

Formation, Development, and Transformation of the Welfare State Regime in Japan

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“Society protected itself against the perils inherent in a self-regulating market system—this was the one comprehensive feature in the history of the age”

The Great Transformation by Karl Polanyi

In this essay, I will explain that assuming a point of view of “welfare state” in the broader sense is an effective method with which to understand structures and dynamics of modern capitalism. I show that the Japanese welfare state regime came into existence as a new constitution regime under American occupation, and that this regime developed with special features in the 1950s and 1960s. I will then clarify how this regime underwent transformation since the 1980s. I conclude by emphasizing that its transformation is an intraregime shift and therefore that the postwar welfare regime as a whole is still deeply-rooted in Japan.

I Contemporary capitalism and the welfare state

1. Definitions of the welfare state

I use the term “welfare state” not in the narrow sense that equates it with the social security system but in the broader one of social protection by the state. I define it as follows: The welfare state is a form of society characterized by a system of democratic, government-sponsored welfare placed on a new footing and offering social securities and social protections to its citizens, concurrently with the maintenance of a capitalist system of production.

There are many definitions of the welfare state around the world. In the English-speaking countries, the definition propounded by Wilensky is typical. He states that the essence of the welfare state consists in government-protected minimum standards of income, nutrition, health, housing, and education, guaranteed to every citizen as a political right, not as

an act of charity. However, when Wilensky defines the welfare state more concretely, he equates it with a set of social programs like pensions, death benefits, disability insurance; sickness and /or maternity benefits or health insurance or a national health service like Britain's ; and family or child allowances.¹⁾

Some researchers criticize this definition which is the mainstream in Britain and America on the ground that it is too narrow. They argue that the full employment policies or policies to stabilize industrial relations play important roles in the real welfare state system, and that these policies should be included within the definition of the welfare state.²⁾

While these researchers considerably broaden the scope of the welfare state by including these policies, none the less they focus their subject of inquiry on a set of policies toward workers. Contrary to this still narrow focus, some Japanese scholars of public finance insist that a local allocation tax to ensure the equitable distribution of financial resources among local governments, national government disbursements for compulsory education , public works in rural areas, and expenditures to support weak industries like small business or agriculture should be included within the category of expenditures undertaken by the welfare state.³⁾ The reason for such assertions is that these policies and expenditures give stability to society by redistributing income and giving earning opportunities to lower income and wealth classes, regions, and industries. This concept of "the welfare state in a broader sense" is similar to Polanyi's concept of "social protection" because both notions encompass a much broader conceptualization of "welfare" as providing shelter for people like workers, farmers, and small businesses against severe market pressure.

These notions of "the welfare state in a broader sense" have played important roles in analyses of contemporary capitalism. The reason for this is that after World War I, the Great Depression, and World War II advanced capitalist states provided social protection – and achieved redistribution – through a wide variety of instruments: trade protection, minimum wages, centralized collective bargaining, product market regulation, zoning, control over markets delegated to producer groups, and , of course, social security systems. The essential feature shared by all these instruments is that they disconnect or buffer income streams from market outcomes, whether these incomes take the form of wages, employment, or profits.

A social security system is not the only mechanism for redistribution. As Herman Schwartz has written: "The astounding thing about the so-called 'golden era', after all, was not widespread recourse to formal welfare by those in the labor market or even the deliberate (if only occasional) use of expansionist monetary policy." The important fea-

ture of the golden era was stable employment, wages, and investment across all sectors, and predictable access to deferred wages after retirement. States created this stability in reaction to the exposure of virtually all life chances and income streams to the logic and volatility of the market. They did not do so only to benefit workers and workers alone were not the only actors who benefited from and campaigned for redistribution and stability.⁴⁾

When the expression ‘welfare state’ is used in the sense as previously defined, the welfare state systems in Japan have undergone quite radical transformations since the 1980s.

2. The welfare state system

While “welfare state theory in a broader sense” focuses on welfare functions (stabilization functions and redistribution functions), a welfare state system approach emphasizes that not only state or government but also other institutions like labor unions, agricultural cooperatives, and even business corporations perform welfare functions in contemporary capitalist societies.

John M. Keynes insisted that “I believe that in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and the modern State. I suggest, therefore, that progress lies in the growth and the recognition of semi-autonomous bodies within the State” in “The End of Laissez-Faire” (1926).⁵⁾ Gunnar Myrdal maintained that “As a result of this development, the whole character of our national communities is changing. What in reality – constitutional form aside – constitutes public policy is now decided upon and executed in many different sectors and on different levels: not only directly by the central state authorities and by provincial and municipal authorities, which in this process are taking over more and more responsibilities, but also increasingly by a whole array of ‘private’ power groups, organized to promote group interests and common causes.”⁶⁾ Both Keynes and Myrdal therefore placed high value on non-government organizations in providing social security and social protection for the people.

Hence, social corporatism or interest-group liberalism have wide appeal in Western societies. The reason for this popularity is that these forms of corporatist-type coordination answer the question of how meaningful planning can take place without changing into a command economy like the Soviet Union. This corporatist coordination was preferred by the Swedish Social Democrats. And, in countries like the United States where the people have traditionally feared the state, interest groups carry out many public policies on behalf

of the latter.⁷⁾

The foregoing discussion highlights the importance of broadening our horizons to cover local government, social security funds, labor unions, and business companies when we analyze real welfare states or welfare societies.

II Formation of the welfare state regime in Japan

After World War I, Japan too witnessed the experimentation stage of the welfare state. We can discern a germinal stage of the welfare state in the following facts: that the income tax became a key national tax; that a finance minister Takahashi adopted fiscal policy to combat unemployment and the impoverishment of rural areas during the severe depression of the 1930s; and that a local allocation system was created to secure the equitable distribution of financial resources among local governments. Important in this regard is that the health insurance law (1922), the national health insurance law (1938), and the pension law for workers (1941) were introduced.

In spite of these facts, I maintain that the Japanese welfare state regime were formed after World War II in the days of occupation.

World War II was the final paroxysm of a long period of turmoil. From it there emerged a new hegemonic era in which the United States assumed the same kind of leadership that Britain had exercised during the mid-nineteenth century. In 1945 the United States sought to reconstruct the entire world including Japan in its own image. The Supreme Commander for the Allied Powers (SCAP) imposed a series of reforms in 1945 and 1946. These were based on the rationale that militarism stemmed from monopoly, tyranny, and poverty. Constructing a peaceful, nonmilitaristic Japan required more than disbanding the military: it necessitated wide-ranging reform to eliminate authoritarian political rule, equalize political rights and even wealth, and transform values.⁸⁾

SCAP announced the first major reforms in October 1945, with a declaration that guaranteed freedom of speech, press, and assembly and rights to organize labor or farmer unions. SCAP also ordered the Japanese government to extend civil and political rights to women. In December, SCAP instructed the Japanese government to undertake land reform as well. With these orders, the occupiers sent out the message that the democracy should be the basis of the new Japanese regime. The culmination of this endeavor was the rewriting of the constitution. Drafted by a committee of occupation officials in the winter of 1946, this new constitution was discussed and ratified that spring by the imperial Diet and then

promulgated in November 1946.

The new constitution not only granted to the people of Japan an array of fundamental human rights but also boldly extended the concept of rights into social realm and outlawed discrimination based on sex, race, creed, social status, or family origin as follows.

Article 14 :

All of the people are equal under the law and there shall be no discrimination in political, economic or social relations because of race, creed, sex, social status or family origin.

Article 21 :

Freedom of assembly and association as well as speech, press and all other forms of expression are guaranteed.

Article 25 :

All people shall have the right to maintain the minimum standards of wholesome and cultured living. 2) In all spheres of life, the State shall use its endeavors for the promotion and extension of social welfare and security, and of public health.

Article 26 :

All people shall have the right to receive an equal education correspondent to their ability, as provided for by law. 2) All people shall be obligated to have all boys and girls under their protection receive ordinary education as provided for by law. Such compulsory education shall be free.

Article 27 :

All people shall have the right and the obligation to work. 2) Standards for wages, hours, rest and other working conditions shall be fixed by law. 3) Children shall not be exploited.

Article 28 :

The right of workers to organize and to bargain and act collectively is guaranteed.

Article 29 :

The right to own or to hold property is inviolable. 2) Property rights shall be defined by law, in conformity with the public welfare. 3) Private property may be taken for public use upon just compensation therefore.

The postwar constitution declared in these articles that Japan would adopt a welfare state regime like those of the Western countries. Finally, its article 9 committed the Japanese people to forever renouncing “war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.” This article too related to the postwar Japanese welfare state form as discussed below.

There are those who argue that the constitution is formal showpiece without effective

measures. Others maintain that the postwar constitution was forced through by the United States. I disagree with these contentions. Most of the Japanese people welcomed the constitution and its ambitious provisions, as officially sanctioned goals or ideals, have framed the discourse and institutions of postwar Japanese life until today.

Like the constitutional reform, the occupation forces implemented many other radical reforms, for instance of land ownership, the electoral system, labor relations, and the educational system. Most of them took deep root in postwar Japanese society and gave rise to the Japanese welfare state regime. Why were these reforms carried out? Why did they take hold in Japanese society? I shall consider these questions by taking land ownership reform as an example.

Land ownership reform was one of the most radical and thoroughgoing changes introduced during the occupation period, and it all but eliminated exploitative landlordism and rural tenancy.

Landlords had been on the defensive in the 1920s and early 1930s. Organized groups of tenants had frequently confronted them with successful demands for rent reductions or more secure tenancy rights. Many landlords had responded by selling off holdings. During the war, the government had intervened in the disputes less to promote social reform than to spur food production. In addition, bureaucrats within the Ministry of Agriculture had been calling for land reform since the 1930s as a way to bring social stability to the rural areas.⁹⁾

In light of these facts, Andrew Gordon maintains that land reform was a ‘transwar’ endeavor, and he says that this historical context explains the deep, enduring impact of the reforms initiated by SCAP.¹⁰⁾ I agree with his explanation. At the same time, SCAP certainly pushed for reforms that went beyond the intentions of Japanese officials themselves. The Japanese government enacted its own land reform law in December 1945. SCAP judged this to be weak and demanded that the government draft a second reform measure. A stronger law was approved in October 1946 and forced each landlord to sell all but a small, family-sized plot of farmland to tenants at 1945 prices.

Why did the Japanese government propose its first land reform plan on its own initiative? Why did it accept a much more sweeping measure? The main reason is that the government could not leave the instability of the postwar political structure as it was. Faced by regime crisis, the government made the maximum possible concessions to the farmers. The most effective measure to reduce political tension was the traditional policy of giving lands to the latter. In addition, food shortages intensified the regime crisis. Giving lands to

the farmers would boost their will to work hard and lead to increased food production.

As the land reform has demonstrated, the postwar reforms which constituted the Japanese welfare state regime arose from an endeavor to deal with the crisis of the prewar regime.

III Development of the welfare state regime

The Japanese welfare state system has developed from the postwar constitution regime. Next considered is the distinctive nature of the system. We can understand its characteristics of it by observing how the national budget has changed. As Rudolf Goldscheid has stated, the national budgets of a country plainly show the basic structure of the state.

Table 1 presents national general government expenditures analyzed by purpose and given as percentages of total expenditures from 1880 to 2006. World War II occurred between 1940 and 1950. It will be seen that expenditure structures have completely changed after World War II. National defense expenditures had accounted for between 30 percent and 50 percent of total expenditure during the pre-World War II period. In stark contrast to that age, postwar defense expenditures fell drastically to less than 10 percent. After World War II, defense expenditures were replaced by expenditures on local finance, land conservation & development, industry & economy, education & culture, and social security & welfare. This radical restructuring of expenditure structures highlights that Japan had changed from a militarist state into a welfare state.

Compared with European countries and the U. S., conspicuous in Japan is the larger scale of expenditures on local public finance, land conservation & development, and industry & economy (especially agriculture and small business).

Local public finance expenditure means the transfer of the local allocation tax to local governments by central government. The local allocation tax is levied to secure the equitable distribution of financial resources among local governments and to guarantee sufficient revenue with which to execute planned administration in each locality. Under this system, the national government sets aside a certain ratio of the national tax reserves as a common fund for local governments. It then distributes the fund among the latter according to their needs and local revenue sources, using a formula established by the national government to do so. As a result, local governments with weaker fiscal capacities situated in rural areas receive a larger per capita allocation tax than do local governments situated in large metropolitan areas (see Table 2).

Table 1 Central Government Expenditures by Purpose (%)

Fiscal year	General administration	Local finance	National defense	Land conservation & development	Industry & Edudation & economy	Social security and welfare	Pensions to public servant	Debt charge	Miscellaneous	Total
1880	26.6	0.0	31.5	4.3	9.1	1.4	0.5	23.6	2.0	100
1800	10.5	0.1	45.7	2.4	21.1	2.1	0.7	11.8	4.2	100
1910	10.4	0.1	34.5	3.0	10.6	1.6	0.5	30.2	4.2	100
1920	10.3	0.1	52.2	5.7	12.2	3.1	0.7	7.0	4.7	100
1930	10.6	0.1	28.6	5.9	15.7	9.0	1.1	17.7	1.7	100
1934 ~ 36	7.4	0.3	46.2	7.2	4.5	6.7	1.2	16.5	2.0	100
1940	5.6	5.2	50.3	3.1	9.0	3.5	1.6	15.5	1.1	100
1950	10.8	17.1	17.6	14.8	16.5	3.3	8.6	9.2	1.2	100
1960	9.7	19.1	9.4	16.9	9.4	12.1	13.3	1.5	0.2	100
1970	6.7	21.7	7.3	16.6	12.4	11.5	15.9	3.5	0.6	100
1980	5.0	18.1	5.2	13.8	9.2	10.7	21.3	12.7	0.2	100
1990	6.8	23.0	6.2	8.5	5.9	7.8	18.4	20.7	0.1	100
1995	5.5	16.2	6.2	14.4	6.7	8.7	22.3	16.9	0.9	100
2000	5.4	17.7	5.5	10.9	4.6	7.4	22.0	23.9	0.1	100
2006	5.3	18.3	6.1	8.1	3.4	6.2	27.2	23.5	0.2	100

Source : Hayashi Takehisa, Imai Katsuhito, and Kanazawa Fumio, eds., *Public Finance in Japan, Historical Statistics*, University of Tokyo Press, 2001

Table 2 Distribution of Local Allocation Tax among Prefectures
(Per capita base), 2000

	Per capita Tax Revenue (A)	Per Capita Local Allocation Tax (B)	Sum (A) + (B)
	(¥)	(¥)	(¥)
High fiscal capacity group			
Tokyo	269,030		269,030
Osaka	112,849	36,501	149,350
Aichi	128,238	23,392	151,630
Kanagawa	98,076	30,521	128,597
Low fiscal capacity group			
Kochi	76,636	273,929	350,563
Shimane	87,235	299,795	387,038
Tokushima	96,015	232,644	328,659
Akita	80,175	227,252	307,432

Source: Ministry of Home Affairs, *Chiho Zaisei Hakusho*, 2002.

Land conservation & development expenditures broadly termed ‘public work expenditures’. They comprise expenditure for erosion and flood control, road improvement, housing, sewerage systems, and disaster reconstruction. Japan’s public works spending as a proportion of national budget expenditures was higher than levels in all the other major industrialized countries after World War II. The pattern of public works distribution in Japan was even more impressive: a disproportionate share of public works spending went to low-income rural areas.

As national government expenditures have demonstrated, Japan’s postwar welfare state gave preferential treatment to the periphery like rural areas. Why did it do so? I shall now consider the reasons by examining agricultural policy and small business policy after World War II.

1. Agriculture policy

The land reform of 1946-1949 markedly changed the political economy of the Japanese countryside. It gave millions of farmers autonomy from the prevailing local conservative power structure which they had never enjoyed. The number of tenant households likewise decreased sharply. The fluidity of social conditions in the countryside was also greatly enhanced by the abolition of the conservative agricultural associations, or *nokai*, in December 1947. In many villages during the late 1940s, former landlords could no longer

play an authoritative role in mobilizing electoral support for the conservatives: non-conservative, and even radical, rural organizations threatened to take their place. The left-oriented agricultural unions (*nomin kumiai*) in many places retained strong organization and credibility from tenancy and food requisition struggles waged in the past against landlords and businessmen.¹¹

The erosion of the traditional conservative power structure in the countryside during 1945-1948 had major political consequences. In the first postwar election of April 1946 and the April 1947 general elections, the Socialist Party did very well in the countryside, obtaining over 20 percent of the vote in several mainly agricultural constituencies. Conversely, the conservative parties fared much worse in the countryside than many had anticipated.

The 1949 election brought a sharp rural swing away from the Socialists to Yoshida Shigeru's Liberal Party. Although the election established the preeminence of Liberal Party nationally, pronounced radicalization in some parts of the countryside also led to the election of nine Communists. Therefore, despite Yoshida's overwhelming electoral victory in January 1949, many Japanese conservatives were worried about both the stability of conservative rule, and the rural basis upon which it seemed even more decisively to rest.

Postwar Japanese conservative politicians have pursued distributive politics as a means to buttress their political preeminence. Strong support for agriculture was the first element of this distributive orientation to develop after World War II, and the basic programs of support for agriculture developed during two relatively short periods — 1949-1953 and 1960-1964, in addition to the great land reform of 1946-1949. These programs arose largely under the auspices of prime ministers Yoshida Shigeru and Ikeda Hayato. Major regional programs with importance for agriculture also emerged during the early 1970s, particularly under the leadership of Tanaka Kakuei.

The third Yoshida cabinet (1949-1952) witnessed the birth of major agricultural programs with important distributive political implications. On Agriculture Minister Hirokawa's initiative, compensation for agriculture in the face of the political crisis for the conservatives came in two forms: new policies to strengthen the agricultural cooperative system and a sharp increase in subsidies in order to expand rice production. These forms of compensation for agriculture were internationally distinctive in their reliance on private bodies which both performed public functions and operated in their own commercial interests with support.¹² There was a major quantitative increase in support for Japanese agriculture during the 1949-1953 period of crisis for the conservatives. In the space of four years, the share of agriculture in Japan's total general account budget almost tripled from

3.2 percent in to 8.8 percent.¹³⁾

The second period of major postwar policy change in agriculture came after the Japan-US Security Treaty crisis of 1960. After becoming the prime minister in the wake of the Security Treaty crisis, Ikeda Hayato announced a plan to double the incomes of the Japanese by 1970. The Japan Socialist Party promptly demanded that Ikeda should also commit himself explicitly to doubling agricultural incomes by the same date; in early September, 1960 he unveiled a basic agricultural law proposal to achieve this end. The Basic Agricultural Law was passed in June 1961. This law established the principle that government should “enable those engaged in agriculture to maintain a standard of living comparable to those engaged in other industries so that all Japanese citizens would enjoy the fruits of economic growth.”

The central operational means with which to realize the equality goals of the Basic Agricultural Law were assistance in agricultural mechanization and an increase in the price of rice. In the wake of the law’s enactment, rice price deliberation procedures were changed to give LDP agricultural Diet members a more central role. All this led to a rapid escalation of rice prices, beginning in 1961, and to a related increase in government spending on agriculture. Enactment of the Basic Agricultural Law also led to a substantial broadening of agricultural support policies beyond rice and it introduced other crops-related measures designed to bolster agricultural income.¹⁴⁾

Farmers thus became some of the principal beneficiaries of double-digit economic growth in Japan: through rapidly rising agricultural producer support prices, drawn from ever fatter government coffers; through rising part-time employment outside agriculture, much of it facilitated by the state; and through sharp increases in the value of the land which farmers owned. The government both compensated farmers directly from the proceeds of growth and helped them benefit from the pro rural biases which public policy created in Japan’s industrial and land use structure. Following a final sharp surge in farm prices during 1972-1975, farmers had per household incomes which were nearly 40 percent greater than those of city dwellers.

2. Small business policy

According to a survey conducted by the OECD in the 1970s, Japan had the most extensive range of policy tools to assist small business in the industrial policy.¹⁵⁾ They ranged from preferential access to capital, highly favorable tax policies toward small firms to pro-

tection of the distribution sector. These policies did not emerge overnight but were the outcomes of the new postwar regime and political struggles.

Before World War II, the state had been reluctant to negotiate with interest groups, aside from big business, as autonomous entities. The postwar political order was in part more democratic because state officials learned from the mistakes of excluding cooperative groups. Other significant factors that stimulated alliances between the government and previously neglected sectors included the institution of party government, the creation of new interest-oriented agencies, firmer guarantees of the right to organize labor unions and the rapid growth of the labor movement and other popular associations in agriculture and small business after 1945.

The small-business sector emerged from World War II with a strong desire to advance its collective interests in the political arena. Although the petite bourgeoisie had generally allied with the bourgeois parties before the war, it was not at all clear in the late 1940s that they would flock to support the postwar bourgeois ruling parties. There was much anger over the wartime government's high-handed promotion of large firms at the expense of small producers. Furthermore, the early Liberal Party cabinets of Yoshida Shigeru appeared contemptuous of smaller enterprises. Under the Priority Production Plan of 1946 the government gave large firms preferential access to capital and materials. The third Yoshida cabinet's implementation of Joseph Dodge's recommendations for drastic retrenchment in 1949 was devastating for many small and medium-sized concerns, whereas many big companies received extraordinary loans from the large commercial banks.¹⁶⁾

So great was the small-business sector's displeasure with the Liberal Party that there existed the unprecedented possibility of an alliance between the urban petite bourgeoisie and the Japan Socialist Party (JSP) from 1947 to 1950. But the Socialist party was unable to consolidate a national base in the small-business sector. It failed to capitalize on the political opportunity offered by austerity. In the wake of huge losses in the 1949 election, internecine struggles gave rise to separate Right Socialist and Left Socialist parties in 1951. A critical issue dividing the two wings was the strategy to adopt toward the petite bourgeoisie.¹⁷⁾

The stage was set for small business to negotiate a social contract with conservative politicians during the first half of the 1950s. This compact resulted in a stream of protectionist measures that were often enacted despite the opposition of the market-oriented bureaucrats and ruling party leaders. Major policy innovations favoring small business were the following: in August 1952 a law was passed to permit "adjustment associations"

to control small business over-production: in September 1953 the Small Business Finance Corporation was founded on the Diet's initiative: in 1954 administrative controls were reintroduced in order to restrain the growth of large retailers: in 1957 the Small Business Organization Law was passed in order to sanction the formation of commercial and industrial unions aimed at preventing excessive competition and infiltration by large firms.¹⁸⁾

The ruling party, for its part, reaped ample benefits by responding to the demands of small business. The newly formed Liberal Democratic Party (LDP) consolidated its mass base among farmers and the urban petite bourgeoisie during the latter half of the 1950s. Seeking to expand the party's organizational networks, the LDP supported the passage of several laws that prompted the formation of small-business associations.

Although small business concluded its basic social contract with the state in the 1950s, the process of negotiating and renegotiating continued. The greatest threat to the agreement arose during the 1960s when the government retreated from the protectionist policies of the previous decade. In 1960 the LDP unveiled a "New Policy" which emphasized the modernization of small businesses in order to enhance their international competitiveness in the face of trade and capital liberalization. In 1963 the Diet enacted both the Small and Medium Enterprise Basic Law and the Small and Medium Enterprise Modernization Law. By intent and in practice the legislation benefited the largest of the small and medium-sized enterprises, which received tax breaks and low-interest loans to modernize equipment and undertake mergers. MITI relied overwhelmingly on market forces, and bankruptcies and business failures increased dramatically after 1964. Yet the social contract essentially held despite the market-conforming modernization policy. Small-business associations had in fact played a central role in drafting and lobbying for the Small and Medium Enterprises Basic Law. Their support was based above all on the new opportunities for small entrepreneurs created by the booming economy. Maintaining their end of bargain, the bureaucrats and politicians continued to provide several safety nets.¹⁹⁾ The 1960s were years of peaceful coexistence between social protection and large-scale development.

Public policies which give preference to small business were maintained during 1970's. Among the most important policy innovations of this period was the Large Scale Retail Store Law passed in 1973 to control the chain stores which at the time were threatening the livelihoods of smaller stores. Under this legislation any firm wanting to establish a retail outlet with floor space of more than 1500 square meters had to obtain the prior permission to do so from the government. In 1978 coverage of this law was extended to all retail outlets over 500 square meters, which virtually put a halt to chain store expansion.

3. Welfare policy in a narrower sense

Postwar Japanese welfare policy had its origins in the prewar period. The Health Insurance Law of 1922 provided health insurance for many factory workers, especially in large firms, although it left many farmers and small business employees outside its purview. The turmoil of the 1930s and the need for social solidarity in preparation for war led to legislation like the National Health Insurance of 1938, Seamens' Insurance of 1939, and Workers' Pension Insurance of 1941. In 1944 during the war, Workers' Pension Insurance was extended to cover white-collar workers as well. By the latter stages of World War II, 56 percent of all Japanese were covered by national health insurance, but the ratio of coverage fell in the confused aftermath of the war.²⁰⁾

The development of postwar welfare policy passed through three phases of expansion. The first phase was the period of massive need and meager resources. In this situation and amid early postwar labor turbulence, the Unemployment Insurance Law of 1947 and the Labors' Accident Insurance Law were passed. The profound economic depression of 1949, which saw Japanese unemployment double within a year, drew harsh criticism from the Left, coupled with demands for new welfare measures. The Emergency Unemployment Countermeasure Law of 1949 and the Livelihood Protection Law of 1950 were introduced in response to these demands. This new Livelihood Law clearly stated that the state must ensure a minimum standard of living for the needy based on the principle enshrined in Article 25 of the Constitution. Enactment of this law was an epoch-making event in the development of the Japanese welfare state.

The second period of welfare expansion came in around 1960. Legislation on national health insurance and national pensions, the cornerstone of postwar Japanese welfare policy, was enacted in 1958-1959. Both national health insurance and national pensions had important prewar and wartime antecedents disrupted by the confusion and the other economic priorities of the early postwar period. Both were partly revived after World War II on the initiative of local governments.

Spurring the needs for a comprehensive national health insurance system and a comprehensive pension system were the profound and rapid social transformations driven by the forces of rapid economic growth across Japan during 1950s. Large numbers of Japanese were leaving not only the farms of the countryside, but also the protective cocoon of rural society for high-risk urban life. A large proportion of these new workers were employed in

small business. While large firms had relatively comprehensive internal social welfare systems, small businesses did not; nor did the increasing number of old people left at home alone on the farms as their sons and daughters moved to the urban areas of high-growth Japan.²¹⁾

The third and last period of welfare expansion was in the early in 1970s. New welfare policies introduced during this period included the adoption of the Children's Allowance in 1971 and free medical care for the elderly, large increases in social security pensions, the indexation of social security pensions to the inflation rate, and major increases in reimbursement provisions under the National Health Insurance Act of 1973. Because social welfare took priority in the national budget in 1973, the government proclaimed the year as "the first year of the welfare era." Given that these measures brought per capita entitlement standards for many Japanese welfare programs close to Western European levels, I believe in that the early 1970s provided the financial substance for a Japanese welfare state.²²⁾

The background factors in the major welfare policy innovations of this period were a rapid change in the Japanese society, especially urbanization and a change of mentality. As a result, the demand for welfare grew remarkably. The Conservative Party entered into crisis due to the progressive challenge raised against the Conservatives' political dominance by the long string of leftist local government victories since the 1960s. The battlegrounds were the largest urban centers like Tokyo and Osaka, where many conservative strategists came to regard the welfare issue, like small-business support programs, as critical.²³⁾ Conservative political leaders as well as elite bureaucrats at national level had no option but to expand welfare in order to forestall challenges from progressives.

If this "era of welfare" had lasted for a decade or so, Japan's welfare state might have moved decisively toward a more institutionalized welfare state like those of the Western European countries. But the very first year of Japan's new "the first year of the welfare era" coincided with the first oil crisis after which Japanese economic growth abruptly decelerated. Slower growth and lower government tax revenue caused financial difficulties for the welfare state. In practice, after the second half of the 1970s the development of welfare policy became sluggish; and as I describe below, there was also significant retrenchment in areas such as free medical care for the aged in the 1980s.

IV Transformation of the welfare state regime

Japan experienced a long period of budget deficits after the oil crisis. The conservatives' renewed electoral strength (double election of 1980), the increased marginalization of the opposition parties, and a renewed close affinity between private-sector unions and management combined to leave the conservatives in much stronger electoral position than that of the mid-1970s. Such a situation, Japanese neoliberals who approved of Reaganomics and/or Thatcherism had broad powers in policymaking after 1980s. Important reforms colored by neoliberalism were the Administrative Reform of the early 1980s, affirmative responses to American pressures on Japan like the Structural Impediments Initiative of 1989, and Koizumi's Structural Reform in the 2000s. Here I shall concentrate on the problems of two reforms and omit those concerning the U.S. pressures.

1. Administrative Reform of early 1980s

Slower growth and lower government tax revenues after the oil crisis meant that government programs had to be funded by mean of higher taxes or deficit budgeting. The government chose the easier method of deficit budgeting. As a result, Japan's deficit dependency ratio increased drastically in 1970s: after being just over 4 percent in 1970, it rose to 34.7 percent in 1979.

It was within this context that administrative reform began under the Suzuki cabinet in the early 1980s. Such reform was delegated to the Second Provisional Administration Reform Commission (Rinchou), created in March 1981 by Nakasone Yasuhiro, then director-general of the Administrative Management Agency.

The Rinchou Commission pursued three objectives under three slogans: the first was "a fiscal reconstruction without a tax increase"; the second was "building of a welfare society with vitality"; and the third was "making an active contribution to the international community". In line with these goals, the commission directed its assault against budget deficits and government entitlements. To curtail the expansion of deficits, national budgets were kept at zero, low, or negative rates of growth during 1982-84, thereby dramatically reducing program expansion and costs, as well as civil service growth.

As the Japanese administrative reform campaign gained momentum, the agricultural support program was retrenched. Meanwhile the price of rice obtained by producers slow-

ly but steadily fell in real terms: in 1987 it fell even in nominal terms as well after three years of remaining constant. Cutbacks were made in rural public works. Even rice imports became a serious policy question, following Keidanren's 1985 declaration of support for agricultural import liberalization, and the sharp 50 percent yen revaluation which followed shortly after.²⁴⁾

The period of administrative reform of the 1980s was characterized by important changes in the treatment of small business. In the wake of the 1985-1986 yen revaluation, support measures for small firms were less extensive and less readily tendered than had been the case in similar circumstances during the 1970s.²⁵⁾

Neoliberal intellectuals argued that the expansion of social welfare programs encouraged people to depend excessively upon the state, discouraged their desire to work, and weakened their incentive to invest and improve productivity. They contended that free medical care for the elderly had turned hospitals into "old people's salons." In response to this outcry, the government passed an Old People's Health Bill in 1982 which introduced co-payments and applied pressure on local governments to stem any initiatives in order to improve medical care for elderly patients. In 1985 the Employee Pension Plan was revised to slow down benefit increases, raise contributions, and reduce government subsidization. The pension system was made explicitly two-tiered, with a base pension for all citizens topped by a wage-linked pension tied to occupation.²⁶⁾

Beyond its budgetary focus, the Rincho Commission also embarked on the substantial privatization of nationalized industries such the Japanese National Railway, Nippon Telephone and Telegraph, International Telegraph and Telephone, and the Tobacco and Salt Monopoly. Not coincidentally, privatization substantially undercut the political and economic power of many of the militant public-sector unions. Other industries such as air transport, energy, the finance sector, and various pension systems underwent varying degrees of deregulation. Numerous areas of the once closely protected Japanese economy thus became more open to influence by stockholders on the one hand and to foreign corporations and investors on the other hand.²⁷⁾

In all these ways, government costs were reduced and the scope of government activity was restricted, reversing the trend of expansion of the welfare state regime that had begun in the 1970s.

Table 3 The Economy and Government Finances at the Beginning and the End of the Koizumi Administration

	FY2000	FY2005	Change
Conditions of Economy			
Nominal GDP (trillions of yen)	504.1	503.3	- 0.8
Unemployment rate	4.7%	4.3%	- 0.4%
CPI (100 at 1998 year)	99.0	96.9	- 2.1%
Central Government finances ¹⁾			
Total expenditures (trillions of yen)	89.3	85.5	- 4.3%
Total tax revenue (trillions of yen)	50.7	49.1	- 3.2%
Local allocation tax (trillions of yen) ²⁾	21.8	17.0	- 22.0%
Proportion of revenue dependent on public debt	36.9%	36.6%	- 0.8%
Public debt balance (trillions of yen)	367.6	526.9	43.3%

Source: Hayashi Nobumitsu ed., *Zusetsu Nihon no Zaisei, 2007*, Toyokeizai shinposha. Ministry of Home Affairs, *Chiho Zaisei Hakusho, 2002* and 2007.

Note 1) These figures are based on the sum of settled account.

2) This figure of local allocation tax are not based on central government expenditure but based on local governments receipt.

2. Koizumi Structural Reform

In 2001 Koizumi Junichirou became the prime minister. With his strong belief in neoliberalism, the Koizumi Cabinet's goal was the realization of "a society that rewards hard work and offers opportunities to meet new challenges," "a society in which wisdom in the private sector and regional communities brings about vitality and prosperity," and "a caring society in which people can live safely and in peace."

To accomplish this goal, the cabinet mapped out a strategy of structural reform as follows: fiscal reform to introduce a small government of high quality ; tax reform to "maximize the 'vitality' of the economy and society"; harmonization of the social security system with the economy to assure sustainability and reliability in the future, and to halt, as far as possible, the increase in the national burden ratio ; reform of the relationship between central and local governments to enhance local initiative and self-responsibility ; and reform of special public corporations and other institutions.

Did the cabinet's public commitment have concrete outcomes? Table 3 presents the changes in the economy and government finances during the Koizumi administration. Nominal DGP decreased slightly, but real GDP increased only slightly. Calculated on the basis of annual average, the real economic growth rate per year amounted to only 1.4 per-

cent. The unemployment rate showed a little improvement although one should bear in mind the increase of non-regular employees like part-time workers and contract employees. Consumer prices did not rise but fell which suggests that the cabinet failed to free the Japanese economy from enduring deflation.

Inspection of the government finances reveals more truths about the Koizumi Structural Reform. Total expenditures by the central government exhibited a decline of 4.3 percent from the beginning of the Koizumi administration. Total tax revenue also declined by 3.2 percent. As a result, the proportion of revenue dependent on the public debt did not significantly decrease and the public debt balance rose considerably. Despite a commitment to reconstructing sound public finances, in practice the administration did not achieve its initial aim.

The administration indubitably cut back government expenditures, especially the cost of public works and local allocation tax. However, this drastic retrenchment impoverished the regional economy, especially in rural areas: Koizumi Structural Reform came at too high a cost.

3. Limits of the neoliberal economic and political alternative

There are some limitation to neoliberal alternatives which become apparent when theoretical and empirical analysis is conducted.

The neoliberal economic and political alternatives do not escape the fate of becoming merely one of the untenable sides of the contradictory structure of the contemporary capitalism. Supply-side economists seek to dismantle the welfare state in order to eliminate the disincentive to invest, but doing so would be to abolish those buffers that stabilize demand. If the socioeconomic supports for workers and the poor are terminated in the name of revitalizing the work ethic, the market will return, but so will the gross injustices, dissatisfaction, instability, and class confrontations that characterized the capitalist economies prior to the welfare state regime.

Hence neoliberal alternatives are impracticable in the long term and are forced to change direction. A case in point is the recent structural reform in Japan.

Table 5 presents recent trends of disparities in income and reduction effects to disparities through redistribution by the government in Japan. The Table highlights that disparities in income are intensifying. Recent structural reforms have been responsible for an expansion of disparities. A drastic cutting back of public works since 1994 (see Table4), a

Table 4 Historical Trend of Capital Expenditure by Government

Fiscal year	Capital expenditure (million yen)	Growth rate to the previous year	Index (1975=100)
1958	687,170	–	4
1959	815,635	18.7	5
1960	995,519	22.1	6
1961	1,309,934	31.6	8
1962	1,689,081	28.9	10
1963	1,904,959	12.8	12
1964	2,268,130	19.1	14
1965	2,676,632	18.0	16
1966	3,138,806	17.3	19
1967	3,526,884	12.4	21
1968	4,104,256	16.4	25
1969	4,847,012	18.1	29
1970	5,911,131	22.0	36
1971	7,621,164	28.9	46
1972	9,320,764	22.3	56
1973	10,692,416	14.7	65
1974	14,204,335	32.8	86
1975	16,513,651	16.3	100
1976	17,598,049	6.6	107
1977	20,868,423	18.6	126
1978	24,372,545	16.8	148
1979	26,110,383	7.1	158
1980	27,876,490	6.8	169
1981	28,793,442	3.3	174
1982	28,762,119	△ 0.1	174
1983	27,987,251	△ 2.7	169
1984	27,640,082	△ 1.2	167
1985	26,505,502	△ 4.1	161
1986	27,860,791	5.1	169
1987	30,411,566	9.2	184
1988	31,678,983	4.2	192
1989	33,827,554	6.8	205
1990	36,793,740	8.8	223
1991	40,336,216	9.6	244
1992	46,337,275	14.9	281
1993	51,126,950	10.3	310
1994	47,828,735	△ 6.5	290
1995	50,894,394	6.4	308
1996	49,126,662	△ 3.5	297
1997	45,387,879	△ 6.7	278
1998	47,261,306	3.1	286
1999	44,473,778	△ 5.3	271
2000	41,391,349	△ 7.5	251
2001	38,449,163	△ 7.1	233
2002	36,007,311	△ 12.3	218
2003	31,594,065	△ 12.3	191

Source: Chiiki Seisaku Kennkyuukai, *Heisei 15 Nenndo Gyousei Tousei Jisseki (Government Capital Investment in FY 2003)*.

Table 5 Reduction Effects to Disparities in Income through Income Redistribution

	pre-tax and transfer inequality	after tax and transfer inequality		after tax inequality		after transfer inequality	
	gini index	gini index	reduction effect by tax and transfer (%)	gini index	reduction effect by tax (%)	gini index	reduction effect by transfer (%)
1981	0.3491	0.3143	10.0	0.3301	5.4	0.3313	5.0
1984	0.3975	0.3426	13.8	0.3824	3.8	0.3584	9.8
1987	0.4049	0.3382	16.5	0.3879	4.2	0.3564	12.0
1990	0.4334	0.3643	15.9	0.4207	2.9	0.3791	12.5
1993	0.4394	0.3645	17.0	0.4255	3.2	0.3812	13.2
1996	0.4412	0.3606	18.3	0.4338	1.7	0.3721	15.7
1999	0.4720	0.3814	19.2	0.4660	1.3	0.3912	17.1
2002	0.4983	0.3812	23.5	0.4941	0.8	0.3917	21.4

Sources: The Ministry of Health, Labour and Welfare, *Shotoku Saibunpai Chousa Houkokusho (Income Redistribution Research Report)*.

reduction of the local allocation tax, the abolition of agricultural price support systems, and retrenchment of social security benefits have all together aggravated inequalities of income and wealth among people.

The number of poor people has risen rapidly. According to an OECD research report published in 2004, at that time the poverty rate in Japan was 15.3 percent; Japan ranked among the worst three countries after Mexico and the United States. As a result, the number of households on welfare increased from 0.61 million in 1996 to 1.07 million in September 2006 when Koizumi stepped down and Abe took office.

Many citizens, especially those in adverse circumstances have expressed discontent with the present state of affairs, criticizing the Koizumi Cabinet and the Abe Cabinet on the grounds that their political creeds based on the principle of competition have forcefully created a society in which the strong prey upon the weak in the name of structural reforms and globalization.

Triggered by a surge in public dissatisfaction, the Liberal Democratic Party suffered a historic defeat in the 29 July 2007 House of Councilors election. Many analysts of the election maintained that one of the main reasons for such a huge defeat of the LDP was its dismal showing in rural communities, once bastions of the LDP. The Party, which has been in power almost continuously since 1955, won only six of 29 single-seat prefectural districts — mainly rural regions that have suffered economic stagnation as their populations grew

older. Japan has traditionally shielded farmers against severe market competition by means of various measures, some of which the neoliberal's structural reforms have eliminated. As a result, a fierce backlash that may be dubbed 'a regional revolt' has spread across the country.

Politicians have no option but to be sensitive to this historical trend under storms of protest. According to a survey conducted jointly by political scientist Kabashima Ikuo and the Asahi, more Diet members elected in Upper House elections of last July 29 believe that Japan must maintain its traditional Japanese welfare system centered on lifelong company jobs and public work projects than do Diet members elected to the House of Representatives in 2005. The researchers consequently predict that the pace of structural reform will slow down and new policies like subsidies to farming household will be introduced in the future. I agree with this view because I believe that society always protects itself against the perils inherent in a self-regulating market system in the long run. A symptom of social protection is apparent in the big increase of the minimum wage recorded this year.

We live in the age of the new economy of globalization. This economy has raised the level of skill bias, the degree to which new production processes, including expanded trade, favor better educated workers over less educated workers. Today, the economy of advanced capitalist societies like Japan favors the better educated worker over lower educated ones. When computerization or international trade displaces a semi-skilled worker, finding a good new job means acquiring the training to become a computer repairman or laboratory technician, a much harder task than getting a factory job in the 1950s and 1960s. It is not possible to legislate the level of skill bias in technological change and trade. That is why the equalization institutions which we call the welfare state in broader sense are important in this society.²⁸⁾

As John Gray clearly put it, market institutions will not be politically stable – at any rate when they are combined with democratic institutions – if they do not accord with widespread conceptions of fairness, if they violate other important cultural norms, or if they have too destructive an effect on established expectations.²⁹⁾ I therefore maintain that there is an ever-increasing need for the welfare state in today's society.

Notes _____

1) Wilensky (1975) p.1.

2) Notable examples are Mishra (1990), Ritter (1991), and Offe (1984).

- 3) A leading work is Hayashi (1992).
- 4) Schwartz (2001) pp.18-18, pp.31-36.
- 5) Keynes (1931) p.313.
- 6) Myrdal (1960) p.34.
- 7) Lowi (1979) pp.34-35.
- 8) Gordon (2003) pp.229-230.
- 9) Gordon (2003) pp.234-235, Saito (1989) pp.178-179, 193-196.
- 10) Gordon (2003) p.235.
- 11) Calder (1986) p.251. Descriptions of this section depend on Calder (1986) pp.250-273.
- 12) Subsidies were used as the vehicle to achieve these conservative orders because they forced dependence by recipients on central government and strengthened the intermediate organizations-agricultural cooperatives and conservative local governments-through which these subsidies were administered. Imamura (1978) explains how subsidies were circulated through the intermediate organizations.
- 13) Calder (1986) p.257.
- 14) Calder (1986) p.266.
- 15) OECD (1978) pp.14-15.
- 16) Garon and Mochizuki (1993) p.150. The descriptions in this section are based on Garon and Mochizuki (1993) pp.145-155 and Calder (1986) pp.312-348.
- 17) Garon and Mochizuki (1993) pp.150-151.
- 18) Calder (1986) pp.339-341.
- 19) Garon and Mochizuki (1993) pp.152-153.
- 20) Calder (1986) p.360. Descriptions of this section depend on Yokoyama (1985) pp.3-48 and Calder (1986) pp.349-375.
- 21) Calder (1986) p.364.
- 22) Takekawa (2005) insists that 1973 was the point of departure for Japanese welfare state. I disagree with him. I think that the promulgation of a postwar constitution in November 1946 marked the beginning of the Japanese welfare state.
- 23) Calder (1986) p.372.
- 24) Calder (1986) pp.270-272.
- 25) Calder (1986) pp.347-348.
- 26) Pempel (1998) p.189.
- 27) Pempel (1998) pp.148, 190.
- 28) Levy (1998) pp.3-4.
- 29) Gray (1995) p.102.

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