Labor Market and Social Welfare Policies Under the Pressure of Socio-Demographic Changes

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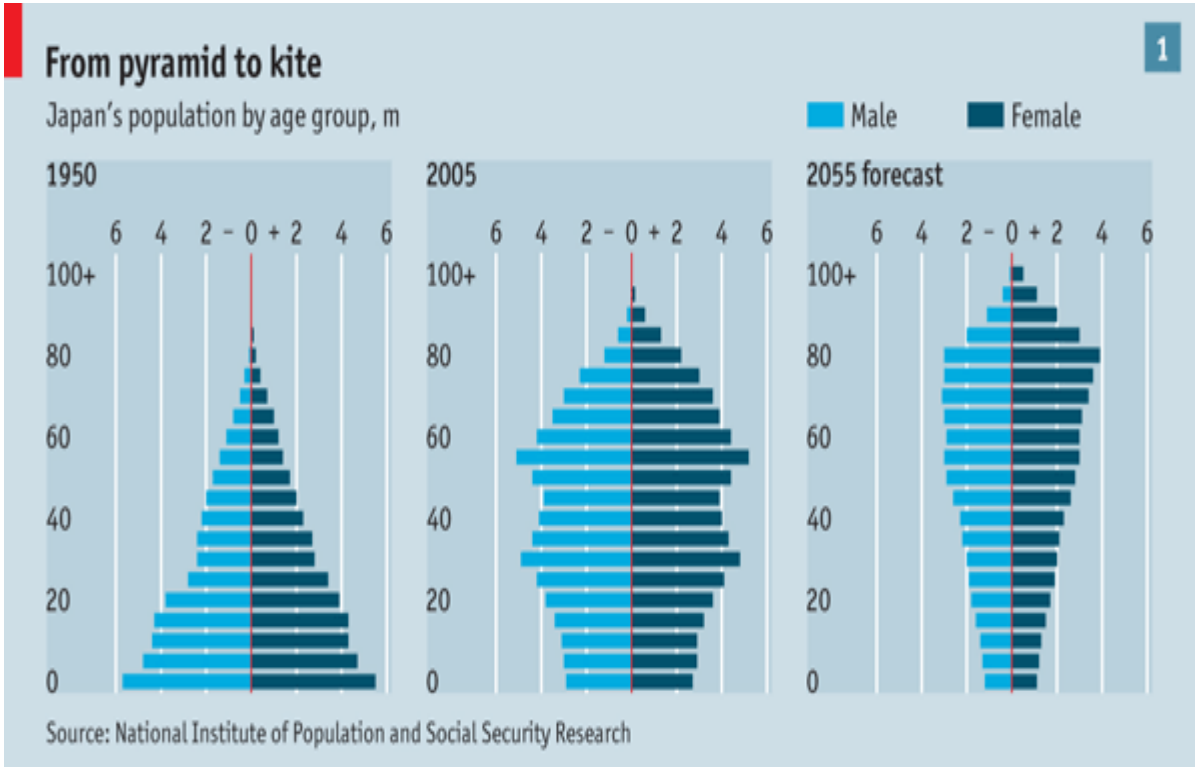
Outline of Talk

- Socio-demographic changes in East Asia and beyond
  - Aging population
  - Declining fertility rates
- Challenges for the labor market
- Challenges for the social welfare policies
- Japan's policy response
- Policy implications for Korea

Japan's Aging Society



Aging Population

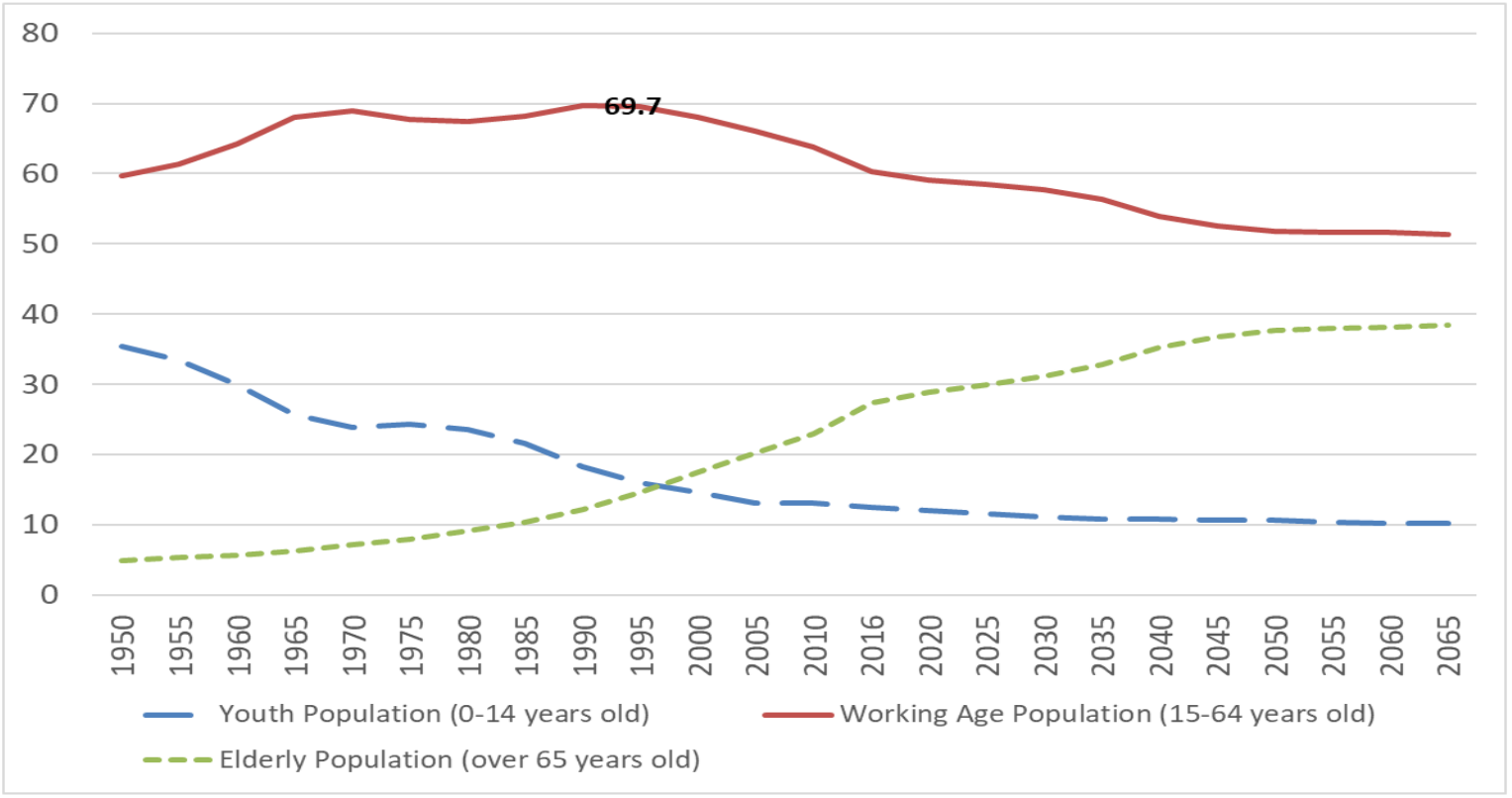
- Composition of the Population
  - Youth population (0-14 years old)
  - Working age population (15-64 years old)
  - Elderly population (over 65 years old)
    - Japan: 28.8% (2020); Korea: 14.9% (2019); Taiwan: 14% (2019)
- Threshold of the population aging
  - 7%: Aging society
  - 14%: Aged society
  - 20% Super-aged society

Speed of Aging

Year / Country	Aging Society (7%)	Aged Society (14%)	Super-Aged Society (20%)	From 7% to 14% (years)	From 14% to 20% (years)
Korea	**2000**	**2017**	**2026**	**17**	**9**
Japan	**1970**	**1994**	**2006**	**24**	**12**
US	1942	2015	2036	73	21
UK	1929	1976	2026	47	50
Germany	1932	1972	2009	40	37
France	1864	1979	2018	115	39
Italy	1927	1988	2006	61	18

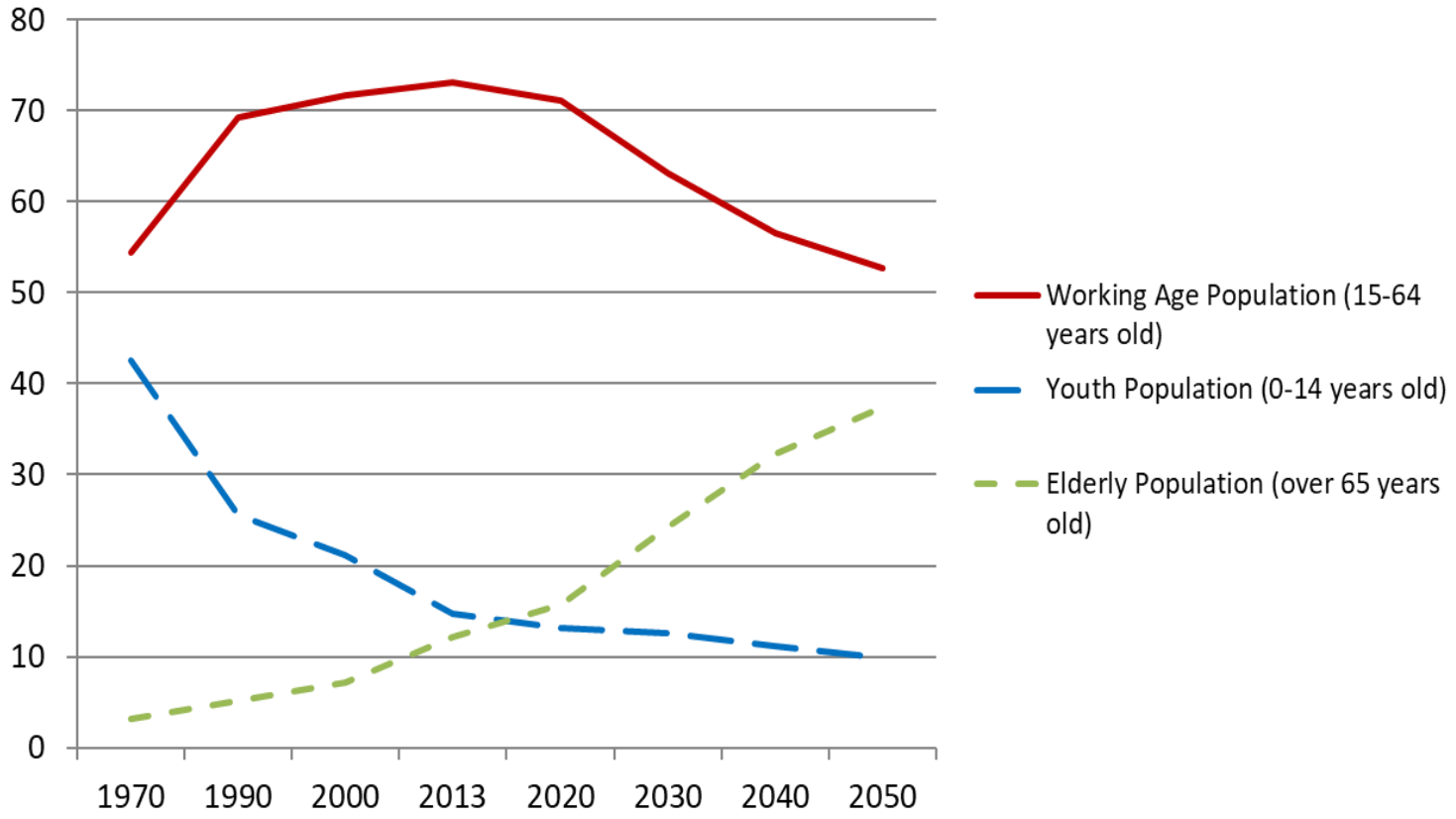
Source: Korean Ministry of Employment. 2014. *Booklet for the Extension of the Retirement Age* (Seoul: MoE), p. 7.

Japan's Population Structure



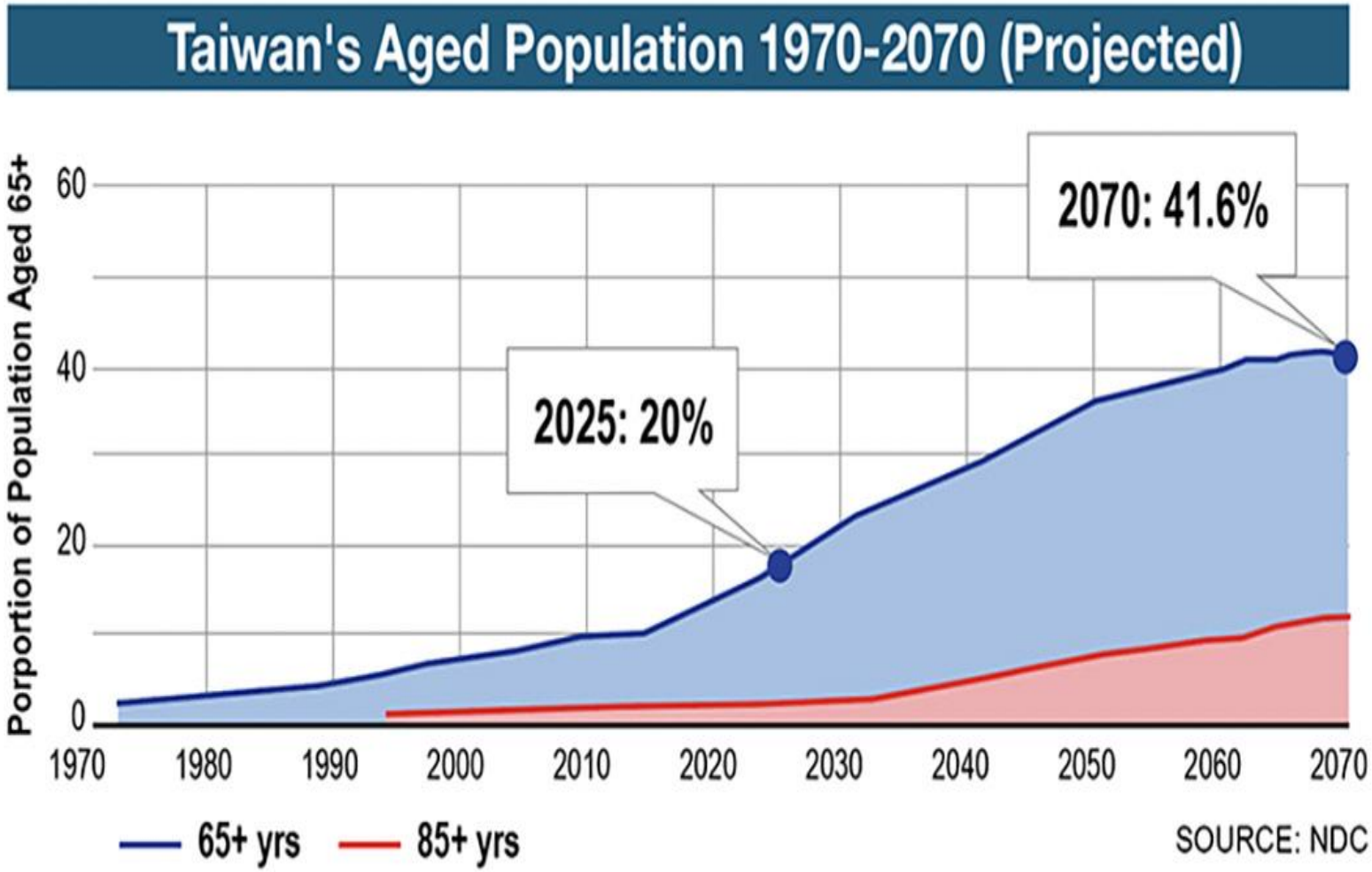
Source: Japanese Ministry of Health, Labor, and Welfare. 2017. *Heisei 29 White Paper* (Tokyo: MoHLW), p. 20.

Korea's Population Structure

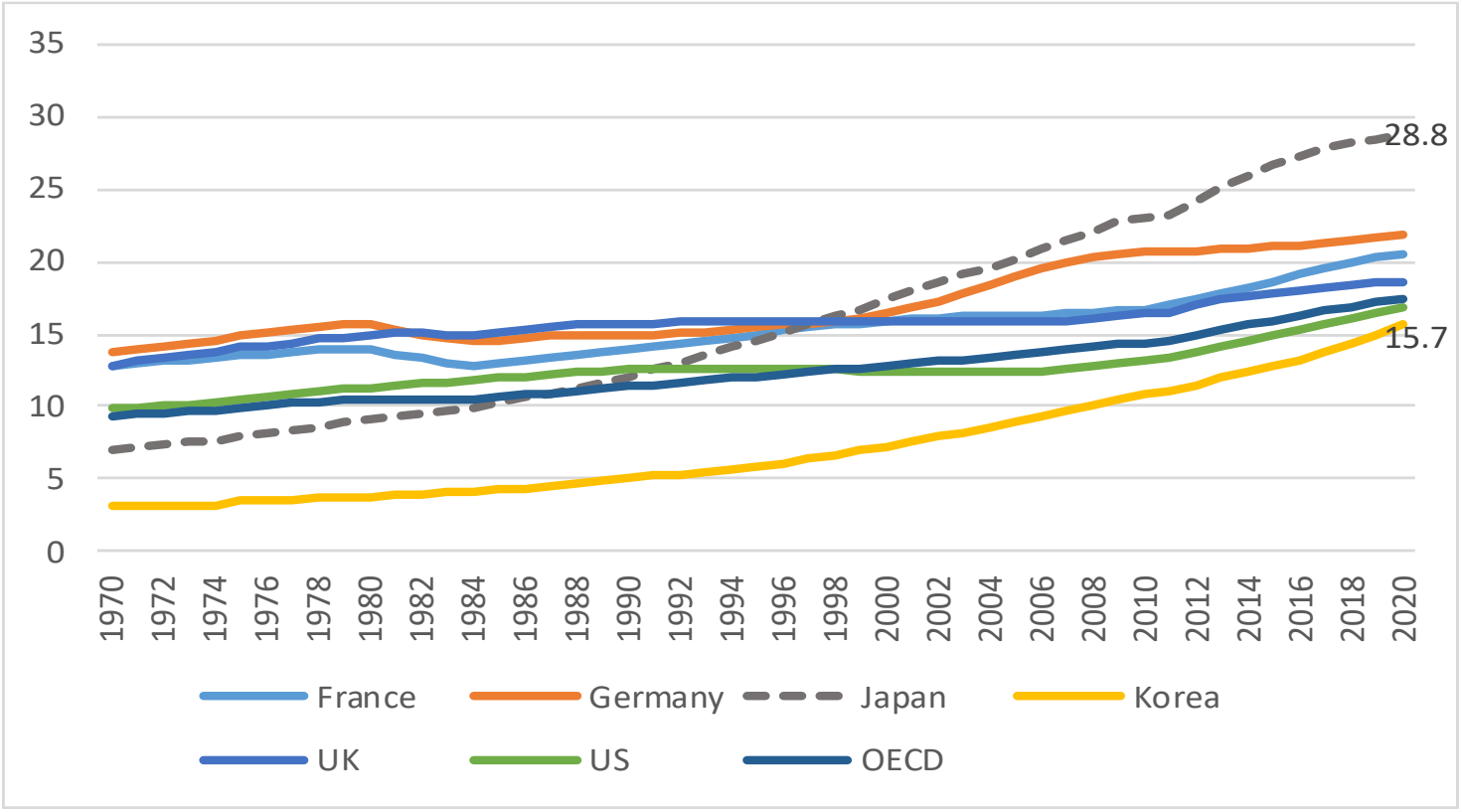


Source: Korean National Statistics Office, "Population Projections" (recited from Kyu-yong Lee 2015, p. 38, Figure 2)

Note: The peak of the working age population was the year of 2016 (72.8%).

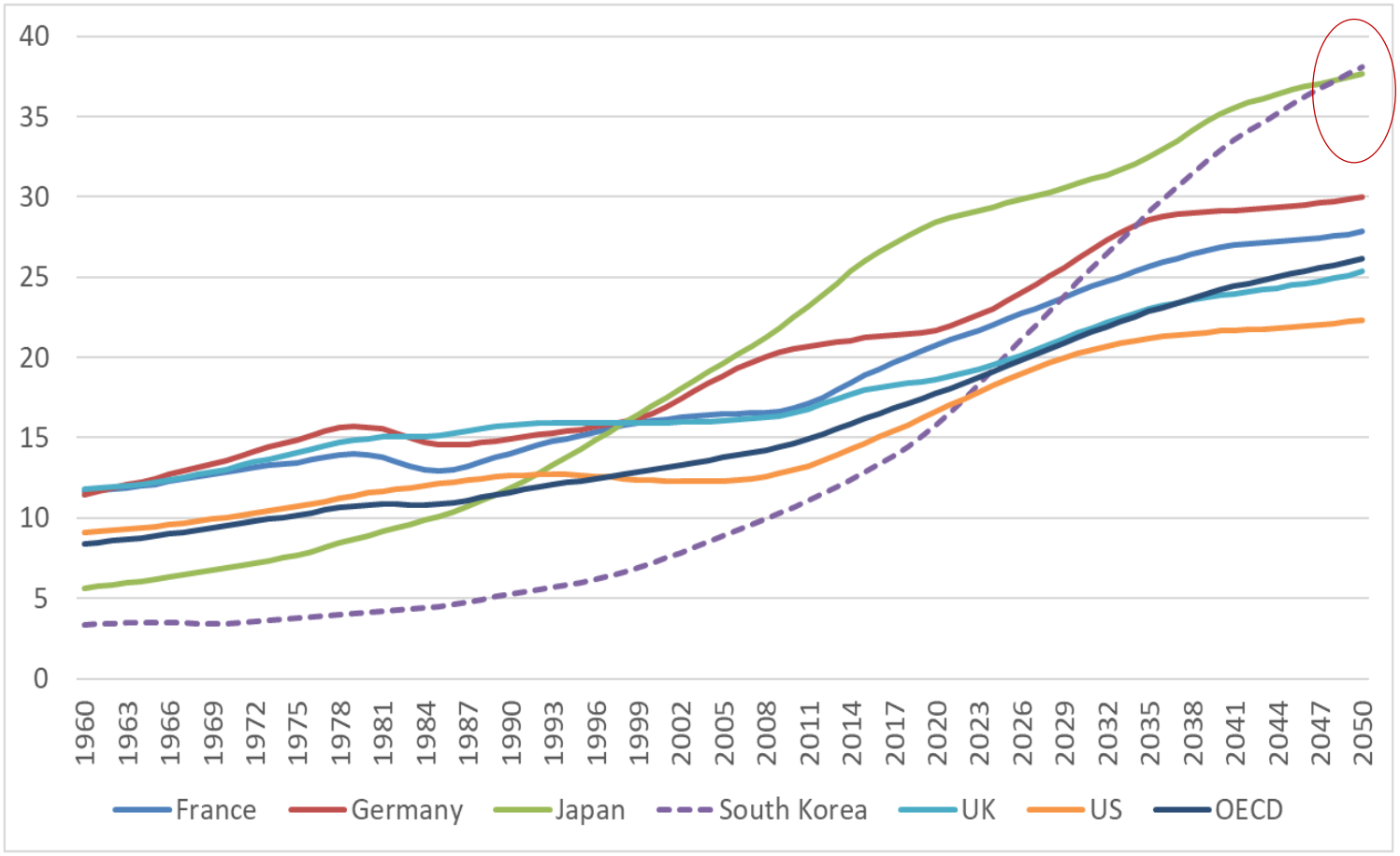

Taiwan's Aged Population 1970-2070 (Projected)
Porportion of Population Aged 65+
60
40
20
0
1970
1980
1990
2000
2010
2020
2030
2040
2050
2060
2070
2070: 41.6%
2025: 20%
65+ yrs
85+ yrs
SOURCE: NDC

Aging Population (over 65 years old)

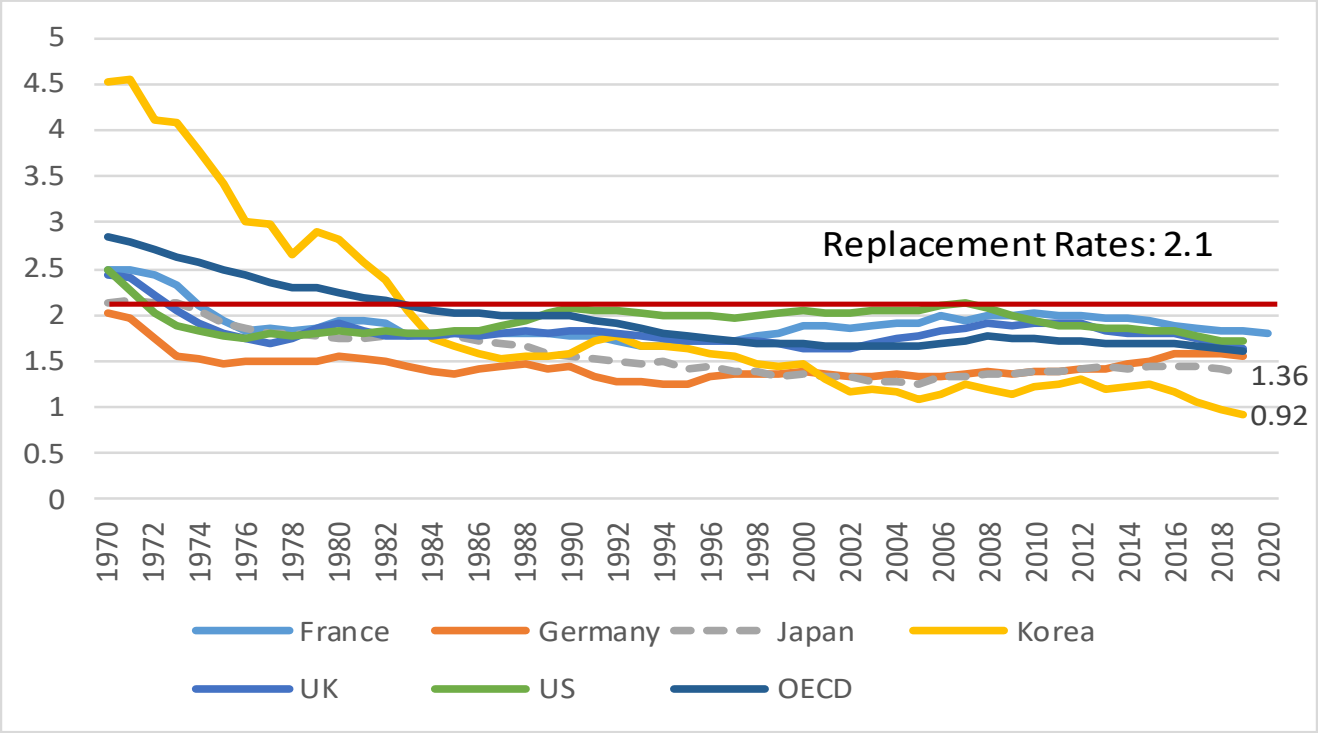


- OECD (2021), Elderly population (indicator). doi: 10.1787/8d805ea1-en

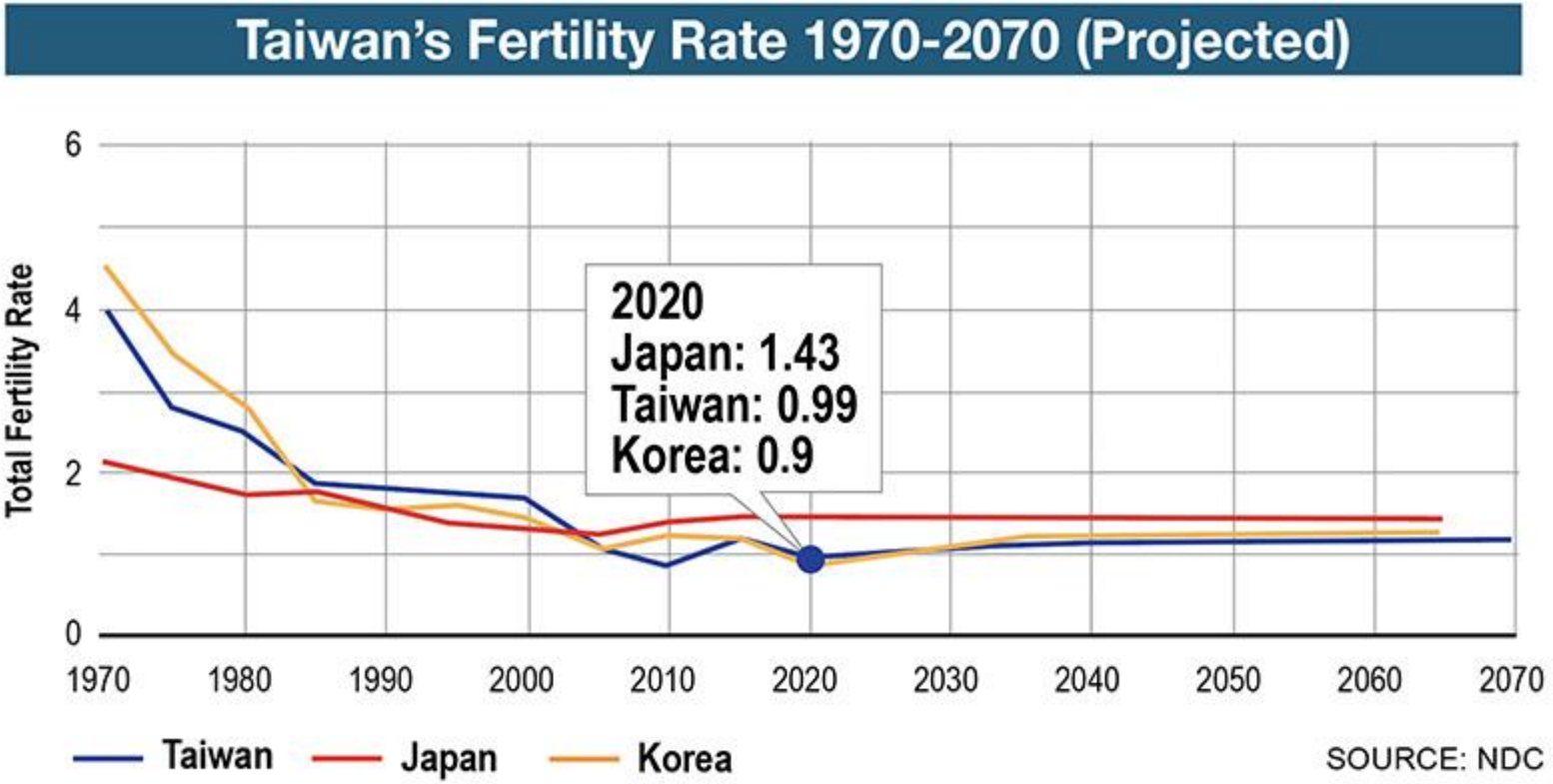
Aging Population (Projection)



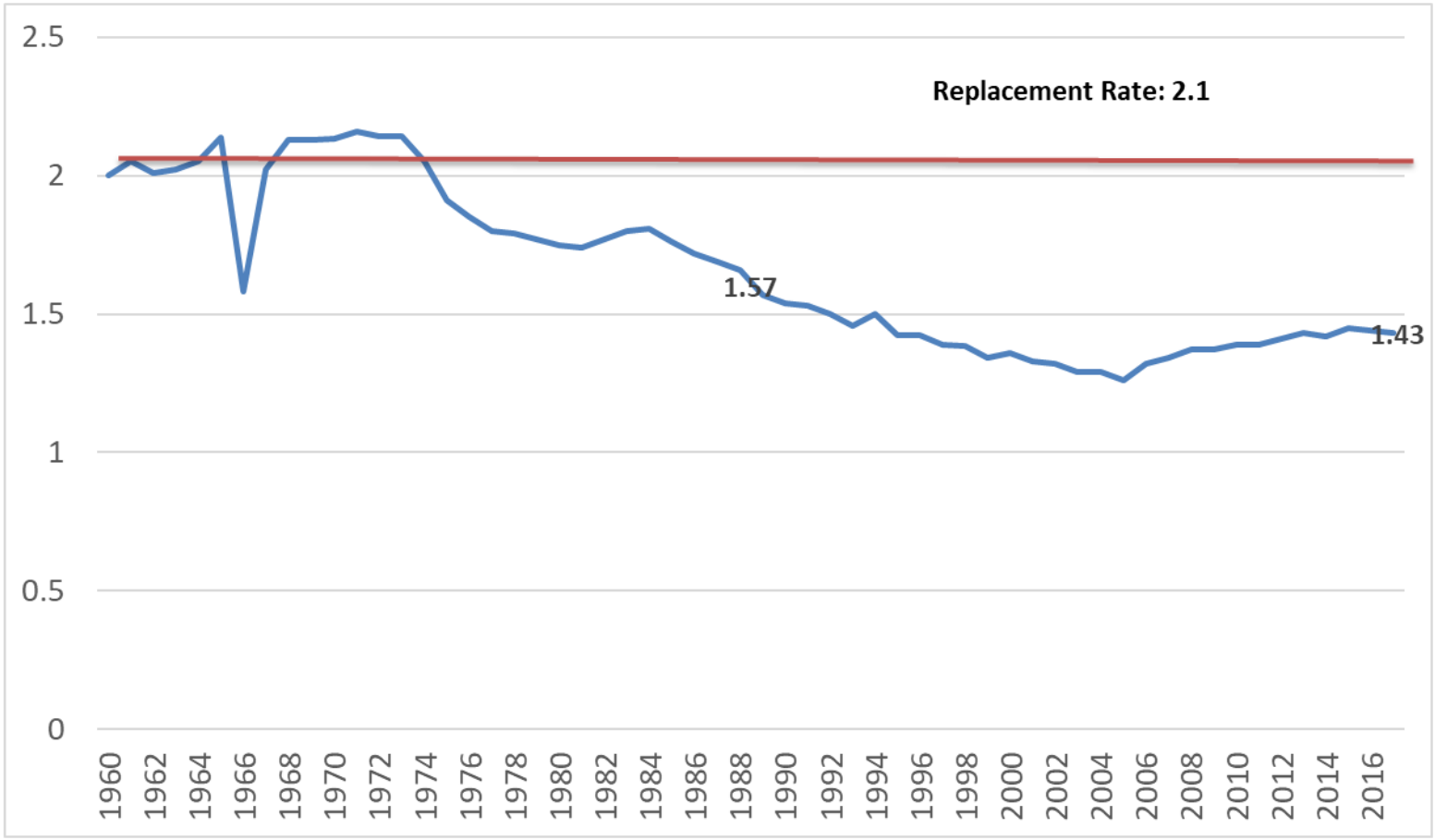
Total Fertility Rates



- OECD (2021), Fertility rates (indicator). doi: 10.1787/8272fb01-en (Accessed on 15 November 2021)

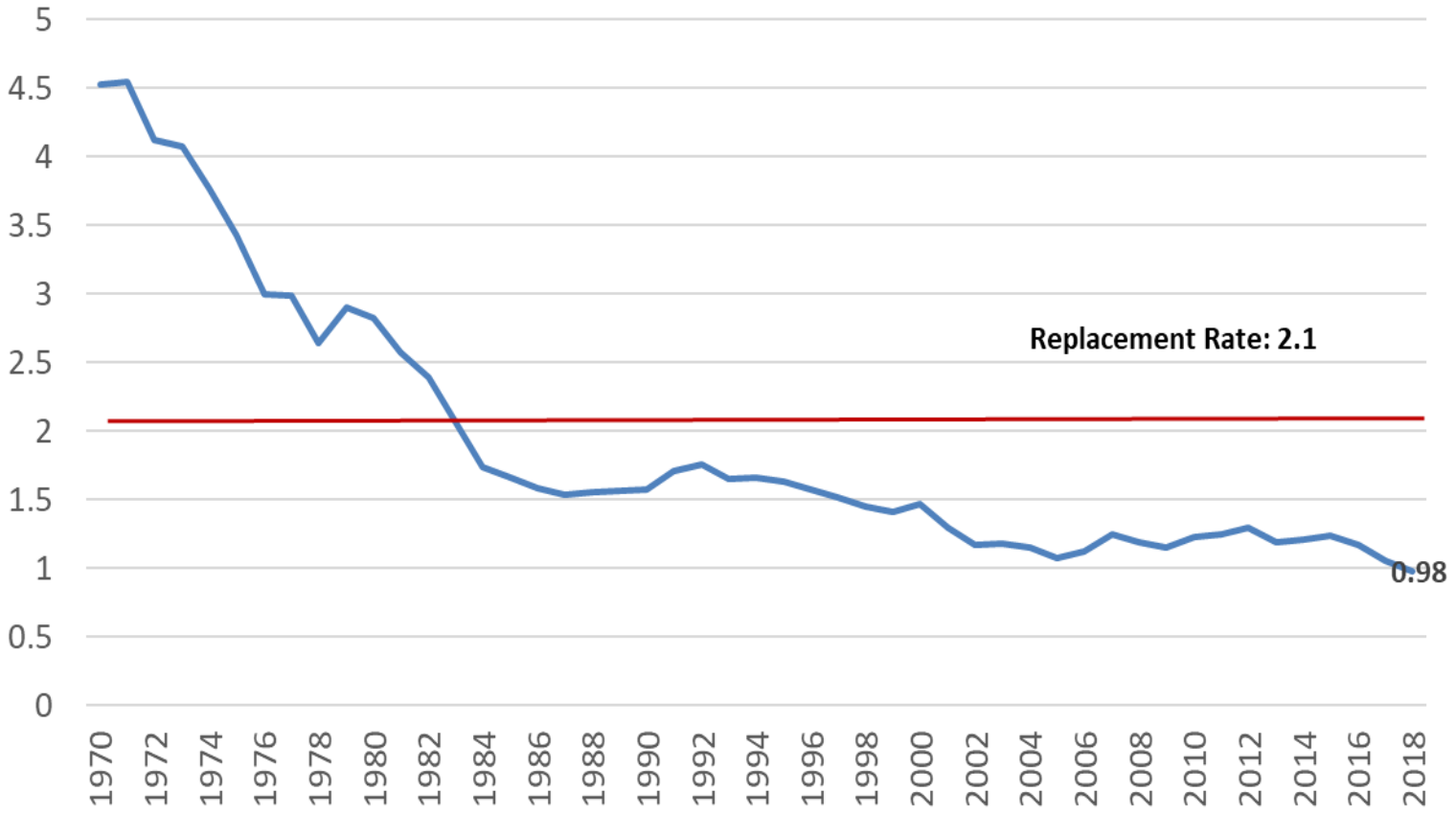

Taiwan's Fertility Rate 1970-2070 (Projected)
Total Fertility Rate
6
4
2
0
1970
1980
1990
2000
2010
2020
2030
2040
2050
2060
2070
2020
Japan: 1.43
Taiwan: 0.99
Korea: 0.9
Taiwan
Japan
Korea
SOURCE: NDC

Total Fertility Rate in Japan



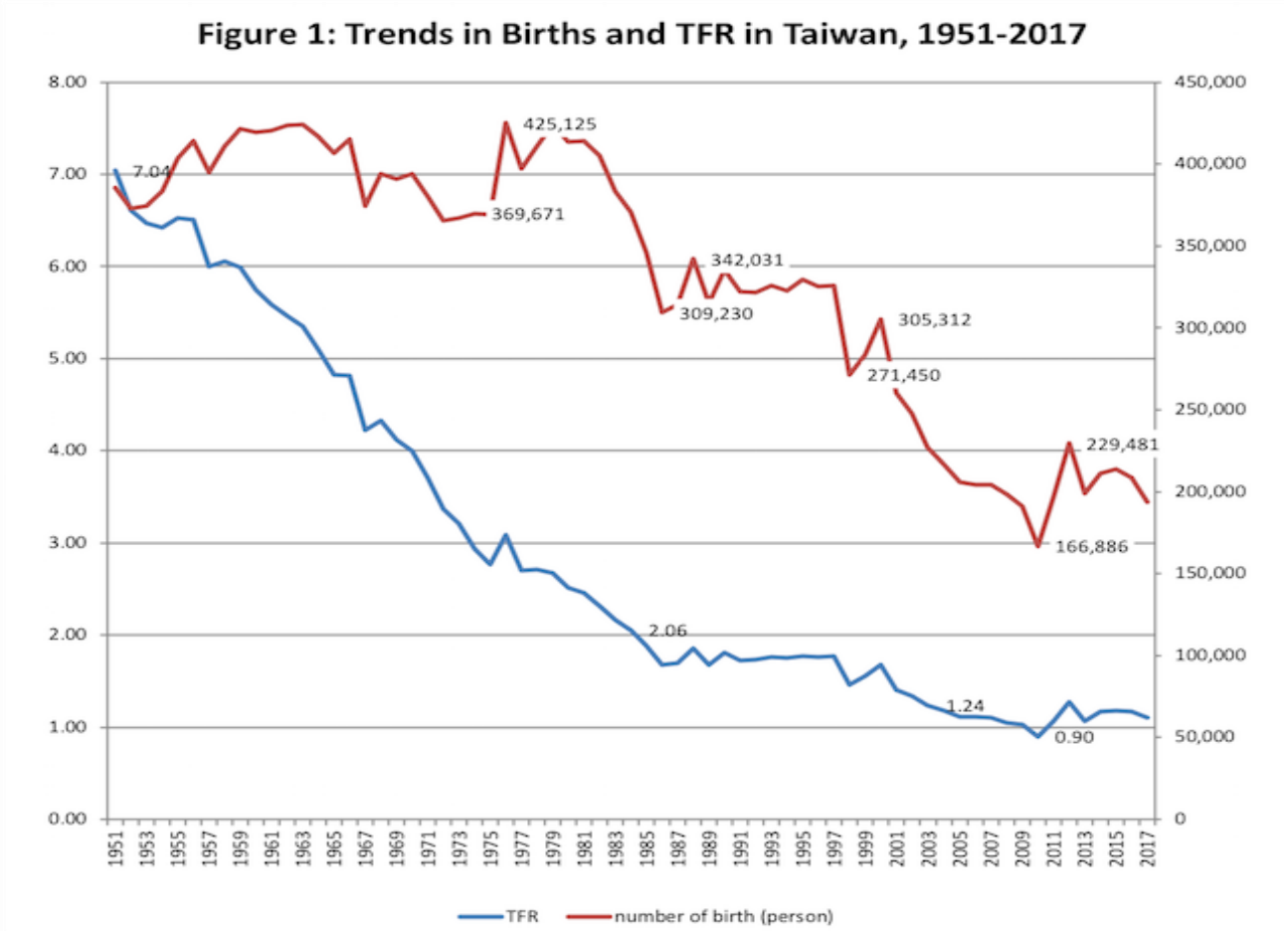
Source: World Bank (https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?view=chart, accessed September 15, 2019).

Total Fertility Rate in Korea



Source: World Bank (https://data.worldbank.org/indicator/SP.DYN.TFRT.IN?view=chart, accessed September 15, 2019); for the year of 2018, Korean National Statistics Office (recited from the media coverage).

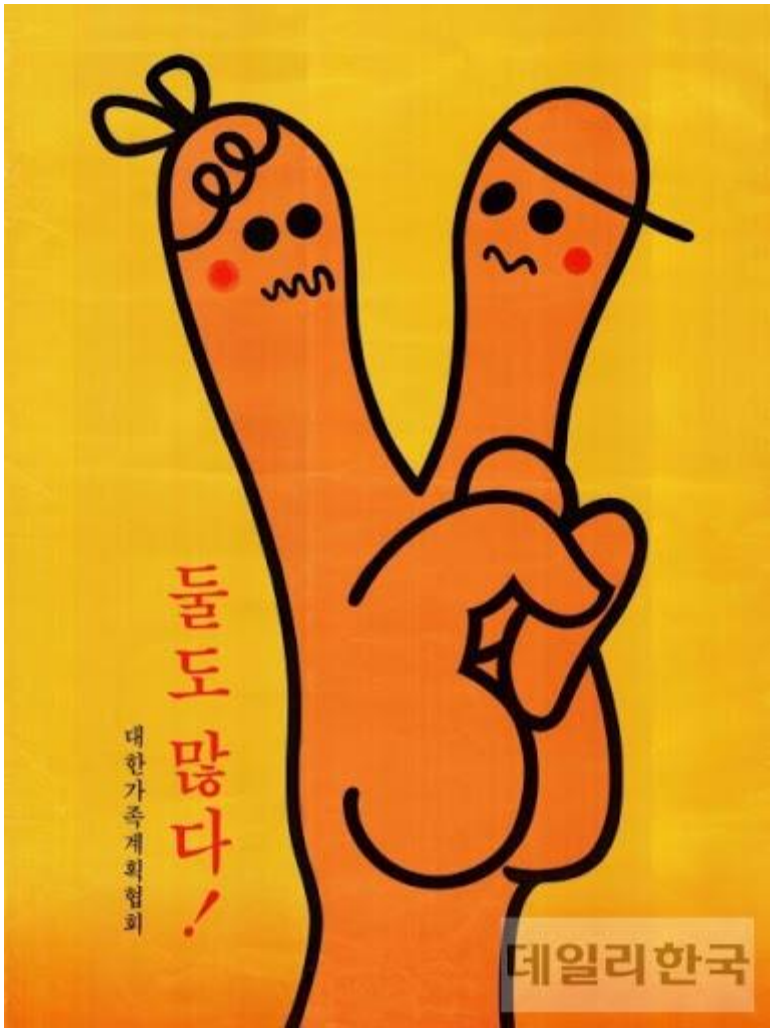
Total Fertility Rate in Taiwan



https://ifstudies.org/blog/how-taiwan-boosted-fertility

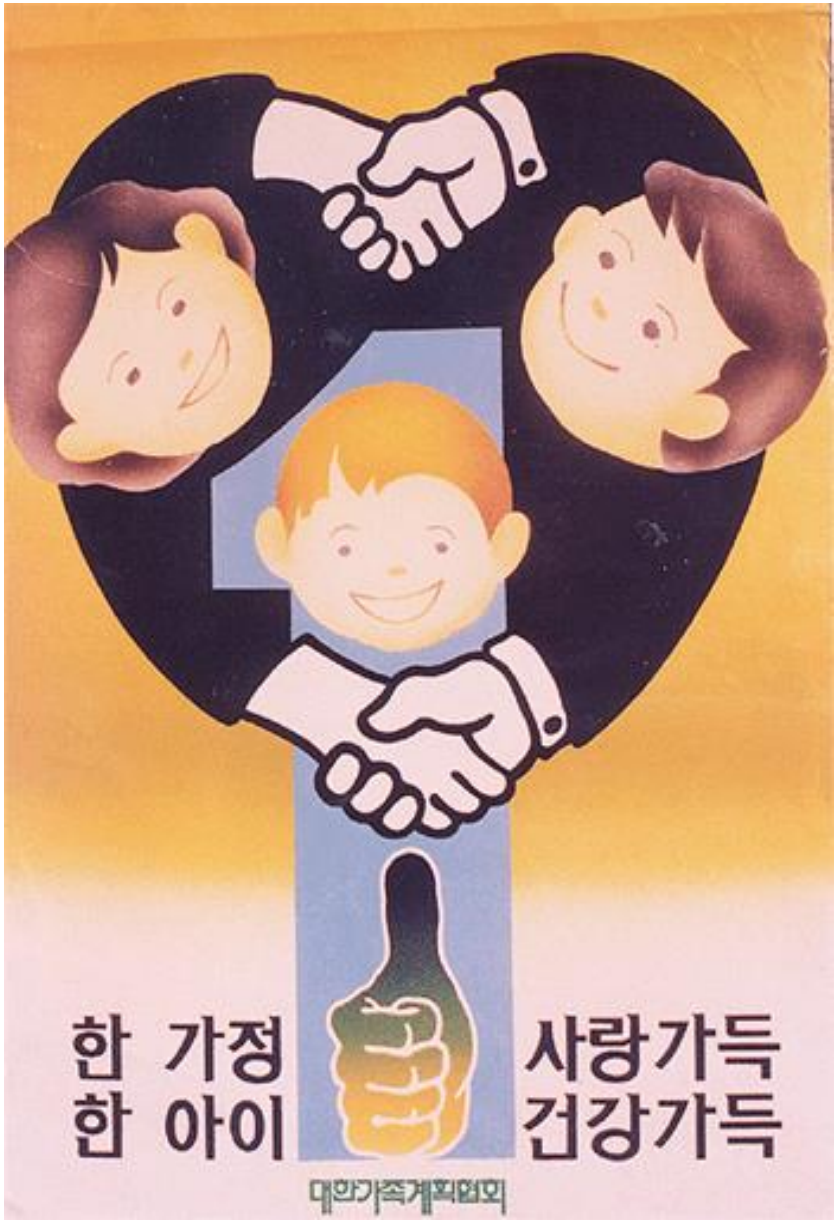
1981
1,000불
국민소득의
길
딸·아들 구별 말고
둘만 낳아 잘 기르자
1974 년은 세계 인구의 해
보건사회부·대한가족계획협회

'85가족계획캠페인
셋부터는 부끄럽습니다.
대한가족계획협회
회 원
공 동 제 약(주)
(주)유 한 양 행
한미약품공업(주)
한일약품공업(주)


둘도 많다!
대한가족계획협회
데일리한국

하나씩만 낳아도 삼천리는 초만원
7월29일로 우리나라 인구는 4천만을 넘어섭니다. 인구는 50초에 한사람꼴로 하루에 1,700여명, 한달에 5만명 1년이면 대전시 인구와 맞먹는 60여만명이 늘어나고 있읍니다.
대한가족계획협회

삼천리는 초만원
대한가족계획협회

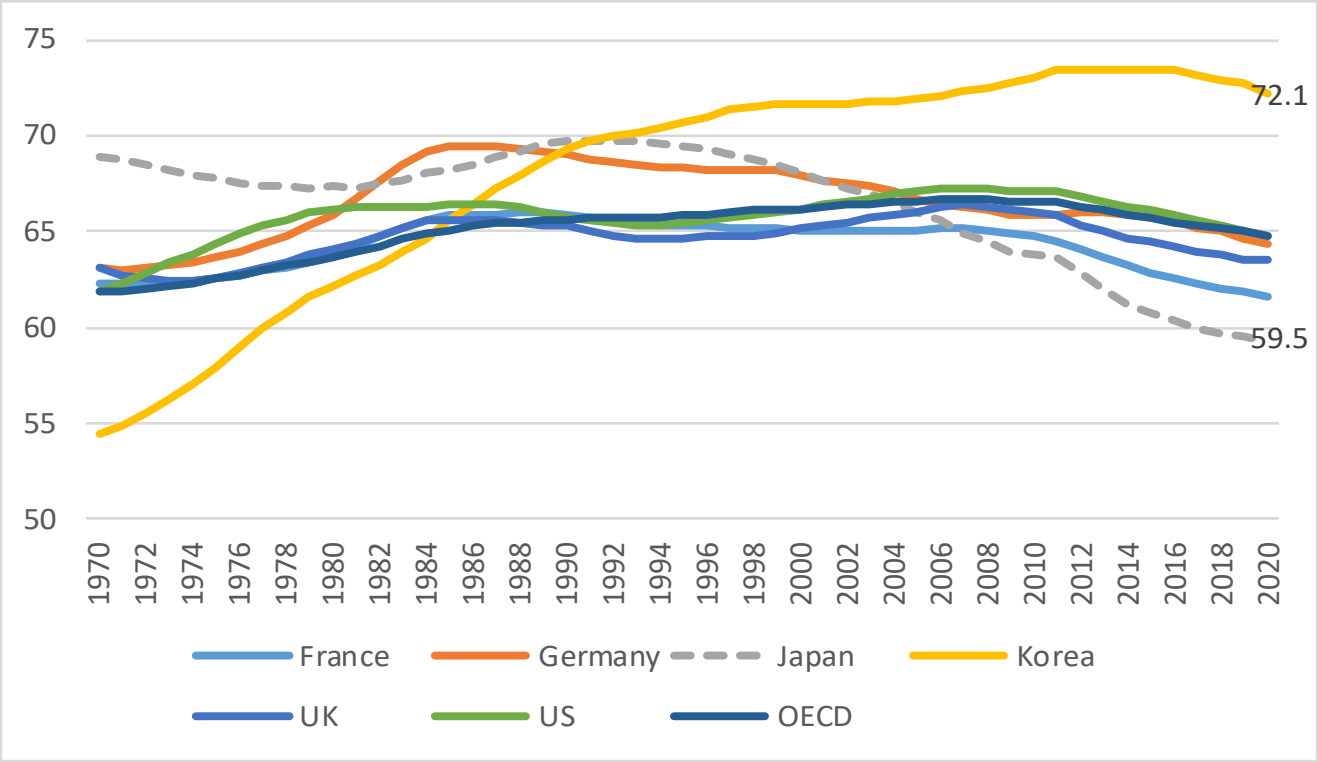

한 가정
한 아이
사랑가득
건강가득
대한가족계획협회

가가호호 아이둘셋
하하호호 희망한국
둘째, 셋째로 대한민국의 희망을 만들어 주세요!
보건복지부
아이낳기좋은세상운동본부

Challenges for the Labor Market

- Declining working age population
- Retirement of the baby boomer generation
  - Japan's baby boomer generation (those born in between 1947 and 1949)
  - Korea's baby boomer generation (those born in between 1955 and 1963)
- Labor shortages; problems of skills transfer in the workplace

Working Age Population (15-64 Years Old)



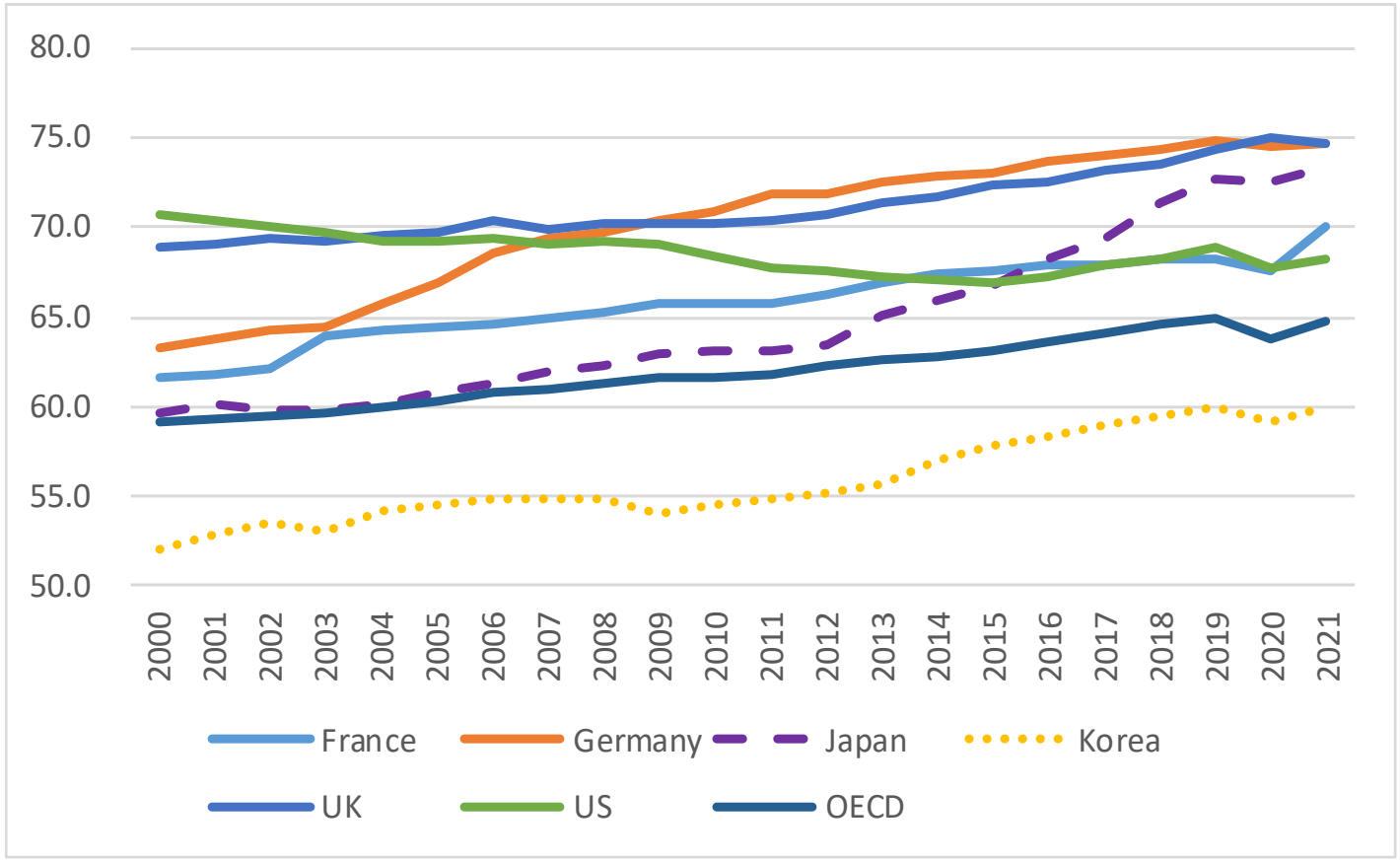
- OECD (2021), Working age population (indicator). doi: 10.1787/d339918b-en (Accessed on 15 November 2021)

Labor Force Participation Rate (2021)

	Elderly (over 65 years old)	Youth (15-24 years old)
Korea	**36.3%**	**29.6%**
Japan	**35.6%**	**48.9%**
US	18.9%	55.5%
UK	10.5%	58.6%
Germany	7.5%	52.3%
France	3.5%	39.7%
OECD	15.5%	47.5%

Source: OECD Stat. LFS by sex and age (https://stats.oecd.org/Index.aspx?DataSetCode=lfs_sexage_i_r, accessed June 19, 2022).

Female Labor Force Participation



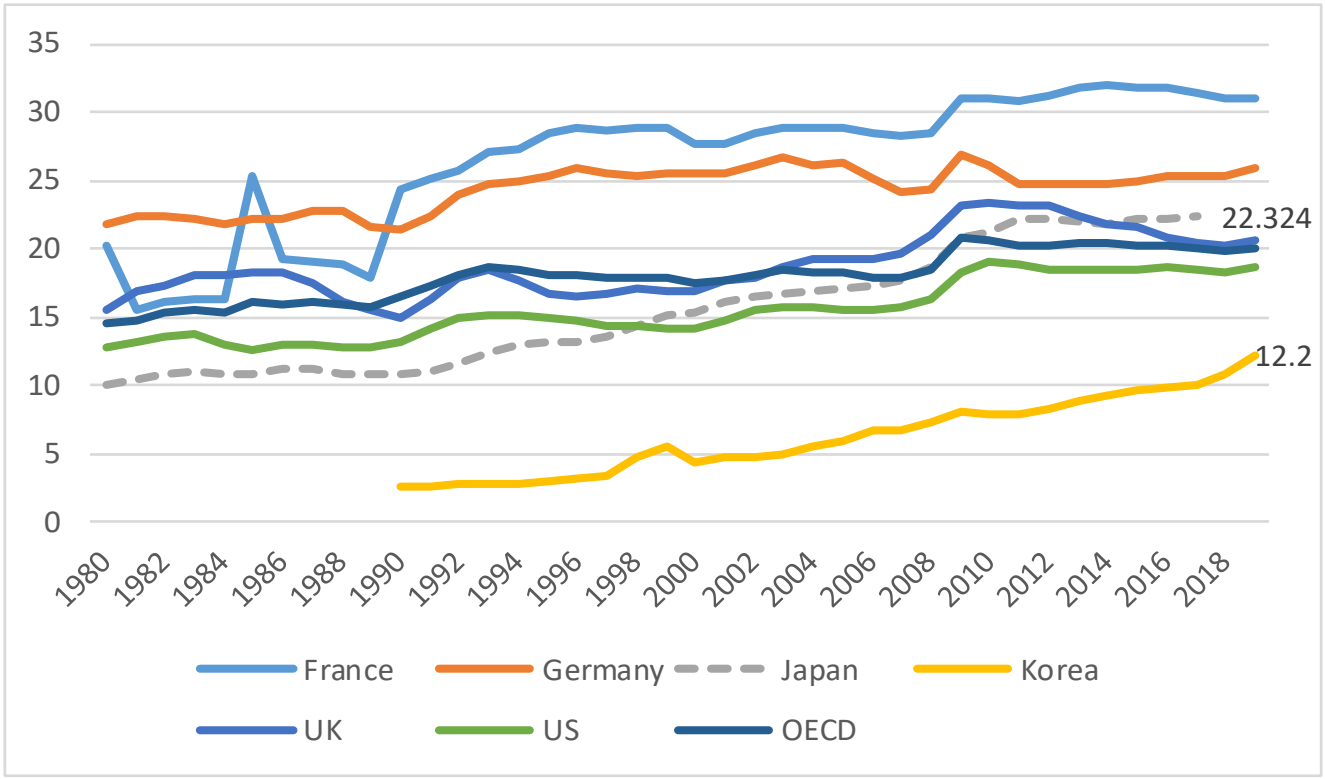
Challenges for Social Welfare Policies

- East Asia's economic growth strategy
  - "Developmental states"
  - A wide range of the public policies to promote a country's export and industrialization
  - Economic development as top policy priority
  - Yet Japan, South Korea, and Taiwan have focused on the development of social welfare programs for the past few decades
    - Japan: 1960s
    - Korea and Taiwan: late 1980s

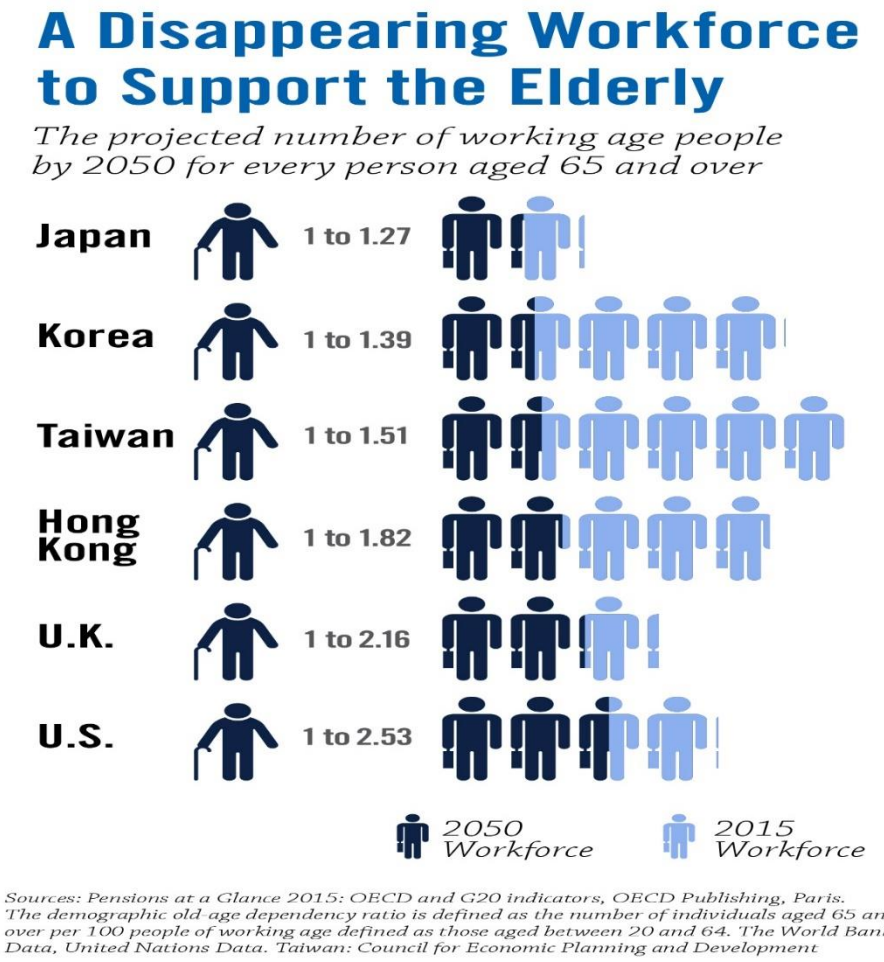
Challenges for Social Welfare Policies

- Increasing social welfare expenditures (esp. for the elderly)
  - ***Pension***
  - ***Health insurance***
  - Long-term care insurance
- New social risks
  - child care, elderly care, and etc.
- Growing old-age dependency ratio
- Shrinking taxpayers and tax base

Gov’t Social Expenditure (% of GDP)



- OECD (2021), Social spending (indicator). doi: 10.1787/7497563b-en (Accessed on 16 November 2021)



https://www.intellasia.net/for-asias-rapidly-aging-populations-innovation-and-forward-thinking-policies-drive-retirement-security-623061

Japan's Social Welfare Programs

- Japan's universal health insurance and national pension programs (1961)
  - Introduction and expansion of social welfare programs
- Yet Japan's welfare reforms since the 1980s
  - Pension reforms
    - Introduction of the first tier of the basic pension that would encompass all the population in 1985
    - Increase in the pension contribution with the reduction of the pension benefits
    - Increase the pensionable age and the mandatory retirement age
  - Health insurance reforms
    - The government's subsidy as well as cross-subsidization in the 1980s
    - Elderly Health Insurance Program (2008)

Japan's New Social Risks

- New social risks, new social welfare programs
  - Declining fertility rates; aging population
- Expansion of childcare programs and services
  - "1.57 shock" (1989)
  - Angel Plan (1994)
  - New Angel Plan (1999)
  - Childcare leave; childcare allowances
- Introduction of universal elderly care
  - Long-term care service (2000)
  - Care service provision over 65 years old

Japan's Policy Response

- 2nd Abe Government (2012-2020)
  - Abenomics (January 2013)
    - Monetary policy, fiscal expansion, structural reform
  - Second stage of Abenomics (September 2015)
    - (1) Strong economy (GDP 600 trillion yen)
    - (2) Child care support (TFR 1.8)
    - (3) Social security (zero elderly care leave)
  - Labor market and social welfare policies as a tool of boosting economic growth and enhancing productivity

Japan's Policy Response: Labor Shortage

- Womenomics (2013)
  - "Create a world where women can shine"
  - Encouraging women to participate in the labor market
    - Solution to the problems of labor shortage
    - Productivity growth
  - Promoting the hiring of female workers
  - Female workers' career development within corporations as well as the government
  - Diversity in the workplace
  - Provision of various infrastructure (e.g. child care); work and life balance

Japan's Policy Response: Labor Shortage

- "Dynamic Society of One Hundred Million (ニッポン一億総活躍プラン)" (September 2015)
  - One hundred million population after 50 years
  - Productivity growth
    - Flexibility; diversity

Japan's Policy Response: Labor Shortage

- Extension of the retirement age
  - Revision of the Elderly Employment Security Law (60 years old, effective from 1998)
  - Another revision (no retirement age, 65 years old retirement, or continuing employment, effective from April 1, 2006)
  - Extension of the continuing employment to all workers (2012)
  - New Elderly Employment Security Law (effective from April 2022)
    - Firms' efforts to allow elderly workers to work until the age of 70

Japan's Policy Response: Labor Shortage

- Expansion of hiring foreign workers
- Revision of the Immigration Control and Refugee Recognition Act (December 2018)
  - Semi-skilled and skilled foreign workers
  - 14 industrial sectors suffering from labor shortages
  - Family reunion for a group of skilled foreign workers; possibility of applying for permanent residency in Japan
  - Expect to receive 345,000 foreign workers in the next five years

Japan's Policy Response: Social Welfare Programs

- Retrenchment of social welfare programs
  - Benefit cuts; social security contribution premium increase; extension of the pensionable age
    - Pension
    - Health care insurance
- Extension of social welfare coverage
  - Blind spots of social welfare programs
    - Non-regular workers
    - Part-time workers (less than 20 hours per week)

Japan's Policy Response: Fiscal Stability

- Tax increase: consumption tax
  - 3% consumption tax (April 1989)
  - 5% consumption tax (April 1997)
  - Democratic Party of Japan
    - Social Security and Tax Reform (社会保障と税の一 体改革) (August 2012)
  - 8% consumption tax (April 2014)
  - 10% consumption tax (October 2019)

Policy Implications for Korea

- Korea's more rapid demographic changes than those of Japan
- Labor market
  - Working age population's peak at 73.15% (in 2017)
  - Youth and females with higher education vs. elderly population
  - Low skilled foreign workers
- Social welfare programs
  - Universal welfare vs. selective/targeted welfare
  - High poverty rate of the elderly population
  - Dualization of the labor market; blind spots of the social welfare coverage
  - 380 trillion KRW in response to declining fertility rates, yet no sign of solution
- Tax policy
  - "Social welfare expansion with tax increase"
  - Resistance to tax increase

Conclusion

- Socio-demographic changes in most advanced industrial countries
- Yet, different speed of the change as well as diverging policy responses to such common problems
- East Asia
  - More drastic socio-demographic changes
  - A series of policy responses, but ineffective
  - Possible solutions?