

Comparative study of social expenditure in Japan and Korea

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1. Introduction

A purpose of this report is to make similarities and differences clear between Korea and Japan by comparing social expenditure between the two countries based on OECD Social Expenditure Database (*hereinafter called SOCX*). First of all, I would like to explain a background about this study. There is a circumstance that pushed Korea's fast-growing welfare state behind the background of this study (*Takegawa, 2005*)

Korea has surprisingly expanded its social expenditure, whereas other Asian countries, in contrast, decreased expenditure on social welfare since the Asian financial crisis.

Although the rapid increase was temporary and the level of social expenditure dropped as is explained later, there is no doubt their social expenditure tends to increase even allowing for it. For this reason, Korea that was not regarded as a subject to compare with Japan when it comes to a research on a social welfare has now become an important subject for a comparative study (*Uzhashi, 2009*).

A comparative study about the two nations is recently attracting attention because both countries have several things in common, being geographically close each other, having cultural similarities, and underdeveloped as a welfare state. However, there appears to be only few discussions made so far about an empirical comparative study on the two countries.

In this respect, our study aims to make characteristics of two countries more clear by use of SOCX. A feature represented by SOCX is a classifications of data by providers like "public expenditure", "mandatory private expenditure" and "private expenditure" ,and data is available from the nine sections further categorized such as Old age, Survivors, Incapacity-Related Benefit Family,

Housing ,Unemployment”, Active labor market policy” and “Other policy area”.

(2) First of all we looked into a position of both Japan and Korea among the OECD countries. (3) Next we compared Japan with Korea (4) For a comparison of Japan to Korea, we looked into a total amount of social expenditure, and the social expenditures by categories. Next we sorted the expenditures of the two nations into universalistic ones and selectivistic ones to compare. We hereby summarize what have been made clear with the similarities and the differences between Japan and Korea through these studies.

2. International position of both Japan and Korea

2-1 Position of Japan and Korea by providers

First we like to discuss an international position for social expenditures of the two nations. This chart shows percentages of social expenditure like public expenditure, mandatory private expenditure and private expenditure respectively to occupy in the GDP of OECD nations as of 2005(chart1).

The total amount of social expenditure that occupy in the GDP of Japan is 21.6% and this value is lower than an average value of OECD nations, 23.0%. On the other hand, the total amount of social expenditure in the GDP of Japan as of 2003 is 21.0% based on SOCX2008, whereas an average value of OECD nations is 26.2.

Meanwhile, a percentage of social expenditure to occupy in the GDP of Korea is 9.3%, which is equal to the 29th place of the thirty OECD nations. The levels of the two countries are considered to be lower than an average level when the average value of OECD is a criterion. At the same time, the difference between the two countries themselves is very large.

Compared by the latest data of SOCX 2007 for 2003, the value for Korea has increased from 8.1% (for 2003) to 9.3% (for 2005), which means a decrease of 4.4% from the average value of OECD as “ Aggregated Date” has a lower average value for OECD. Because the value increased is higher than of Japan, a difference

between Japan has decreased by 0.7%. This fact indicates the social expenditure of Korea is increasing year after year.

The study on the expenditures by departments like public expenditure, mandatory private expenditure and private expenditure shows positions of the two countries as follows; The percentages of public expenditure to occupy in the GDP for 2005 are 18.6% (Japan) and 6.9% (Korea). Both values are lower than the average value of OECD 20.6%. The difference between Japan and Korea is large. Sweden and France have the largest public expenditures, 29.4% and 29.2% respectively.

U.S, Canada, and Iceland have larger amount of total social expenditure than Japan, however, when it comes to public expenditure only, it is lower than Japan. As far as these countries are concerned, private expenditure drives up their ranking as is explained later in this study.

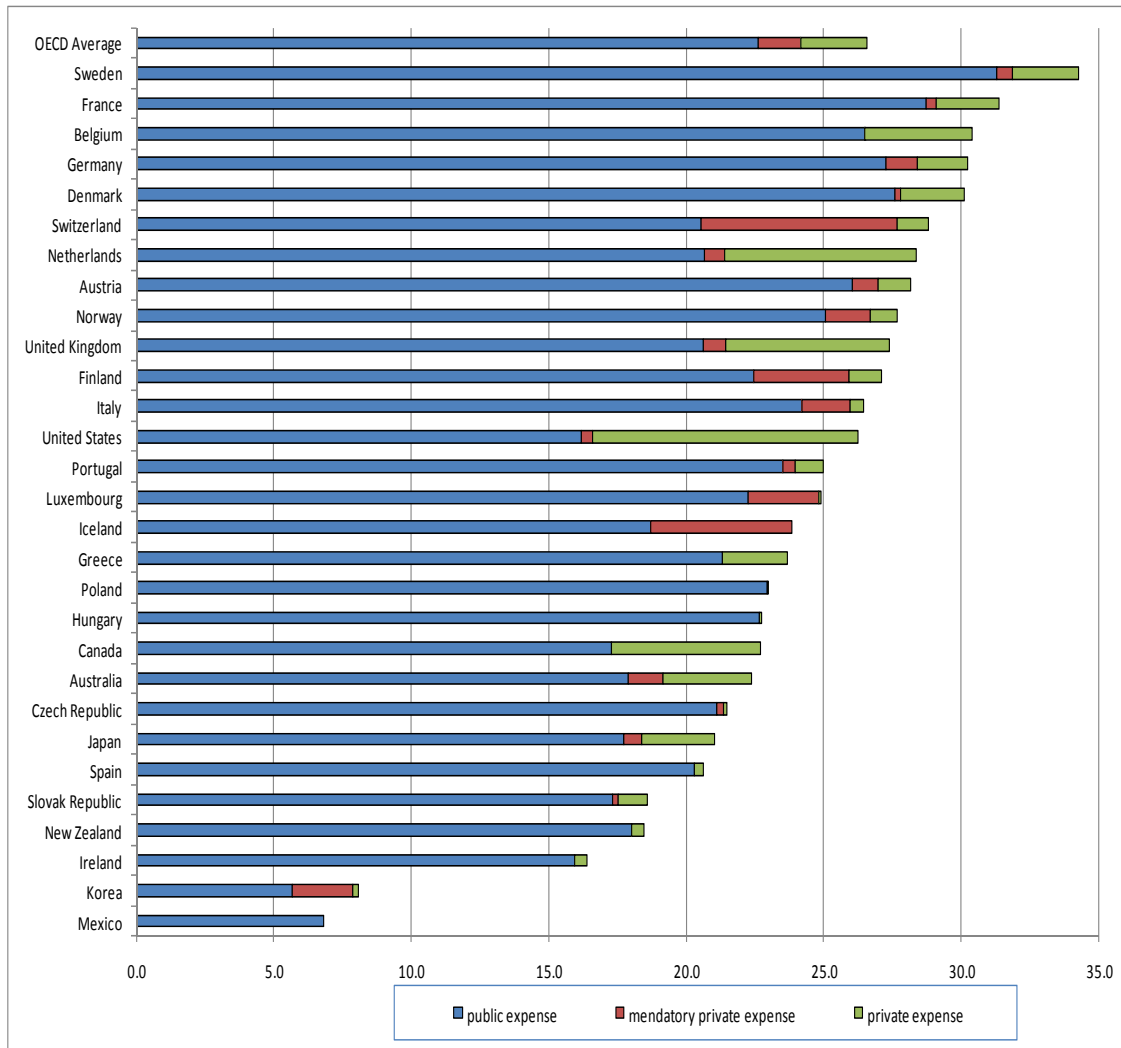
No data on mandatory private expenditure is available for not a few countries in “ Aggregated Date”. An average value for the countries with data is 1.0%. Switzerland has remarkably a high value of 7.3%, which seems to have raised the average to a large degree.

The average value of OECD without Switzerland is 0.7%. The values of both Japan (0.5%) and Korea (0.6%) are slightly lower than the average value. They are not very low in fact. The percentage mandatory private expenditure of Korea occupies of their GDP for 2003 by SOCX 2007 data is higher than the average value of OECD. Considering a low portion of total social expenditure to occupy in their GDP, this value of mandatory private expenditure is high. This is explained in detail later, but it is because a private company has to pay a retirement benefit by law, which is grouped into this department.

Private expenditure has extremely a high percentage of GDP among countries of so-called liberalism regime like U.S (10%), UK (6.8%) and Canada (5.5%) with the data for 2005. The Netherlands stands out with 7.7% among the countries other than liberalism regime. The percentage of social expenditure to occupy in the GDP of these countries is far higher than the average value of OECD.

Japan has 3.3% of private expenditure of its GDP, while Korea has 1.8% which is a little lower than the above average.

Chart 1 Social expenditure by providers in OECD countries(%/GDP)



2-2 International position of Japan and Korea for expenditures by categories

Next we like to discuss an international position of both Japan and Korea by looking into social expenditures by categories. This chart shows percentages of social expenditures by categories to occupy in the GDP of OECD countries (Chart 2).

As pointed out by Katsumata, social expenditures for both “ Old age” and

“Health” have a large portion of spending in any country (Katsumata, 2008). Both Japan and Korea have a very high percentage of expenditure for “ Old age” and “Health” in a total social expenditure with Japan in the second place and Korea in the third place. This result matches with the hypothesis that an underdeveloped country in a social welfare should spend more amount of money to cope with aging(Komatsu 2006).

On the other hand, a percentage of the social expenditure for aging to occupy in the GDP of Sweden, Denmark and others, the countries of social democratism regime, is relatively low. Contrarily, expenditures on “ family” and “Incapacity-related benefits” to occupy in the social spending accounts for a high percentage for these countries.

The values for both Japan and Korea with respect to these categories are very low(table 1), in other words, the social expenditure for “ Old age” and “preservation of health” with the two countries is at a high level among the OECD nations, but the spending for other categories is at a low level.

If a social expenditure for “ Old age” and “Health” is regarded as that for generations after retirement, and other expenditure for generations still working, it can be said that more social expenditure is spent for generations after retirement than for ones still working in both Japan and Korea. This feature is contrastive to countries of so-called social democratic regime.

Table 1 High and low ratio categories in Japan and korea(in GDP,2003)

	Japan	Korea
High ratio	Old age Survivor Health	Old age Health
Low ratio	Incapacity-related benefits Family	Incapacity-related benefits Family Unemployment

2-3 Position of Japan and Korea viewed from social expenditure by cash benefit and benefits in kind.

At the end of this paragraph, we also want to discuss on a position of Japan and Korea with respect to the social expenditure by cash benefit and benefits in kind. We are explaining about a meaning to discuss social expenditure for cash benefit and benefits in kind. Gøsta Esping-Andersen presented the following hypothesis in his research to classify welfare states into three groups . In short, the hypothesis is that the countries of corporatist regime have a high portion benefits in kind.

What made Gøsta Esping-Andersen present this hypothesis is that a family may play an important role as a caretaker in the countries of corporatist regime. There is an opposite thought by Mifune against this hypothesis. Mifune found ,with a database from OECD, that a percentage of benefits in kind was increasing in Germany and had it that a percentage of benefits in kind is no longer low even in these countries (Mifune 2002).

Our own opinion on this argument is as follows; First, Mifune's thought is exactly right. Next table shows an average value for benefits in kind by countries after the data for 2003 was sorted to each regime of liberalism, corporatist, and social democratism (table 2).

Table-2 Social expenditure of benefit in kind / GDP by each regime(2003)

Regime or country	Expenditure of benefit in kind / GDP
Liberalism	9.0%
Social democratism	11.4
Corporatist	8.9
Japan	8.1
Korea	3.9

It is clear on this Table2 as pointed out by Mifune that the values of corporatist regime are not outstandingly low. There is almost no difference between the average value of liberalism regime and that of corporatist regime.

On the other hand, there must be some allowance. The reason is although the value for the benefits in kind is definitely increasing, the percentage of benefits in kind with corporatist regime is still low.

Furthermore, when it comes to a meaning of hypothesis that a percentage of benefits in kind turns low because there is a big expectation to a family as a welfare caretaker, close attention should be paid to the benefits of “Health”. There seems to be certain limitations to claim that the hypothesis by Gøsta Esping-Andersen is not reasonable because medical service is included in the benefits in kind of “Health” and other members of the family are responsible for the benefits of medical care.

The social expenditure for “preservation of health” occupies 8.0% and 7.5% of the GDP of Germany and France respectively with especially a high value of benefits in kind among the countries of corporatist regime, and the first place and the second place among OECD nations (the average value of OECD is 6.0%). In other words, the social expenditure for “Health” largely contributes to the high values of benefits in kind of Germany and France, and it is considered that medical spending is included in it.

In view of this, we may not be able to state very positively the hypothesis that a percentage of benefits in kind are low because family members as caretakers are largely responsible for welfare service in the countries of corporatist regime is no longer effective. In this study we like to assume for the above reasons an amount of benefits in kind reflects, to some extent, a role played by a family for a national welfare service.

According to this hypothesis, the following characteristics of Japan and Korea are pointed out. The social expenditure of benefits in kind that occupies of Korean GDP is extremely small and the percentage is far lower than the average value of OECD countries, 8.4%. The value of Korea is the lowest in the OECD

nations. The value of Japan is not so low as that of Korea, but it is lower than the average value of OECD nations. If the above hypothesis is correct, it can be said that a role by a family (an expectation) in the welfare service of both Japan and Korea appears to be still important.

3. Comparative study of changes of social expenditures for Japan and Korea

3-1 Comparison of total social expenditure in GDP of Japan and Korea

We studied on an international position about Japan and Korea in the previous paragraph. We like to try making some dynamic comparisons about the social expenditures of Japan and Korea in this paragraph. Next are the transitional changes in the social spending with the two countries (Chart 7).

Before making a comparison, we want to review what have been made public. First, Takekawa judged that Korea started to be a welfare state on the ground of an abrupt increase of social expenditure since 1997. He also pointed out “ the current level of welfare statism of Korea is at the same level of Japan in 1970s” (Takegawa 2006) .

With respect to Takegawa’s suggestion, Uzuhashi pointed out that he missed growth dropping since the abrupt increase in 1997 (Uzuhashi 2009). We would like to focus on this issue, first about a difference of level of social expenditure between Japan and Korea.

The year in which Korea had the highest level of spending was in 1998, a percentage of which to occupy in their GDP was nearly 10%. This figure is a little smaller than that of Japan in 1980. Since the value at the highest level is slightly lower than that in 1980, Takegawa’s suggestion was correct as a whole.

On the other hand, what about an abrupt increase of social expenditure of Korea in 1998 There is exactly an abrupt increase from 1997 to 1998. However, as pointed out by Uzuhashi, the social expenditure once reached a peak in 1998 turned into consecutive decrease until 2002 and began to show a sign of increasing again in 2003.

Whereas, the percentage of social expenditure to occupy in the GDP of Japan is increasing consecutively since 1990. What factors are driving up the social expenditures of the both countries? We want to look into the social spending of the two countries by categories in order to make this clear.

Chart 2 Change of social expenditure by categories in Japan

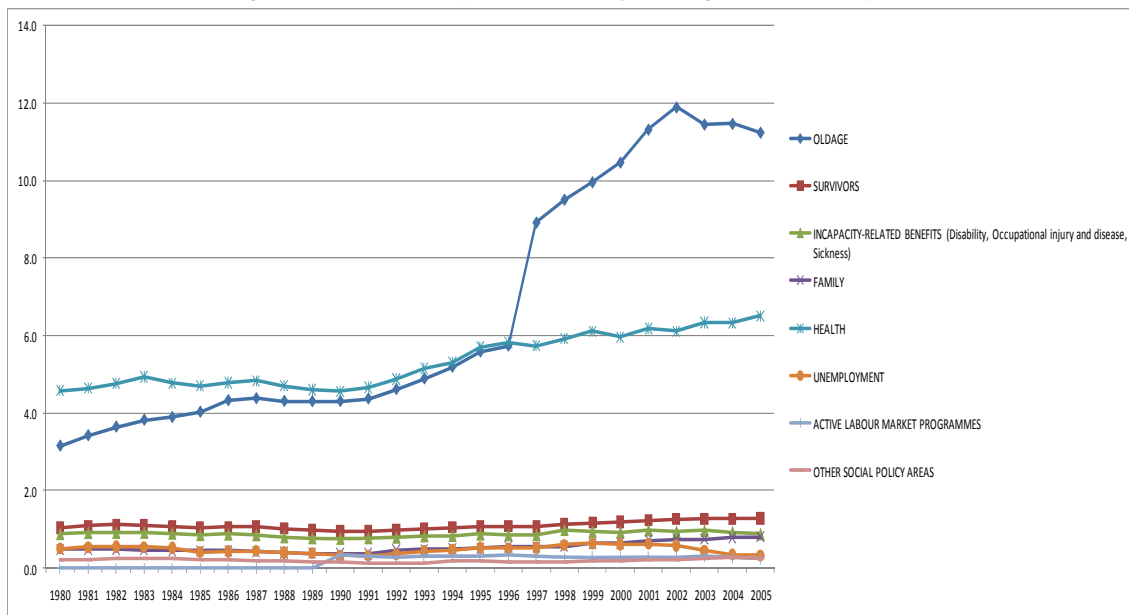
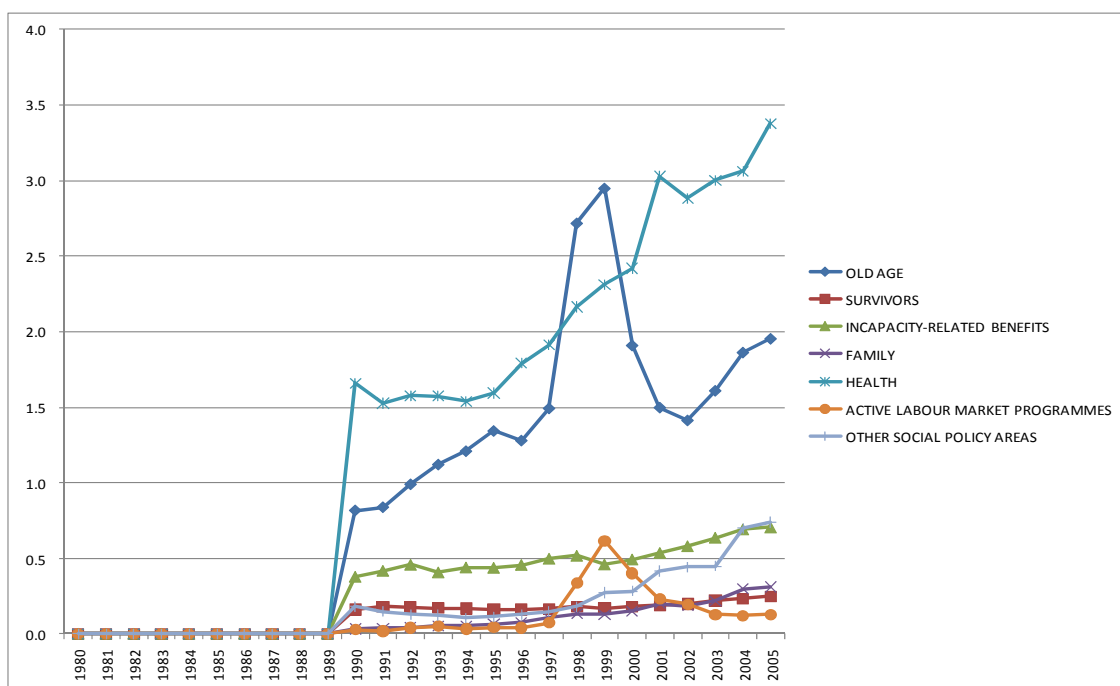


Chart 3 Change of social expenditure by categories in Korea



As it is clear with Chart 2 and 3 it is expenditure for the old age that greatly contributes to the increase of social spending of the both countries. However, more precisely, the factor to increase for the two nations is different. The social expenditure of Japan was increasing from 1998 to 1999, during which period of time the expenditure for the advanced age was increasing at the same time. This was due to addition of new database called “pensions of private enterprise workers” which has not been available so far to the existing pensions that are increasing year after year.

39% of growth when compared with 10.13% a total amount of social expenditure to occupy in the GDP of Korea in 1998 and 6.08% in 1997. The increase of 1/3 is for recovery from the economic crisis. Active labor policies increased about three times and unemployment benefits increased nearly nine times from the previous year.

The total amount of public spending to occupy in the GDP of Korea in 1998 was 5.46% which is equal to an increase of 1.54% from 3.92% in 1997. Items contributed to this increase of expenditure are old-age benefits 48.3%, active labor policies 23% and unemployment benefits 10.1%.

“ This result suggests the increase is more of temporary discharge allowance associated with an increasing number of unemployment. It is hard to say a functional side as a role to be played by a nation to protect its people sustainably from social risks has been firmly established (Pek Ahn 2007)“.

Public expenditure temporarily increased in 1990s mainly with old-age benefits, family-support allowances, active labor policies, unemployment benefits and public support. However, it was obvious an extent of increase began to fall as a whole at the start of 2000s. A distinctive thing is ; inspite of fall of increasing rate for a total expenditure, the expenditures for specific social policies are still increasing. It can be analyzed it is due to effectuation of the National Basic Livelihood *Security* Act. Expenditure for public livelihood assistance in 2000 increased more than two times of that in 1998.

3-2 Comparative study on “ selective benefits” and “ universal benefits “ between Japan and Korea

We like to make a comparison about selective benefits and universal benefits between Japan and Korea. Before a comparison, it should be made clear what the fundamental concepts are about universalism and selectivism (Hiraoka and Satomi). Universalism is defined in the most limited sense as services without any conditions. However, as long as there is no means test or income limitation even with age limit, it is practically regarded as a “ universal benefit”.

Meanwhile, a selective benefit requires a means test and specific qualifications. Public assistance is a typical example for this benefit.

What about a social insurance that requires contribution. As a matter of fact, there are two different theories about a social insurance. Hiraoka insists it is a general idea a social insurance be included into a universal benefit. On the contrary, Satomi proposes an social insurance be classified into a selective benefit on the ground that it may exclude a low-income population.

In our study the following kinds of services and benefits based on the above discussion are shown on the Chart.

(1) Services and benefits with a means test (2) Services and benefits with income limitation (3)Services and benefits that require contribution (4)Others.

Data of social expenditure of Japan and Korea was classified based on (1)-(4) and the result is as per Chart 4 and 5. The benefits with defined contribution (= a social insurance) account for a very large portion for both countries. 92% of total data of Japan for 2003 and 82% of Korea for the same year are occupied by the services and the benefits with contribution. Although this itself appears like a characteristic to note with the two countries, it was reasonably predictable. In this connection, data without it is shown here.

A noteworthy feature to be discussed first is about a selective benefit with a means test. A percentage of benefit with a means test to occupy in the GDP of Japan has been consistently less than 0.2%(Chart 4). On the other hand, that of

Korea exceeds 0.3%, which the National Basic Livelihood *Security* Act in 1999 have most likely influenced.

Chart4 Selective and universal benefits in Japan(2003)

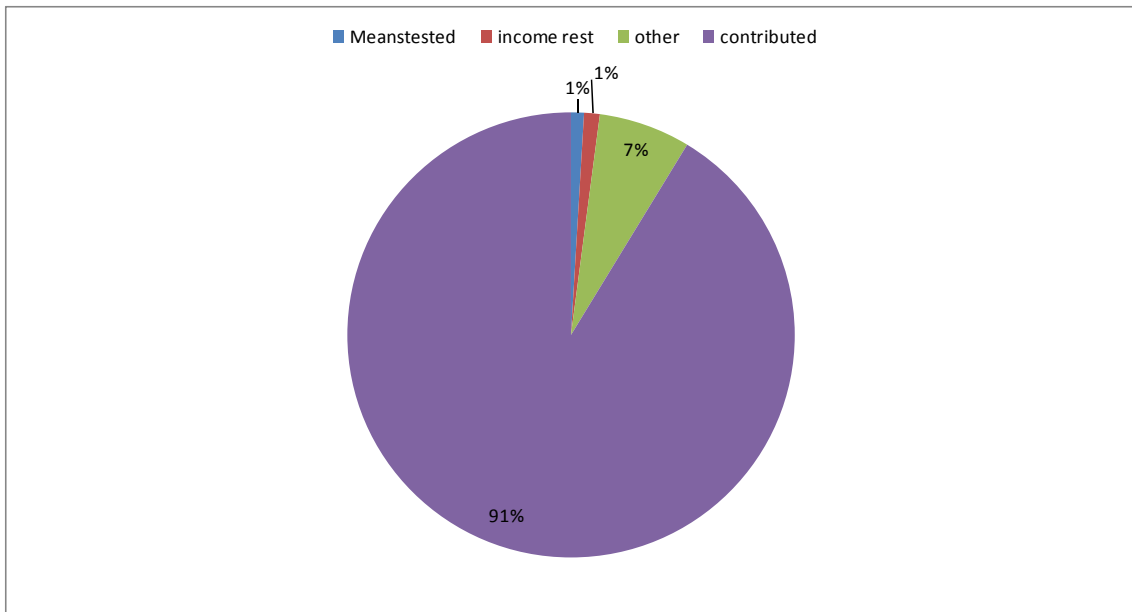
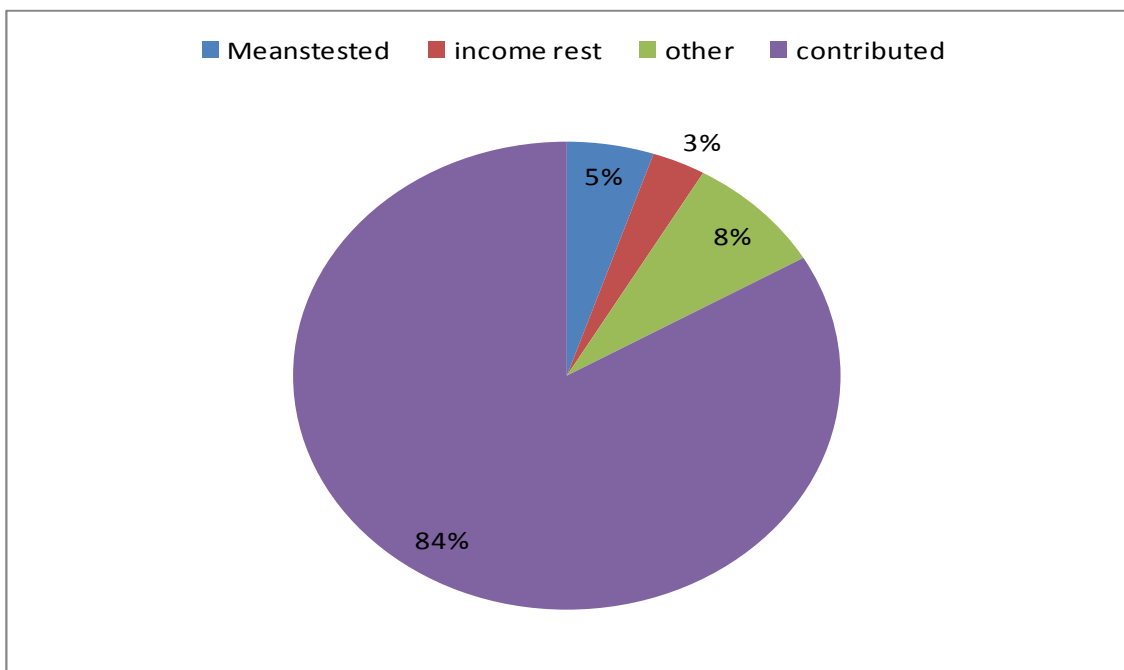


Chart4 Selective and universal benefits in Korea(2003)



There has been consistently a high percentage of unrestricted services and benefits with Japan. The percentage is high during 1989 - 1999 in particular.

This was due to a growth by active labor policies like “ public availability policies”.

Whereas, services and benefits with a means test consistently keep a high percentage with Korea. The value jumped highly during 1997 - 1999 , and then fell a little bit but still keeping a high level. What made them at a high level is the social expenditure associated with employment policies. After all, a percentage of universal services and benefits is relatively high for both countries with our own classification as used in this study, but we have to be careful of the following things;

First, a majority of the services and benefits for both countries are the ones with contribution. Secondly, though a percentage of services and benefits more universally available without a means test or conditions is high, a high level of public employment policies are included in these.

4. Conclusion

We have looked into the possible characteristics about the social expenditures comparing Japan and Korea in this study. We hereby like to summarize what we have found and what remains to be done.

Following things have been made clear after studying an international position of Japan and Korea. The percentage of total social expenditure to occupy in the GDP of Japan and Korea is low. However, a difference between the two countries is large. Next, both countries have extremely a high portion of social expenditure for the advanced age. On the contrary, the percentage of social spending for the physically disabled, and families is very low. This means more social expenditure is used for retired generations than for active generations.

In the study of benefits in kind and benefits in cash, it was made clear that the social expenditure by means of these two is small for both countries. The low percentage of benefits in kind suggested a possible chance of replacing family functions with welfare services.

Following things have been made clear with the changes of social expenditure of Japan and Korea. First, a percentage of social expenditure once

abruptly jumped in 1998 is becoming lower. What made so was due to a temporary benefit to the retired people and it is too early to look on that point of time as “ a take-off for a welfare state”.

Secondly, it is obvious the social spending is increasing in Korea since then in spite of the facts explained in the previous sentences. This is most likely because of the National Basic Livelihood *Security Act* that went into effect in 1999.

Following things were also made clear after classification of social expenditure of Japan and Korea into services and benefits of selectivism and universalism respectively. One thing is most of the services and benefits in both countries require contribution. Another thing is Korea has more selective benefits than Japan. This difference is becoming larger owing to the National Basic Livelihood *Security Act*.

It is unrestricted services and benefits in Japan and services without a means test in Korea that has a high percentage other than these services and benefits. However, these two countries have a high percentage of social expenditure associated with employment policies in common.

As a result of these findings, following things can be said about the two countries; (1) an social insurance is situated in the center of services and benefits (2) more social spending is used for the retired generations than the active generations. (3) a family is positioned as a caretaker of welfare service.

What remains to be done are as follows; first, changes of social expenditure about Japan and Korea should be explained more precisely. Secondly, we made a classification and took the statistic of social expenditure about Japan and Korea, but these need to be in more detail in a future study.

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