Budget	FY2012 Budget	FY2011'→ FY2012'	Notes
(Revenue)				Transfer the remaining reserves (¥996.7 billion) from the Special Account for Fiscal Investment and Loan Program to Special Account of Government Debt Consolidation Fund as refunding Reconstruction Bonds Bond Dependency Ratio: 49.0% (FY2011: 47.9%) Medium-term Fiscal Framework: "Make every effort to ensure that the amount of new government bonds issuance in FY2012 does not exceed that in FY2011 (approx. ¥44 trillion)"
Tax revenue	409,270	423,460	14,190	
Other Revenue	71,866	37,439	△34,427	
Secured by Special Acts	24,897	-	△24,897	
Government Bond Issues	442,980	442,440	△540	
Construction Bonds	60,900	59,090	△1,810	
Special Deficit-Financing Bonds	382,080	383,350	12,270	
Total	**924,116**	**903,339**	**△20,777**	
(Expenditures)				
National Debt Service	215,491	219,442	3,951	
Primary Balance Expense	708,625	683,897	△24,728	Medium-term Fiscal Framework: "Primary balance expenses will not, in substance, exceed that of the previous fiscal year" Excludes the amount required to ensure one-half support for basic pension expense by national government contribution in FY2012 which would be financed by government compensation bond reimbursed by fiscal revenues acquired by drastic reform of the taxation system
Social Security	287,079	263,901	△23,177	
Local Allocation Tax Grants, etc.	167,845	165,940	△1,905	
Contingency Reserve for Economic Crisis Response and Regional Revitalization	8,100	9,100	1,000	
Transfer to Special Account for Reconstruction from the Great East Japan Earthquake	-	5,507	5,507	
Others	245,601	239,448	△6,153	
Total	**924,116**	**903,339**	**△20,777**	

(Note 1) Figures may not add up to totals due to rounding.

Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

According to the Framework of FY 2012 Budget, it is recommended to "make every effort to ensure that the amount of new government bonds issuance in FY2012 does not exceed that in FY 2011", even though the bond dependency (49%) increased. Because Special Account has been formed for the reconstruction from the Great East Japan Earthquake, some budgets expenditures including social security related expenditure have been reduced.

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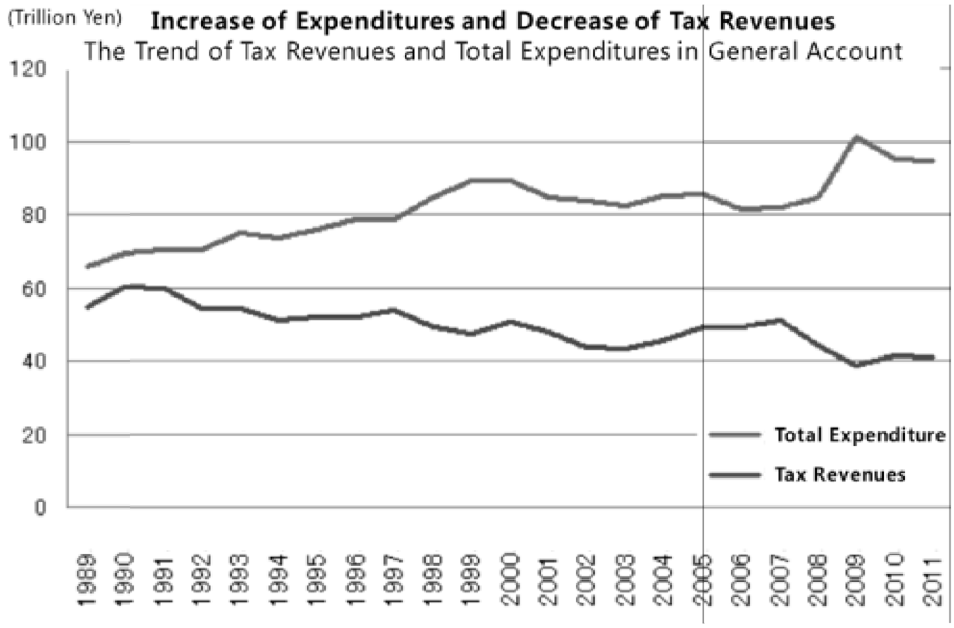
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

Asian Journal of Human Services , VOL.3 105-130

Figure 3. The Trend of Tax Revenues and Total Expenditures in General Account in Japan



Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

As shown in Figure 3 about the trend of Tax Revenue and Total Expenditure in General Account in Japan for the last 20 years, while the expenditures have steadily increased due to the increase of Social Security expenditure and Local Allocation Tax, the Tax Revenues have clearly decreased due to the prolonged economic depression and the decrease of economically active population.

② Bonds in the Finance of the Government of Japan

If the expenditures of central and local governments cannot be financed by tax revenues, the government issues bonds to borrow money from private sector. As of end-FY 2012 Government Bonds outstanding is over 709 trillion Yen, which may become the great obstacle against the reform for the financial soundness.

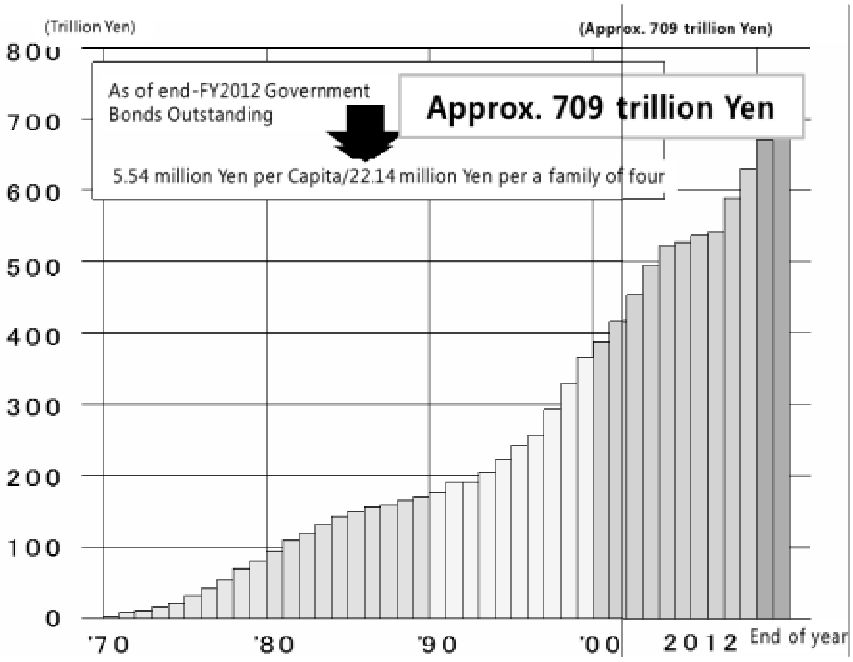
The Government Bonds Outstanding of Japan has steadily increased since 1970's; especially it has rapidly increased from 1990's. 709 trillion Yen, which is the forward projection of as of end-FY 2012 Government Bonds Outstanding, is almost the same as the Tax Revenues of the Government of Japan for 17 years and can be converted to the debt of the 5.54 million Yen per person; it is expected to be a great burden of future generations in Japan.

Received
July 12,2012

Accepted
September 19,2012

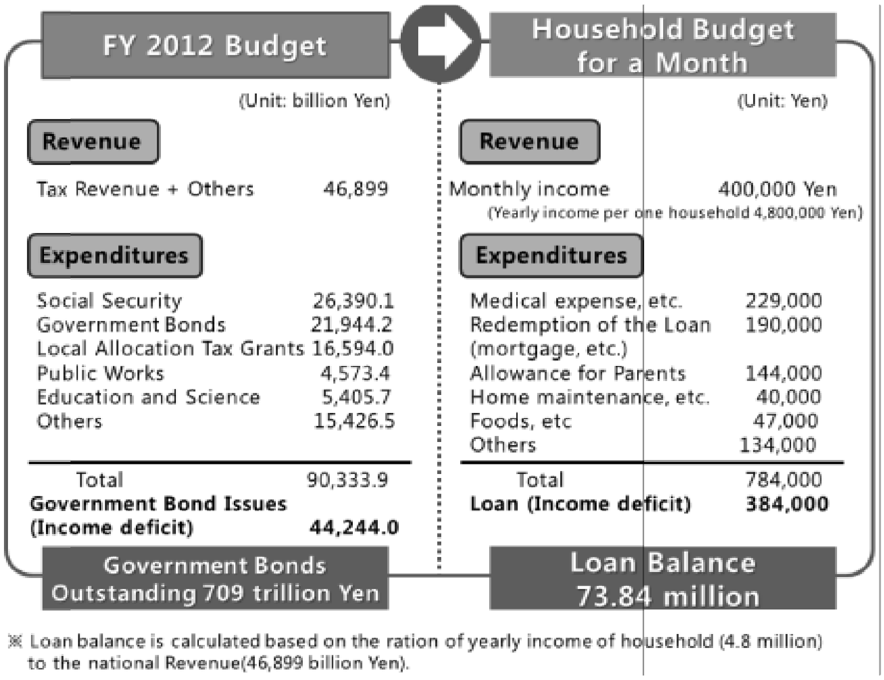
Published
October 31,2012

Figure 4. The Trend of Government Bonds Outstanding in Japan



Source: Ministry of Finance, Outstanding Government Bonds and Borrowings （2011）

Figure 5. Conversion of Japan's Budget into Household budget for a Month



Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

Received
July 12,2012

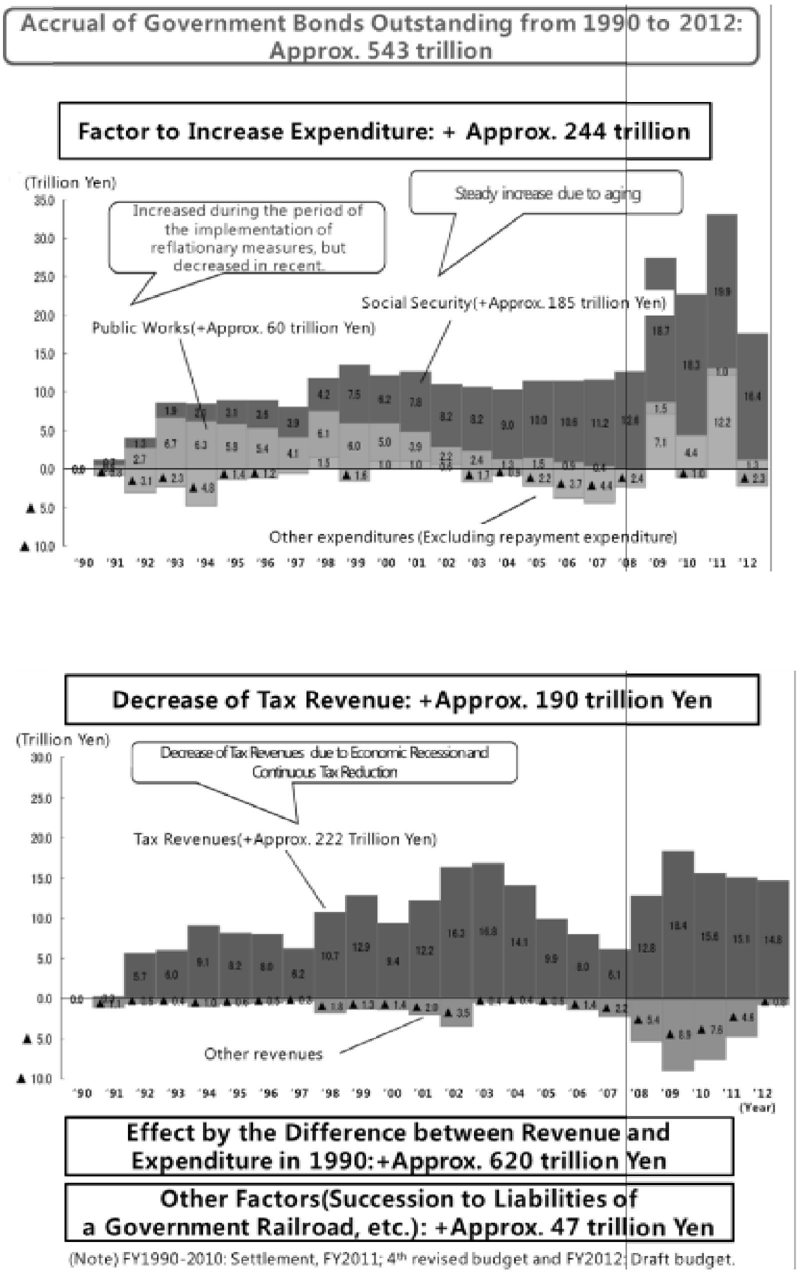
Accepted
September 19,2012

Published
October 31,2012

③ The Factors to Increase the Government Bonds Outstanding in Japan

Looking at the accrual of Government Bonds Outstanding, while it was induced by the increase of public works in Total Expenditures in 1990's, it was done by the increase of social security in recent; in the aspect of Tax Revenues, the prolonged economic depression and deterioration and the decrease of Tax Revenues due to tax reduction also have induced its increase.

Figure 6. The Reasons of the Increase of Government Bonds Outstanding in Japan



Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

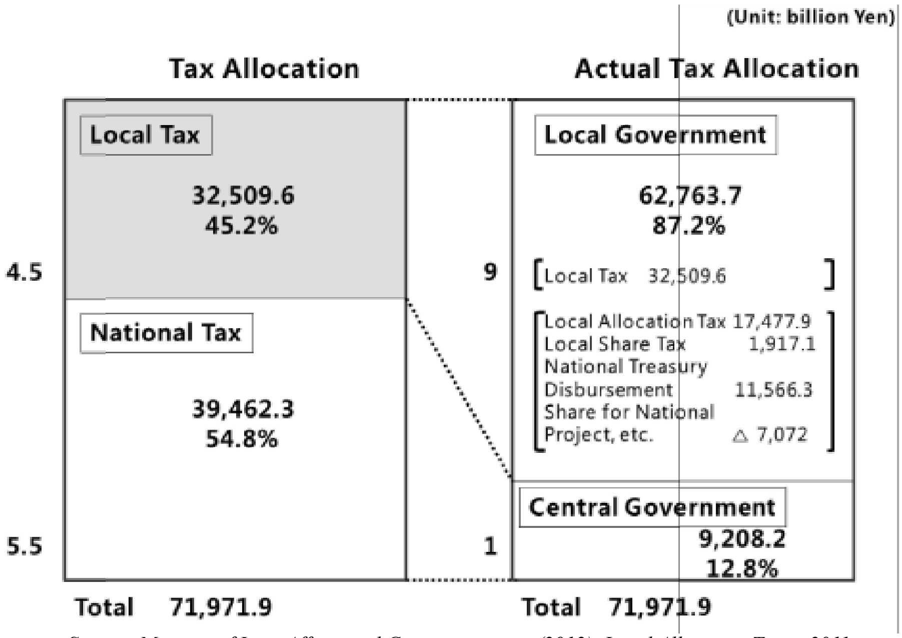
Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

④ Financial Relationship between Central and Local Governments in Japan

Figure 7. Finance Allocations between Central and Local Governments



Source: Ministry of Inter Affairs and Communications (2012), Local Allocation Tax in 2011

Tax Revenues in local governments are generally made up for with local taxes, local allocation tax and national treasury disbursements.

Local Tax is the biggest finance source of local governments and cannot be imposed by local government autonomously; the items and tax rate are determined pursuant to the Local Taxes Act, which enable to prevent local governments from arbitrarily changing them; there is a penal provision that local governments that impose a tax with lower rate than prescribed standard rate in the Local Taxes Act are prohibited from issuing local government bonds.

Local Allocation Tax is transferred to local governments at a certain percentage of National Tax without stipulating the uses.

National Treasury Disbursement is the grants that are allocated to local governments by central government stipulating where to use it; it is usually used for the works or policies of state and cannot be used arbitrarily.

As a law, local government cannot issue local government bonds independently; local governments require the permission of the Minister of Internal Affairs or Communications and the Governor of Prefecture (Local Bond Permits System); likewise, central government of Japan is deeply involved into the finance of local governments.

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

Ⅲ. Financial Adjustment of Central and Local Government in the Social Welfare Sector

1) Social Welfare Basic Structural Reform and the Reform Package of Three Issues

In 2000, Social Welfare Basic Structural Reform, which led to amend Social Welfare Service Act to Social Welfare Act, has begun; since 1990's, the providers of social welfare services have been diversified and, since 2000's, private service providers became to actively participate in the business under the pretext to provide qualitatively good services and activate social welfare services. Under the slogan of the establishment of community-oriented welfare, local residents as well as the providers who provide social welfare services and the persons who take part in the social welfare related activities are involved in providing social welfare services, which shows that social welfare services are being provided based on citizen autonomy in the local self-government system(大藪 元康 2011).

Administrative and financial management of local government is determined by the counselors who are selected by local residents. Even though residents need to monitor whether their representatives works administratively and financially well or not, they don't seem to be quite interested in the works of local government. However, the discretionary power of local government has increased due to the Social Welfare Basic Structural Reform and the National Treasury Subsidy related to social welfare services has been reduced, which induce local residents to participate in the management of local government. Because social welfare services are closely related to the needs of local residents, local residents usually react to the increase or decrease of social welfare services sensitively.

Between 2004 and 2006, the Package Reform of Three Issues have been implemented ① to abolish national subsidies, ② to transfer tax bases from central government to the local government and ③ to review the system of Local Allocation Tax. According to the Package Reform of Three Issues, the reduced National Treasury Subsidy is compensated with the transfer of sources of taxation; Income Tax (National Tax) is replaced by the Residence Tax (Local Tax), that is, without changing the amount of tax from each resident, the Tax Revenues of local government can be increased; from the point of view of taxpayers, they pay the same amount of money to other tax levier.

However, special attention needs to be paid to the difference of financial power among local governments. Local governments in the prefecture level, where economically active population density is high, have financial power, but other local governments do not have sufficient Tax Revenues. This is the reason that Local Allocation Tax plays an important role for the financial adjustment. Local Allocation Tax, which is made from a certain rate of National Tax (Income Tax, Corporate Tax, Liquor Tax, Consumption Tax and Tobacco Tax) [3], is given to local governments; it plays roles to adjust the difference of financial

Received
July 12,2012

Accepted
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Published
October 31,2012

[3] Local Allocation Tax is made from 32% of Income Tax and Liquor Tax, 34% of Corporate Tax, 29.5%

power among local governments and to ensure the financial resources that enable local government to provide a certain level of administrative services. While National Treasury Subsidy limits the uses, Local Allocation Tax doesn't limit the uses because it is general resources. In this context, it can be said that National Treasury Subsidy has changed to general resources of Local Allocation Tax.

As, due to the decentralization of welfare policy, social welfare services are delivered based on the local government level and the finance for social welfare services are made from general resources, the discretionary power of local governments cannot help being expanded. Under the circumstances without the regulation of central government, the difference of quality in the social welfare service may occur among local governments; it is necessary for local residents to actively participate in the works of local government to solve the problems from the difference of quality in the social welfare services.

Local Allocation Tax that central government provides for local government is the part of decentralization; namely it is the decentralization of welfare policy. Because the total amount of Local Allocation Tax is limited, the assurance of National Minimum of administrative services as well as social welfare services has become a very critical issue.

Long-term consideration and research on the effects of the Package Reform of Three Issues of Japan on the finance of local governments, especially on the social welfare related finance need to be conducted.

2) The Finance of Social Welfare in Japan

In the aspects of economics and finance, the social security system is the structure that central government secures the finance by gathering tax or insurance premiums and provides social security services for citizens through the diverse system related to social security (片山　信子, 2008).

In Japan, the allowance of social security is provided based on the finance made of insurance premium and public expense (of state and local governments) and the total amount of the allowance of social security has steadily increased every year.

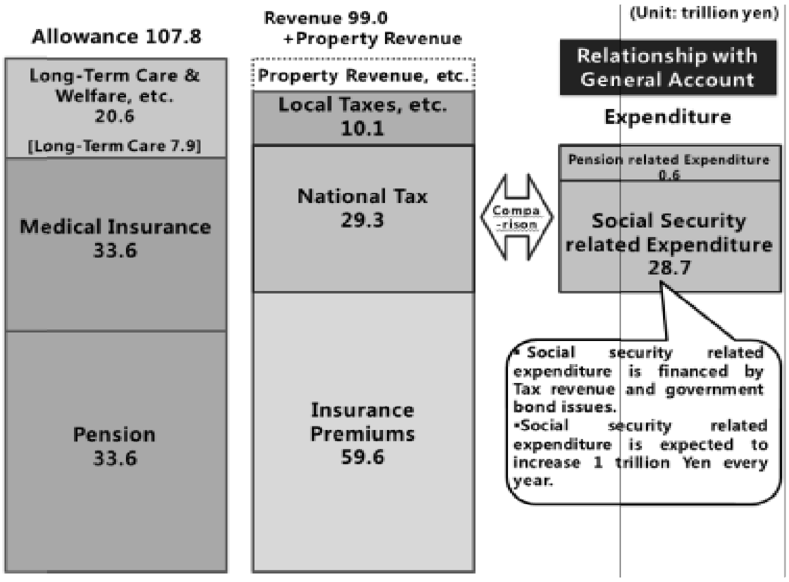
Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

of Consumption Tax and 29.5% of Tobacco Tax(大藪　元康　2011).

Figure 8. The Allowance of Social Security in Japan



Source: Ministry of Finance Japan, Japan's Fiscal Condition, September, 2011

The expenditure related to social security has steadily increased due to the rapid increase of the elderly population in Japan.

In the budget of FY2010, social security related expenditure held 29.7% (28.2 trillion Yen) of total expenditure of General Account (94.6 trillion Yen) (In the budget of FY 2012, social security related expenditure is 29.2%). Social Security related Expenditure consists of the allowance of pension, health and long-term care (72.1%), living allowance (8.7%), social welfare services (15.2%), health and hygiene (2.1%) and employment and industrial accidents (1.8%) (See Table 2).

Table 2. Social Security related Expenditure for the Recent Five Years in Japan

(Unit: billion yen)

Major Expenditure Items	2006	2007	2008	2009	2010
Government Total Budget	81,445,481	81,842,570	84,697,395	100,973,424	94,594,166
Social Security Related Expenditure	20,554,984	21,140,981	22,561,742	28,716,151	28,248,922
Allowance of Pension, Medical and Long-Term Care Insurance	-	-	-	19,720,881	20,338,997
Living Allowance	2,006,227	1,982,011	2,047,261	2,289,060	2,459,871
Social Welfare	1,562,556	1,511,989	1,868,493	4,170,598	4,316,082
Health and Hygiene	485,101	415,404	404,672	1,121,827	618,035
Employment & Industrial Accidents	-	-	-	1,413,785	515,937
Social Insurance	16,267,327	17,080,269	17,900,055	-	-
Unemployment	233,774	151,307	341,261	-	-

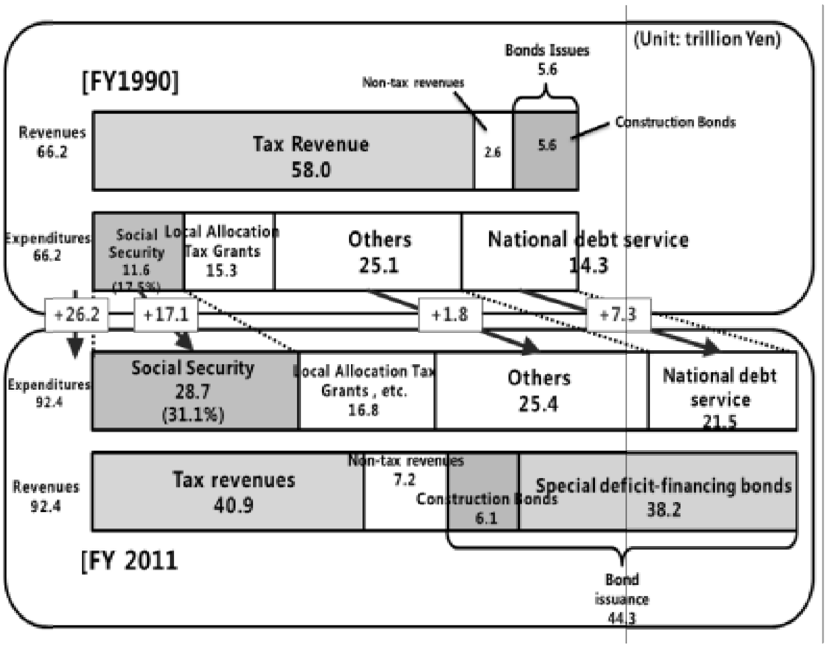
Source: Ministry of Finance, Annual Budget Report submitted to the National Diet

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

Figure 9. Comparison of General Account Budget between FY1990 and FY 2011



Source: Ministry of Finance, Annual Budget Report submitted to the National Diet

Comparing Japan's General Account Budget between FY1990 and FY2011, it is found that most of the growth in expenditures is due to the increase in social security expenditure. The increase in government bond issuance results from the growth of social security-related expenditure as well as falling tax revenues.

The Local Allocation Tax in Japan is the local tax that central government collect instead of local governments, but guarantees the discretionary uses of local governments. The operation of Local Allocation Tax is stipulated in the law; in accordance with this Law, (1) allocate the total sum of local allocation tax to the local bodies whose financial needs exceed their financial revenues with fairness, to make good such deficiencies, (2) the State shall, in granting allocation tax, respect the principles of local autonomy and shall attach no conditions or impose no limitations on the use thereof, and (3) each local body shall make best efforts to maintain a reasonable and appropriate level of administration, and see to it that it conform at least to the minimum standards of scale and quality established by laws or cabinet orders duly delegated by laws.

Local Allocation Tax in Japan is the total of Income Tax, Liquor Tax, Corporate Tax, Consumption Tax and Tobacco Tax and it is also stipulated in the Law just like that of South Korea; and there may also be addition and reimbursement of debt in General Account by the plan of local governments every year. (Jae-Won Lee, et al., 2007).

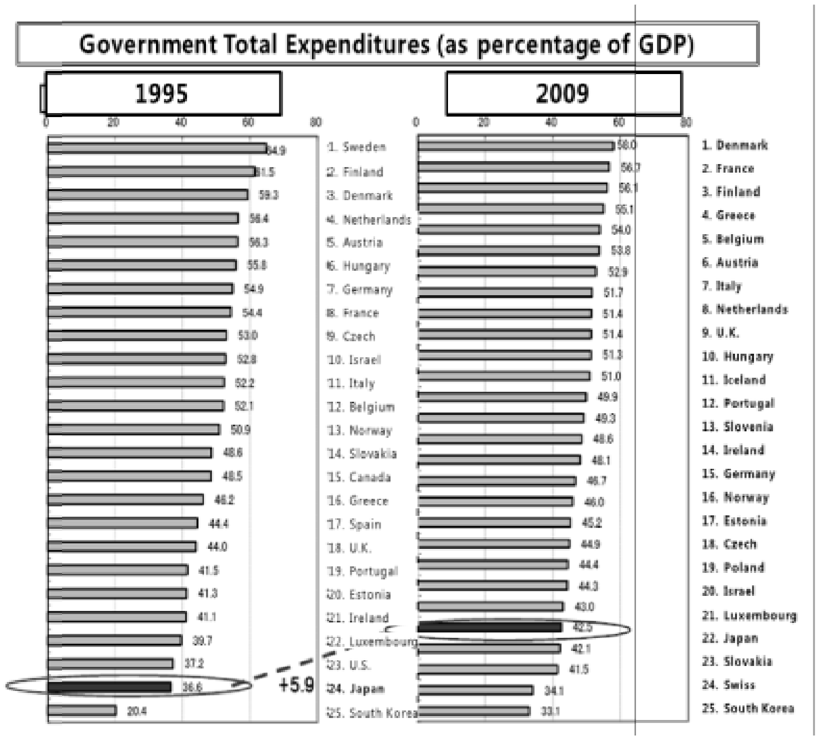
Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

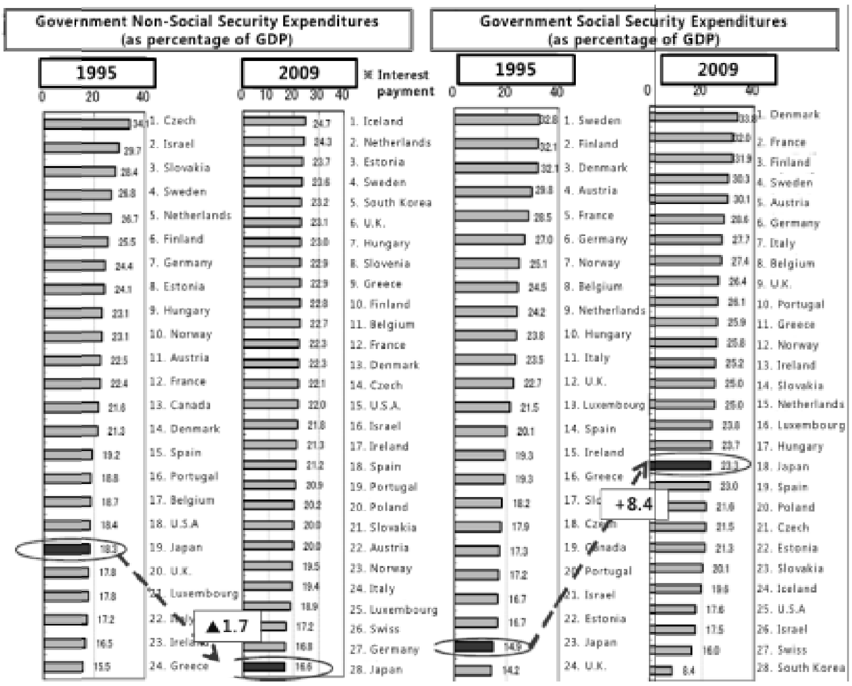
Asian Journal of Human Services , VOL.3 105-130

Figure 10. Comparison of Government Total Expenditures of OECD countries



Source: OECD "Economic Outlook 76", "National Accounts 2010 vol.II", "Stat Extracts National Accounts"

Figure 11. Comparison of Social Security related Expenditure of OECD countries



Source: OECD "Economic Outlook 76", "National Accounts 2010 vol.II", "Stat Extracts National Accounts"

Received
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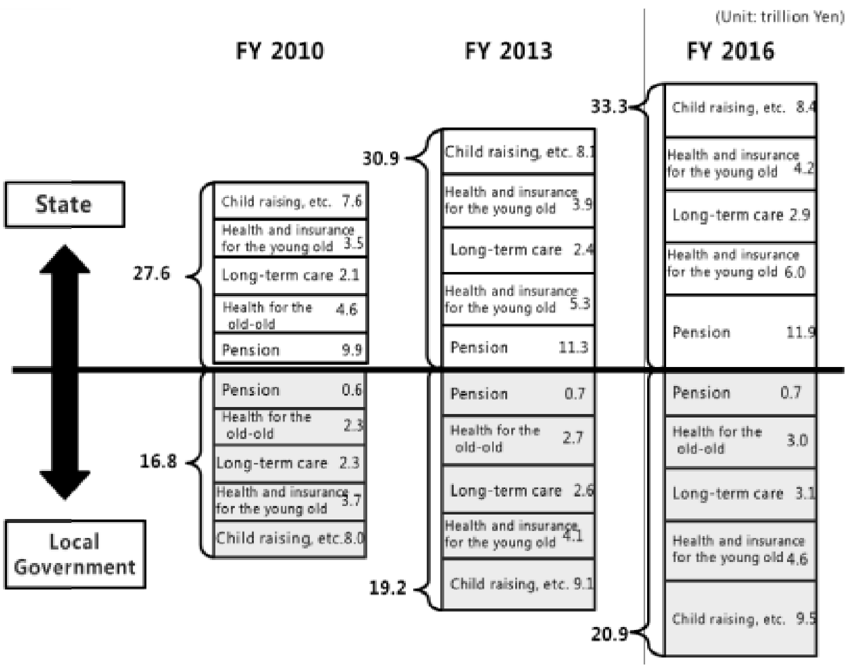
Asian Journal of Human Services , VOL.3 105-130

In Japan, government social security expenditure is increasing along with the progress of population aging among OECD countries.

3) The Cases of Sharing of Social Welfare related Expenditure in Japan

The operating bodies of social security system in Japan are divided into central government (state) and local governments; local governments are divided into prefectures and municipalities. 27.6 trillion Yen of the share of central government for social security related expenditure and 16.8 trillion Yen of that of local governments in 2010 are expected to become 33.3 trillion Yen and 20.9 trillion Yen each in 2017 due to the low fertility and population aging (See Figure 12).

Figure 12. The Estimation of Social Security related Expenditures



Source: Ministry of Internal Affairs and Communication, The Report on the Social Security and Local Taxes (February, 2011)

Social security benefits are composed of benefits in cash and benefits in kind.

Benefits in cash based on the basic pension or public assistance are provided pursuant to the standard guideline of central government, but benefits in kind including diverse welfare services are provided pursuant to that of local government, because they need to be given under the consideration of the regional characteristics (Jae-Won Lee, et al., 2007).

The operation body of the pension benefit that is the representative benefit of social security services in Japan is central government and National Pension is mandatory for all the citizens. Employees of private companies and public servants are required to mandatorily join welfare annuity insurance or pension deduction. Municipal

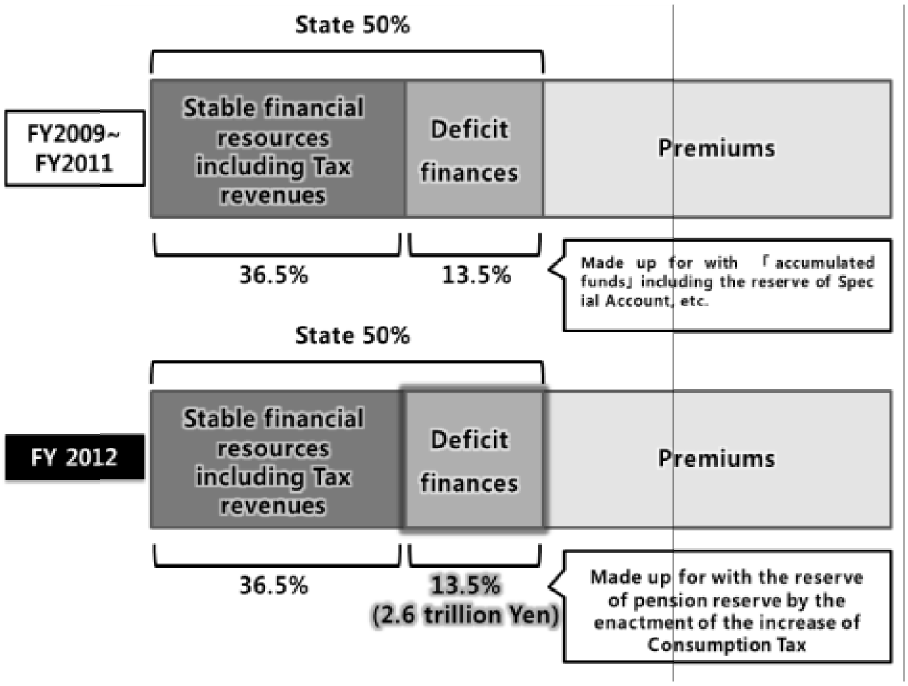
Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

governments take the responsibility to manage the applications for National Pension and to collect its payment and Social Insurance Agency and other related agencies are in charge of collecting insurance premiums. The National Pension is financed by national treasury (a half) and pension premium (a half) (See Figure 13).

Figure 13. The Financial Resources of National Pension in Japan



Source: Jiji Press HP

In Japan, the types of Public Assistance, which is another kind of benefits in cash include livelihood assistance, education assistance, housing assistance, medical assistance, long-term care assistance, maternity assistance, occupational assistance and funeral assistance. Central government that finances Public Assistance determines the amount of benefits and local government that operate its services let local social welfare offices determine and implement the contents of services. Central government shares in three fourth of the costs of assistance and the operation of facilities that local governments demand and local government that is in charge of shares in one fourth of them. In summary, local governments who understand the needs of local residents are in charge of providing public assistance services and central government takes the responsibility for the design of system and the finance. Due to the partial amendment of National Health Insurance Law, in 2012, National Health Insurance is financed with public expense (1/2) and insurance premiums (1/2); public expense is consisted of national

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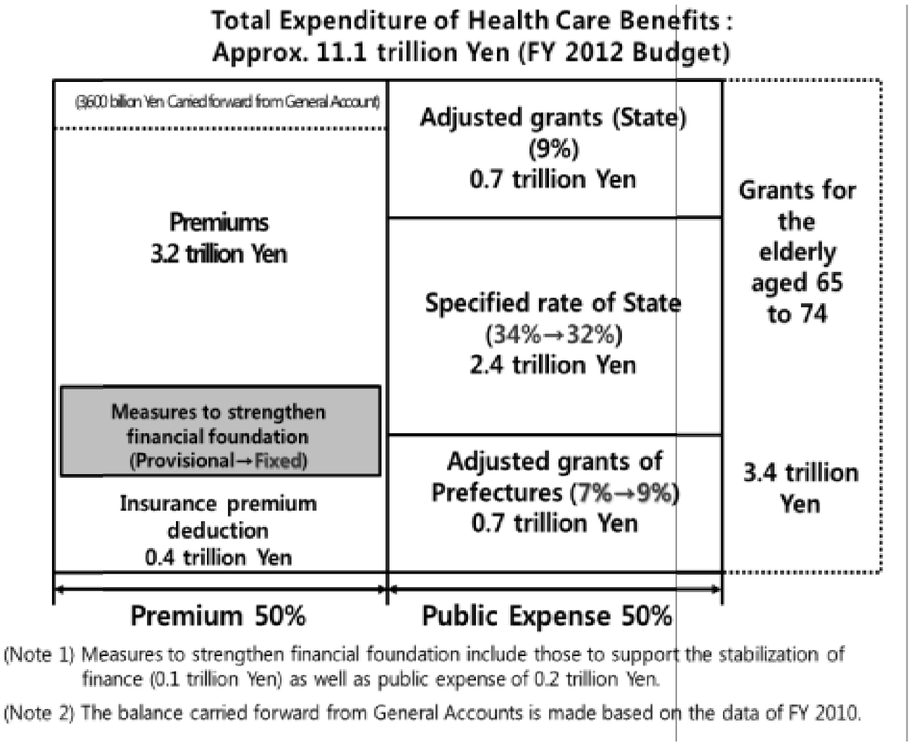
Published
October 31,2012

treasury (41%) including adjustment subsidy (9%) and the share of local governments (9%) (See Figure 14).

Figure 14. The Financial Resources of National Health Insurance in Japan



Source: Ministry of Health, Labour and Welfare, Report on the Partial Amendment of National Health Insurance, April, 2012

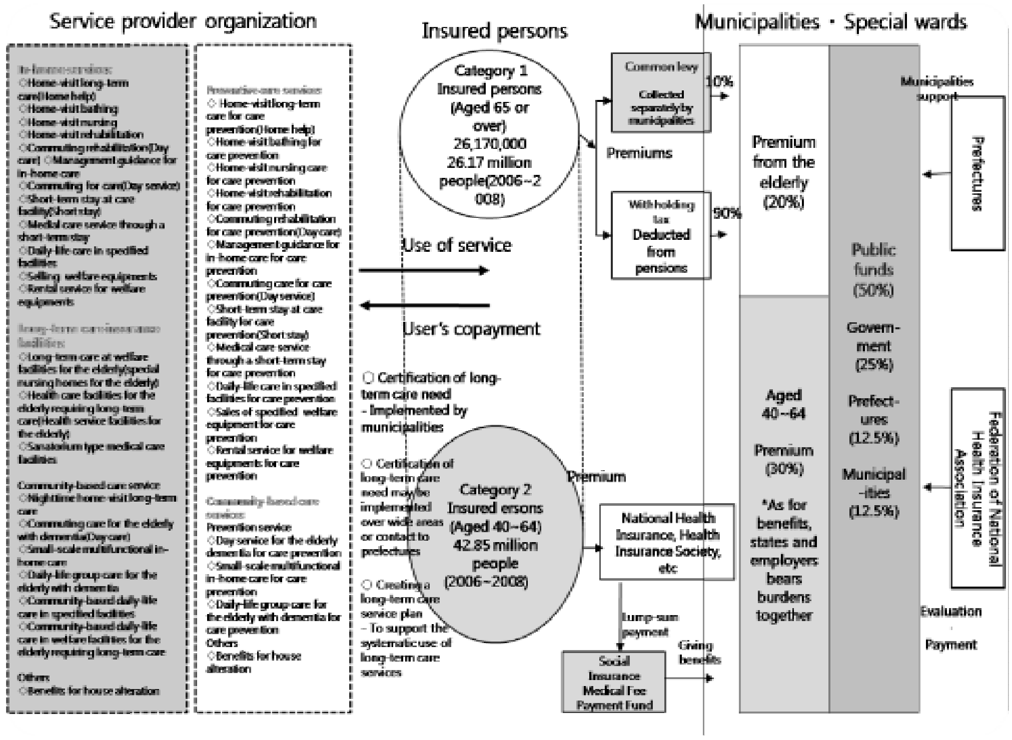
The representative benefits in kind in Japan are Long-Term Care Insurance Services. The system and financial resources of Long-Term Care Insurance Services are shown in Figure 15.

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

Figure 15. The System and Financial Resources of Long-Term Care Insurance Services in Japan



Source: Ministry of Health, Labour and Welfare, Health and Welfare Bureau for the Elderly, (2006)

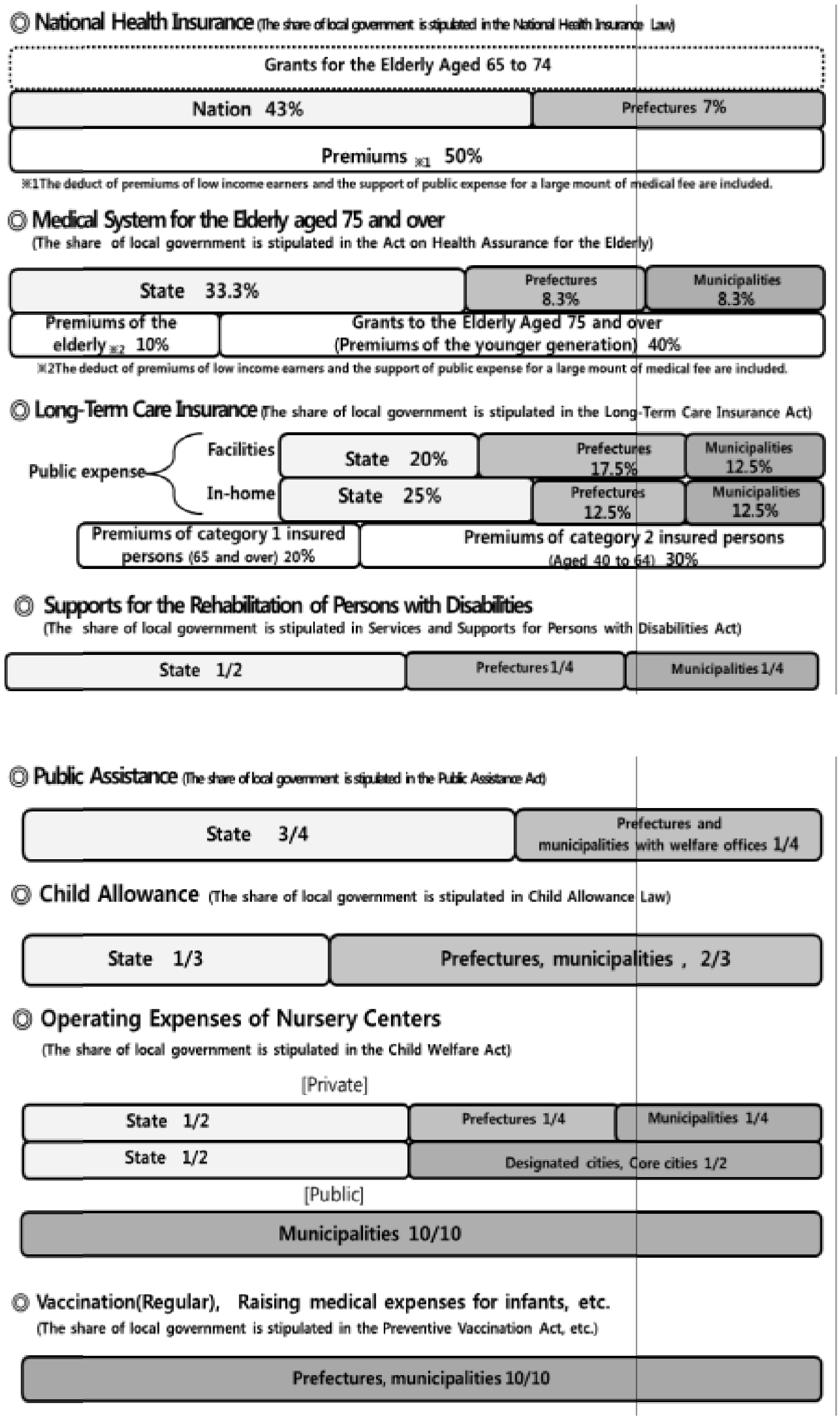
The major services of social security and social welfare include supports for the rehabilitation of persons with disabilities, child allowance and operating expenses for nursery centers and the financial resources are shown in Figure 16.

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

Figure 16. Financial Resources of Major Services of Social Security and Social Welfare



Source: Ministry of Internal Affairs and Communications, Report on the Finance of Social Security and Local Taxes, February, 2011

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September 19,2012

Published
October 31,2012

Ⅳ. Conclusion

While Japanese enjoyed the richness of bubble economy, socialist states collapsed in the Eastern Europe. Since then, the market economy has been dominant in the world economy. The system of welfare state began to face crises and low fertility and population aging have caused new crises. In this situation, Japanese have emphasized the stability and development of market economy system more than welfare, health, safety or nature conservation just like other European countries (Chang-Wan Han, et al., 2011).

Just like that neo-liberalism made an appearance in the crisis of capitalism among the western countries in the mid 1970's, Japanese also accepted neo-liberalism ideology in the process of overcoming the crisis of welfare state. As shown in the Social Welfare Basic Structural Reform, social security system could not avoid being reformed as the neo-liberal style; restructuring essentially was steered for the return to market fundamentalism and the decentralization.

In Japan, the marketization and decentralization of welfare was done based on the deregulation; deregulation is the administrative reform to abolish public regulation and to aim at small government.

In the meantime, the understanding of the change of paradigm and the consideration of actual financial situation in the aspect of system reform enabled to project the future more clearly.

According to the Ministry of Health, Labour and Welfare, the share of central government for the public expense for the social security related expenditure is expected to increase to 59 trillion Yen (11.5% of National Income) in 2025 from 26 trillion Yen in 2004 (Ministry of Health, Labour and Welfare, 2012). Under the difficult situation that Government Bonds Outstanding, which is the debt of state, is projected to be over 709 trillion Yen (end of FY 2012), the increase of social security related expenditure is going to be a bigger burden on the central and local governments.

Under the circumstances, the discussion that social security system needs to be managed based on the cost of social security benefits or the rate of economic growth with securing the sustainability of the system has been held; the discussion to emphasize the stability and development of market economy system. While the National Treasury Subsidy for the finance of local government had abolished or reduced due to the Package Reform of Three Issues, the way that the National Treasure Subsidy for the Social Security related expenditure can be dealt with became an issue. In the situation that the reform of social security and Consumption Tax is focused on the increase of Consumption Tax by the government that Democratic Party seized, it is possible that the discussion about social security reform would stand out as the issue to determine the future of Japan.

Japan has a long story of local self-government; considering that centralization began to be conducted in earnest after the Meiji Restoration (1868), it can be said that the history

Received
July 12,2012

Accepted
September 19,2012

Published
October 31,2012

of centralization is very short. Even though Japan has a rich history of local self-government, the exhaustion of local industries that was brought by the great change of structure of population due to low fertility and population aging (excessive population growth in urban area and rapid aging in rural area) has induced the chronic depression and recession of local economy; naturally, the fiscal capacity has been lowered and the regional inequality has been deepened. It is a serious problem that the local government with the great demand of social security and welfare services due to the population aging tends to have a lower level of fiscal capacity, which is the matter to be considered when exploring the way to effectively share the social welfare expenditures.

The most important thing for the decentralization is to strengthen self-determination. The strengthening of self-determination is essentially accompanied with the expansion of self-responsibility. Considering the current situation of the deterioration of financial status, the abolishment or reduction of National Treasury Subsidy and the suppression of Local Allocation Tax, the expansion of self-responsibility of local governments can be considered as the avoidance of government's responsibility for the public policies. That is, it results in the situation that the responsibility returns to the local residents through the self-determination of local governments, which is the matter to need to be considered to explore the way to share the social welfare expenditures.

The government of Japan that has confronted accumulated problems has attempt to solve those problems with the marketization, decentralization and the increase of Consumption Tax, which means that central government shares the burden with market and local governments; the continuous and rapid increase of the demand of social security and social welfare services, the low rate of economic growth and the insufficient financial resources, the low fiscal self-reliance ratio of local governments, the deepening of regional inequality, etc.

For South Korea that has confronted similar problems, the situation of Japan would give the good lessons, which is the reason that the attention needs to be paid to the current situation of Japan.

George Friedman, renowned American political scientist and author, projected that Japan would have more powerful power and make a comeback as the biggest power in spite of frequent disasters in his book, Next Decade. He also forecast that Japan, which is different from China, is a strong nation that can endure the fiscal austerity with minimizing the social anxiety and make a breakthrough by reinforcing the naval power (George Friedman 2011).

The ceaseless observation and analysis are needed to be performed whether Japanese society can solve the piled-up problems as he forecast.

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September 19,2012

Published
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Published
October 31,2012

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