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## **Towards Social Security Systems in Japan Lessons for India**

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### **Abstract**

Japan has to restructure its social security systems from time to time for different reasons like a far more rapid aging of population, the slow down of long term economic growth and deteriorating equity in the inter-generational transfer of welfare. But even then, the basic elements remain the same. It is pertinent to see how and to what extent Japan's social security systems could be translated in the case of India. As a preliminary analysis, in section One, attempt has been made to summarize the distinctive features of social security systems in Japan. Section Two dwells upon the nature and problems of the social security systems in India. An endeavour has been made in Section three to articulate on the lessons for India. Final Section Four concludes and summarizes the main findings. It has been observed that there are certain experiences that India can learn, among others, the careful application of universal social security systems, the role of insurance policies, private-public synergies, the role of the government and governance, the importance attached to social capital.

*Key words: Universal social security system, private–public partnership, Inter-generational Equity governance, social capital.*

JEL Codes: [H55], [E65], [H41]

***“Praja Sukhe sukhamrajne  
Prajanam ca bīchitam  
Natma priyam hitam rajna  
Prajanam tu priyam hitam”***

(In the happiness of the subjects lies the happiness of the King; In the welfare of the subjects is the welfare of the king; Not his personal desire and ambitions, but what is desirable and beneficial to the subjects, That is desirable and beneficial for the king.)

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In recent years, a great deal of attention has been paid to the reform of social security systems both in developing as well as developed countries. In both the cases, a debate has centered on the question :what kind of social security system is appropriate in a rapidly changing socio-economic environment .Whereas in the developed countries like Japan ,quite a significant proportion of the population is covered by various forms of state or market – organized social security systems, in developing countries like India, despite considerable efforts on the part of policy-makers, development institutions and donor agencies, a large proportion of the population remains uncovered against basic risks. Exposure to risks is a major threat in the day-to-day life of people in developing countries. Different risks like illness, disability, death, widowhood, natural disasters are some examples of typical risks that lead to fluctuating income and thereby affect the quality of life. In developed countries, people are often protected by state or market-based insurance schemes. In developing countries, not only are insurance markets missing, but also possible substitutes are either non-existent or do not function properly.

In point of fact, the most alternative systems based on reciprocity and solidarity at the household or community levels are facing tremendous adjustment problems due to economic and social changes. Market penetration, population growth, migration and a change in social habits can lead to an erosion of the moral economy, so that a basic access for all members is no longer guaranteed.

It would be fair enough to examine whether the Japanese system may be translated in the case of India. This is true in the light of India's institutional strengths like well-established legal system, the parliamentary democracy, the free press, a strong network of financial institutions, the catholicity of the people and the historically designed and well-structured social and cultural systems as in Japan.

In order to tackle the question of an optimal design of social security systems properly, we need a comparative case studies which highlight the institutional mechanism of risk management in different socio-economic settings .Such an analysis would enable us to get a better insight into the constraints and limits of the existing systems and also enable to develop mechanism to deal with the problems of covariate risk.

Given this background, the discussion in this paper is organized in four sections. In Section One ,the paper seeks to make a critical review of the kind of development of social security systems in Japan that are currently in place and identify its ,major institutional strengths and weaknesses of their various components. In section Two, an endeavor has been made to articulate on the status of social security systems in India and also to locate key features or its areas of concerns. Section Three has dwelt upon the issue of how and to what extent the lessons from Japanese experience could be derived for India. The last section has made an attempt to conclude and summarize the main findings.

### **Section One** **: Social Security Systems in Japan**

Social security programs in Japan are designed to guarantee a minimum standard of living and to protect citizens from certain types of social and economic risk. The social security system consists of four major components: public assistance, social

insurance, social welfare services and public health maintenance. With the average age of the Japanese population rising rapidly because of a falling birth rate and increasing life-spans, it has become inevitable that the total population will soon begin to fall. In this environment, the issues of how to pay for and restrain the growing pension, medical care and nursing care burden have become critical ones as society seeks to create a humane and sustainable social security system.

The development of modern social security system in Japan can be understood in the following way. It is true that at the end of the 1950s, the establishment of two laws--the National Health Insurance Law and the National Pension Law --made self-employed persons, those employed in agriculture and others with no previous access to social insurance policies eligible for national pensions and national health insurance. Then beginning in April 1961, a universal health insurance system and pensions for all Japanese citizens were put into effect. This social welfare regime was supported by government financial resources ,which was adequate under the prevailing conditions of rapid economic growth .steadily ,it developed as the basic system underpinning the people's welfare .In 1973, certain revisions were initiate. First a revision of the welfare law for the Aged eliminating health care fees for the older citizens took place. Secondly, a revision of national health insurance regulations boosted the percentage of national coverage for family medical was initiated. Revised national pension regulations raised pension levels and introduced a sliding scale (reflecting changes in commodity prices) that benefited in particular the neediest recipients. With the oil crises of 1973and 1979, Japan faced an era of welfare constraints. In 1983, the health and medical service Law for the Aged was enacted. This law mandated that the cost of geriatric medical treatment should be covered not only by National Health Insurance, but by employee, cooperative and other health insurance plans in order to reduce the national treasury's outlays for the National Health Insurance plan.

Moreover, senior citizens themselves were to pay a fixed price for medical treatment. In April 1986, a new pension was inaugurated. This pension reform aimed above all, at establishing a system that could be maintained under the conditions of Japan's ageing society.

It was realized that in view of the rapid aging of society and the fact that there would soon be a downward population trend due to the dropping birth rate, social security systems, including pensions became a point of serious concern. In 1961, a system was put into effect whereby all Japanese citizens could receive pensions .These pensions were of three types (a)the national pension (*kokumin nenkin*) for self-employed persons(b) ,employees pensions( *kosei nenkin*) for salaried person□and(c) mutual aid pensions (*kyosai nenkin*) for civil servants. Then, beginning in 1986, a two tier pension system was established whereby the entire population is eligible to receive a national pension to which employees' pensions and mutual aid pensions are added for those people eligible.

Thus ,at present, the first tier of the two tier pension system is the national pension to which people contribute between ages 20and 60and which begins paying benefits at 65 .For the national pension, the insured population classified into three groups with respect to their methods of pension insurance contribution and eligibility for receiving second –tier payments. Category 1 insured persons are the students and self-employed who make their insurance contributions as individuals. Category 2 insured persons are largely salaried persons working for companies, government, while

category 3 insured persons are spouses who are supported by persons in category 2 and are exempt from insurance contributions.

The most serious effect of the trend in Japan toward having fewer children is a decrease in the number of persons supporting the burden of social security expenditures. This is also related to the inequalities in taxes and social insurance contributions. For examples, strong opinions have been expressed about burden inequalities between on the one hand , the category 3 insured persons is full time house wives and on the other income earning single and married women. The increase in the number of people who either do not enroll in the national pension at all or who do not make the specified monthly payments is also a major problem ,with the contribution percentage( number of monthly contributions actually made as compared to the number that should be made ) falling to 62 per cent in 2002.

Since the mid-1990s onward, the government has been implementing structural reforms to the social security system as a whole in order to address issues related to the increase in social security benefits payments, the stagnation of the Japanese economy, the worsening of government finances and the diversification of social security program needs (Ministry of Foreign Affairs, 2004)<sup>1</sup> It is true that Japan was slow in institutionalizing the system of social expenditures, of course, except in education. There are certain reasons for this. In the first place, there was no social doctrine as such to this effect to assert that access to social securities is an integral part of basic human rights. Measures of social amenities in the country, therefore, tended to be regarded as benevolent gifts of the ruler. Secondly, there was prevalence of different social traditions of mutual support with pervasive reliance on kinship and community relations in the society. Thirdly, the private sector, securities is an integral part of basic human rights. Measures of social amenities in the country, therefore, tended to be regarded as benevolent gifts of the ruler.

As also there was prevalence of different social traditions of mutual support with pervasive reliance on kinship and community relations in the society. The private sector, in particular, the big corporations, used to supply generous welfare programs of their own in order to, fully satisfy the needs of their employees. On top of all these, there was no effective political pressure whatsoever to realize the introduction of social security system. So, under the circumstances, people did not have any other choice but to seek their own means of self protection. In other words, the entire social support system was effective by way of mutual assistance ,mostly through kin-based relations, also supported by communal actions of some kind (Ishikawa1967:ch.3)

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1. The document issued by the Ministry of Foreign Affairs , Government of Japan, 2004. In order to improve the financial viability of the public pension system, in march 2000, the government passed a package of pension reform bills which reduce benefit levels while avoiding adding to the contribution burden of the working population. Beginning in April2000, employees pension benefits for new recipients were cut by 5 per cent and the wage slide system was frozen , with adjustments being made only based on consumer price index changes. In addition, the age at which employees' pension benefits are received is being raised from 60 to 65.It will rise to 61 in 2013for men and in 2018 for women ,followed by subsequent one-year increase made every three years. The final level of age 65 will be reached in 2025 for men and 2030 for women. Reforms measures relating to Pension system passed in 2004 raised the pension contribution amounts for both the national pension and employees' pensions, and specified the raising of the ratio of the national pension financing burden borne by the national treasury from one-third to one -half by 2009.

But in course of time, with the growth of modern industry and development,

certain processes took place in different parts of Japan. All these helped development of the social security system. They can be discussed in the following paragraphs.

In the first place, availability of help within the traditional agricultural artisans and communities for the growing numbers of people who were not equipped to succeed in factories and other modern organizations gradually started declining

Two, with the development in technology, production increased well beyond workers' subsistence levels, and this made surplus available making a surplus or resources to the people for other purposes. And thirdly, with education, urbanization, the emergence of higher organizations and so forth, the people were more likely to mix and perceive their common interests, and perhaps come to view gross inequalities as wrong and a sense of equality emerged.

Until the end of World War II, more than half of population was employed in business as in primary sector and Japan could virtually be classified as a developing country when assessed on the basis of its industrial structure. In those days, Japan began to develop its social security systems which modified and modeled after those already introduced in the West. This situation is unique to Japan, since western nations began to deal with this issue only after their economic power had reached a certain level. So it emerges that the major distinguishing features of Japan's social security system could be identified as follow:

1. Japan was a nation to have made active efforts to develop its social security system when the country still had a large informal sector population (farmer, self-employed and workers)
2. Japan promoted Government –led social security system in which the Government itself became the insurer for the people
3. Japan established a universal insurance framework at a relatively early stage of economic development which consequently contributed subsequently to its economic growth. and
4. Japan could have developed a system where the proper synergy between private and public agencies has been accomplished

In Japan, with regard to privatization of social security systems, certain arguments are advanced. They are that much weight is given to the consumer's freedom of choice and on a reduction of uniform and inflexible government regulations. In the system, one is to make better use of developed private insurance system and the other is to make best use of flexible and competitive welfare services.

### **Issues of concern for Japan:**

Japan has recognized to restructure its social security system in response to a far more rapid aging of their population and a far deeper decline in economic growth than has been expected as also the deteriorating equity in intergenerational transfers. and moral hazards problems induced by social security programs like promoting early retirement, dwindling private savings, creating unemployment. It is very difficult to meet the growing needs for social security, caused primarily by this rapid aging, under stringent budgetary constraints (Report of a Committee set up by the Government of Japan in January 2008) slow down of their economic growth.

One of the challenges Japan has been facing in recent years relating to its Social security system is the demographic change (*Korei ka*), ageing of society. Japan

has been facing a high dependency ratio as shown in Table 1.

A related but another challenge is the impact of increasing economic inequality. Japans income support for the poor stayed in the midst of the confusion after the second world war with the public assistance law 1946, followed closely by its total revision in 1950. The revised Public assistance law still constitute s a backbone of the public assistance today .But only a very small portion of the population is the recipient of the Public Assistance. The coverage rate has hit the lowest at 0.7per cent in 1995 and since then increased to 2..5 per cent in 2004 .An assistance strategy is to provide low cost housing ( *koei jutaki* )to low –income households The eligibility to apply for a public housing requires the households to be under specific income threshold. However, meeting the criteria does not guarantee a housing unit public housings compose about 4.7 per cent of total housing in 2004.

Unfortunately, the significant flaw in these schemes is the low take-up of the programs even though the design is so that it is open to all those who are in need. Different reasons are advanced for low take up. One, it is not only due to strict means and asset testing, but also due to very strict application of self-help principle by the authorities .Regarding the public housing, at least at the onset of the system, it systematically excluded those belonging to the lowest income strata by setting the rent to meet the cost.

There is a continuing debate, especially on the pension schemes between those who claim converting some of the insurance –based schemes to the tax-based schemes and those who prefer to maintain the link between the contributions and benefit through an insurance scheme. There is universal in principle, but selective in practice.

The low take-up rate of social assistance programs is directly related to how these programs are operated in the field. But for different reasons, the public assistance System is highly selective, whether it is intended or not.

Japan’s social security programs started with programs for the poor, but as the social insurance programs that started in 1960s expanded exponentially, the programs based on pre-1960 laws were marginalized. This is known as Middle-classification of the welfare state. Once the middle class became the main recipient of benefits from the welfare state, the welfare state no longer holds the social justice as its political objective and instead turns into a service nation.

The poor may not be benefiting as much as the middle and upper classes from the social insurance programs and overall security system in Japan. In Japan, the poor receive relatively little in terms of the public transfer and pay relatively much. Such disparity maybe because of two reasons

One, the aforementioned marginalization of social insurance programs characterized by the low take up rate and the other , the regressive nature of social insurance system. Regressive because—(1) the premium structure is essentially regressive though the exempt and reduction mechanisms are in place and (2) the benefit formula has little redistribution effects.

(2. The growth strategy adopted since independence in India attempted as Trickle Down approach for poverty alleviation, it is sometime argued , as being the major cause for social insecurity. Later on, the direct attack on income poverty were launched. But a comprehensive approach to various aspects of social security like employment security, educational security ,food security, primary health security etc were lacking., though all these were recognized as Constitutional priorities.(Dash and Helen 2008)()

But this age group accounted for nearly per cent of the 33 trillion yen in total medical expenditures in fiscal 2005 Japan is veritably at the head of a demographic flying geese

formation.

The pension system in Japan is also facing certain problems. They are as follows:

1. The financial crisis of public pension: The system is strapped for funds, pension insurance are facing a difficulty to secure enough fund to meet the future requirements for pension payments. Japans health insurance s main problem is the rising cost for the elderly. Social security expenditures are found to be high and gradually tending to increase, as shown in Tables numbered as 2, 3, and 4. One of the reasons for this is the social hospitalization meaning frail elderly are kept in hospitals for extended time of period ( the introduction of the Long term care insurance in April 2000 was expected to reduce the high medical costs for such hospitalization by providing appropriate care at home and at lower cost care facilities. (Atoh, National Institute of Population and social Security Research 2003) The practice of imposing consumption tax is also found unsatisfactory as , it is recognized. It tends to take a larger percentage from the incomes of lower income people. There has been a concern about the quality of care provided by the private sector The anxiety is expressed, (Insurance, but no service)
2. Non-compliance and defaults in the national Pension: There is a growing number of eligible and required persons who have not become participants or have not paid the premium in full.
3. Financial pressure on the firms: Not only did the continuing recession of the Japanese economy and very low interest rate made it difficult for corporations to keep defined benefit corporate pensions.
4. Duration of the payment of pension premium: many people now switch jobs and their pension status thus changes over the life-course. It is becoming increasingly harder to put in the required payment period for pension premiums.
5. Lack of adequate provision to create a society favorable to child rearing:  
Measures to help not only working parents but also non-working mothers, who are feeling stress of bringing up children in the absence of extended family and community ties, will work to create a child-rearing ease society. More efforts are needed to increase the number and diversify the kind of day care centers and other measures to help working parents.
- 6 There has been a considerable out-cry on the rise in the insurance premiums and co-payments, particularly from low –income households.
- 7 High unemployment and the financial crisis of the Employment Insurance: Now Japan has a legendary unemployment rate. The problem is the rule that you get no pension benefits at all if you have participated in the system for less than 25 years. Uncertainty about future benefits has caused a rise in the percentage of people not paying their contributions. The system is found incapable of coping with a twenty-first Century Japan in which the rate plummeted and elderly population is surging.

## **Section 2 :**

### **India’s Social Security system—how it is behaving:**

India is the most populous country in the world next to China. As per the 2001 census, the total work force in India was 402 million of which 313 million are main workers and 89 million are marginal workers. Out of the 313 million main workers, about 285 million is in the unorganized sector, accounting for about 91 per cent



(Economic Survey, 2005-06) .People are desperately poor , one quarter of world's malnourished live in India, among them 40 percent of Indian children are five. It is the plight of the poorest, not the India's GDP growth figure that matters most today (Dhas and Helen, 2008 ). Demographically, India has come across several important achievements over the past fifty years. Among the notables are 1) a substantial reduction in fertility and mortality 2) improvement in life expectancy at all stages of the life span and 3) the old age dependency and its attendant issues, particularly the health and social security requirements of the ageing population. India may also face an aging crisis if it continues on its current trajectory.<sup>3</sup>

It is also argued that over the last few years, four factors have created a scenario in which meeting the needs of the elderly population will become increasingly difficult. These four are 1) increased life expectancy 2) lower fertility rate 3) erosion of the traditional multi-generational joint family system and 4) lack of broad-based formal social security system. Social security measures in India are usually divided into the two categories: Social insurance and Social Assistance.

Social assistance schemes are generally financed through contributions by the employees, employers and the state. The benefits to insured persons' age usually linked to their contributions. Social assistance schemes seek to provide assistance to the poor and needy persons. They are not linked to the contributions made by the persons and are financed from the general revenues of the state.

The important social security legislations in India may be enumerated as follows..

1) Employees' State Insurance act, 1948: This Act is applicable to non-seasonal factories using power and employing 10 or more persons and non-power using factories employing 20 or more persons. As on March, 2004, the total number of employees covered under the scheme were 9.5. millions ( in Indian Rupees). It is utilized for payment of cash benefits to the insured persons, provision for medical benefits under the scheme, establishment of hospitals, dispensaries etc.

2) The Employees' provident Fund Act 1952: The object of this Act is to make a) some provisions for the future of the industrial workers after he retires. b) To provide for the dependant in the case of employees' death and c) to cultivate the spirit of saving among the employees. The Act covers 177 industries employing 20 or more persons all over India, except Jammu and Kashmir. The scheme also provides for payment of non-refundable advances in certain contingencies like illness of family members, house-building, purchasing shares of the Consumer cooperative credit Housing Societies etc.

3) Death Relief Fund: A Death Relief Fund was set up under the employees' Provident Fund scheme with a view to afford financial assistance to the nominees /heirs of the deceased members of unexamined establishments whose pay does not exceed certain stipulated amount.

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3. India is also experiencing a demographic transition leading to lower fertility rate ,higher life expectancies and greater proportion of the aged in the population. The share of the elderly old persons aged 65 years or above in india's population is expected to rise from 5.1 percent in 2005 to 9 per cent in 2030. In absolute terms, the number of those above the age of 60 years will rise from 67.5 million to 120.8 million in 2030. (The estimates made by Population Division of the department of Economic and Social Affairs ,of the United Nations Secretariat ,World Population Prospects,2002 reveals that the population above 60 years is expected to be 9 per cent by 2016. This indicates that a substantial portion of elderly need to be taken care of even now)

4) Employees' Deposit Linked Insurance scheme: A special feature of this scheme is that members are not required contribute to the Insurance Fund: only the employers and the government are required to make payments. On the death of a person, the person entitled to receive the Provident Fund (PF) accumulation would be paid an additional amount equal to the average balance in the PF account of the deceased during the preceding 12 months.

5) Payment of Gratuity Act 1972: The payment of Gratuity act is applicable to factories, mines, oil fields, plantations, ports, railways etc. The Act provides for payment of gratuity at the rate of 15 days wages for each completed years of services subject to a maximum of certain amount defined.

6) Employees' Pension Scheme 1995: This scheme as introduced for the industrial workers with effect from November 1995. Under the scheme, pension at the rate of 50 percent pay is payable to the employees on retirement /superannuation on completion of 33 years of services a minimum of 10 years of services is required for entitlement to pension.

About 93 percent of the Indian workers belonging to unorganized sector go without protective cover. The incidence of chronic poverty is spectacular, as is, evident from table 8. The alarming trend towards decline in the organized sector employment (in both the public and the private sectors) and the corresponding expansion of casualization of employment points to the much worsening situation of not only social security but also the right to life itself, ironically in a democracy.

Of course, much has not been done in providing social security cover to the poor and the unorganized labor force. But the country has made some beginning in that direction. It is a point of concern that the per capita social sector revenue expenditures of different states are quite low, as is evident from Table 5 and Table 6.

Both the central and state governments have formulated certain specific schemes to support unorganized workers. The Old Age Pension Scheme was introduced in the states and the Union territories. Some states like Kerala introduced the pension scheme for the agricultural workers in the years in 1982 followed by some other states. The scheme like the Asha Kiran Scheme (1983) was introduced to provide relief against death or loss of limbs due to accidents. In addition to pension schemes, there were certain initiatives to provide death and retirement benefits for the artisans and skilled workers and insurance benefits to the unorganized sectors initiated in state level. The National Common Minimum Program (NCMP) highlights the commitment of the government towards the welfare and well-being of all workers particularly in the unorganized sector. The Poverty Alleviation Program (PAP) and employment oriented programs are primarily focused on developing rural labor and unorganized workers. These programs improve access of the poor to developmental programs, use surplus labor for community asset formation and strengthen the position of the poor by providing assets and income. The first Poverty Alleviations Programs (PAP) introduced were Small Farmers' Development Agency (SFDA) and Marginal Farmers' and Agricultural Labor Agency. In 1980, Integrated Rural Development Program (IRDP) was launched with the aim of helping the poor families to cross poverty line and enabling them to achieve sustain poverty eradication. Programs like Development of Women and Children in Rural Areas (1982), National Rural Employment program (1982-1985), Rural Landless Employment Guarantee Program (1983), Jawahar Rojgar Yojana (1989) Drought prone Area Development hill Area Development Program etc

were launched with objectives of developing weaker sections of the society.

### **Section 3 :** **Lessons from the Japanese experiences**

The social security set-up as it exists in many developed countries like Japan may not necessarily be applicable in complete form for other countries like India for different reasons. Firstly, in India nearly half of those employed are the self-employed, which is a very small category in developed countries. Secondly, the incidence of poverty is high and persistent here in India over time. It is rooted in certain structural features of the economy. These include low wages, their irregular payments and irregular employment.

However, an analysis of Japan's experiences has come to the fore to evaluate and share the experiences more or less for developing countries even for India. Japan's experiences to establish its social security system, while the society was dramatically changing its pre-war and post war period, could provide useful lessons. Japan's experience should be evaluated as implications in the context of the design and developing of social security systems in the late-comer countries, of course, in accordance with the country's socio-economic conditions. These may offer insightful lessons. It should be borne in mind that the experiences of one country for another country may be of useful nature if it is ensured that these lessons are placed in the proper perspective with respect to specific institutional mechanism ,governance structure and policy reform.

In India, with the changing demographic behavior of population and also because of the growing erosion in traditional family norms, especially in urban areas, certain features emerged in India. One, there has been a significant proportion of people belonging to unorganized sector without any reasonable kind of social security net. Two, the share of elderly has been growing substantially over time. It has raised the old age dependency burden in the economy. Aging might have a dampening effect on private savings and consumption. India might soon be facing a situation where the elderly population would require a well conceived social and health security system. Thirdly, poverty still continues to be a persistent problem.

Of course, the overwhelming majority of the elderly in India still live with their children which indicate that the joint family system is still functioning reasonably well. Therefore Government policies to the elderly should try to avoid the risk of simply crowding out the informal means of support (World Bank Report 2004).<sup>4</sup>

Policies should complement rather than substitute the informal family support. The study reveals an excellent record of Insurance mechanism and suggests a viable way to meet the health care requirements of the aged, more so, considering 1) the poor health status of the elderly 2) inadequate public health care system 3) unaffordable cost of private medical services and 4) rising drug prices.

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4. In countries like Peru and the Philippines, research has shown that every Dollar of Government pension reduces transfers from adult children to their elderly parents by 17-37 percent. Thus , government should be careful to complement , rather than substitute for , the joint family system Indian state of Kerala has a means tested pension for agricultural workers that complement s rather than substitutes for informal support from family members. Averting the Old age Crisis : Policies to protect the Old and promote growth , Published for the world Bank By oxford university press Oxford England

In the case of India ,growing fiscal constraints may not allow government to shoulder any major financial commitment .Rather some of the existing may be downloaded to conform with the emerging wisdom to rationalize the allocation of public resources . Attempt may also be made to generate a fund under the public corpus that helps to meet the health insurance premium of the elderly persons with a package of benefits .Of course, the creation of such a fund for India requires understanding about the country's own requirements. . It may not be easy for India to accomplish the task of universal insurance for variety of administrative and financial difficulties. The main benefit that universal flat rate system funded from general revenues that it could offer to India is that it avoids the complicated administrative task of tracking individuals. The pay-as –you –go system has drawbacks like they are vulnerable to population ageing. Their high taxes have distorted labor markets as in Japan. They have created perverse incentives to drop out the workforce and retire early. They have also proven politically difficult to reform. It is important to keep in mind the pitfalls. For India, it may be mentioned that it would be feasible like Australia, New Zealand, for a transition from limited means-tested assistance program to a universal system.<sup>5</sup>

Caring for the elderly is one of the sine qua non of our ancient civilization and it's a part of the India's culture. Relationship based society like India, is trying to cope with the changes through the rule based system. As far as social security measures are concerned, India has a long history of providing securities to all, inclusive of unemployed, aged, children, weaker sections and vulnerable groups. However, the social security system for the unorganized sector has got run-down. (We need to strengthen institutions like family and community support for elderly. Ours is not a rule-driven society, it has a relations-driven society. The social capital which is family and extended family ties and community linkages are still strong in India. We need to enhance and enrich the social capital instead of deriding it in the name of modernization. Japan's reliance on the family to provide nearly all welfare for everybody very closely resembles the regime or system of India.<sup>6</sup> For poorer workers in India, fall-back option in the form of family and community networks are more important for achieving the basic security for food health and shelter than is public policy.

The unorganized employees in India constitute about 93 per cent of the total work force and there is a steady growth in it over years in India□As shown in Table 7, India had a long tradition of informal social security and social assistance system directed particularly towards the more vulnerable sections of the society. But under went steady and inevitable erosion. Traditionally the elderly in India have lived and received support from their adult children. This family support system is gradually eroding, however, due to lower fertility, migration from rural to urban areas and the development of more individualistic attitudes among the young generations.

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5. A universal flat rate system has its own challenges. Since it is funded out of general revenues ,it is still essentially pay-as –you –go –like in the sense that tax revenue generated in any given year is used to pay the pensions in that year of the elderly. Such a system is vulnerable to population aging. As the elderly become a larger fraction of the total population, it will be increasingly difficult to pay each and everyone a pension.

6. Dasgupta (2002) Women workers in India in the informal economy are amongst those with least access to social protection. Given the vulnerable status at home and at work, income generation alone may not improve their socio-economic status. The economic empowerment needs to go along with political empowerment which could improve their bargaining power both in the household and at work

It is true that unlike Japan, India does not have universal coverage social security systems.

For the time being, the government may implement social assistance programs more effectively for increasing coverage phasing out its subsidy for organized employees, redirecting the subsidy funds to social assistance programs.

Several lessons could be derived from Japanese experiences. Countries need to adopt a broad perspective in formulating public policies for social security. It should be very pertinent to take note of the fact that the building blocks of social development in one era might be transformed into stumbling blocks by socio-economic changes in another. The establishment of a system is difficult to reform or dismantle. People come to feel vested. They base their life style on the security of expecting a certain amount from the government. It becomes sometime politically difficult to change.

It was inevitable that the pay-as-you-go pension scheme Japan established during the era of demographic bonus has imposed an ever-growing burden on the working population after the shift to the demographic should design its social insurance system with the demographic shift in mind now.

India will have to remain largely in the form of social assistance. From equity point of view, welfare could be improved by phasing out the subsidy given the way of National old age pension Scheme and redirecting it to poverty relief for the elderly. Any social assistance programs that are implemented should be careful to complement rather than crowd out traditional family support of the elderly. Establishment of a universal pay-as –you –go system could one day result in India's facing the very predicament in which countries like are currently mired.

Social security system in Japan recognizes the importance of the public-private partnership. The partnership extends the classical notion, meaning essentially that they should provide an enabling environment. Synergy goes beyond mere complementarities and includes embeddedness. However, the success of the partnership stresses the importance of the existence of social capital which is to facilitate the process of bringing about complementarities in the relationship between the partners .Social capital is explained in terms of the relationship that are grounded in structures of voluntary associations ,norms of reciprocity and co-operation and attitudes of social trust and respect. The key question is: how can institutional bridges are built in a situation where there are insufficient resources and where the relationship between public authorities and the private and non-profit sector has been distant?

India has an impressive record of private health-care providers –both profit and non-profit in financing health care and meeting the demands and needs of the population. Private outpatient health care providers account for half of all health spending in the country. They are the dominant providers for the urban and rural poor. There is a need for building synergy.

Public policy played a major role in promoting social welfare in the high growth period. The government orchestrated budgetary policy, tax policy and the local delivery of social services to contribute toward social development and to distribute the fruits of economic growth to the public.

Japan's medical expenses amount to about 8 per cent of gross domestic product. This is on the low side among the developed countries in the OECD where the average GDP share is 8.9 percent. Despite the advanced stage Japan has reached in the graying process, it is still shouldering a relatively light burden. The government s expenditure s

comes to about 33 trillion Yen of which taxes provide only some 10 trillion Yen.

However, things changed significantly at the turn of the 1970s. The harmony of high economic growth and low social expenditure disappeared. The Japanese economy since then has been characterized by the combination of economic growth and high social expenditures.

Although the high economic growth period created an affluent society on the one hand, it also brought such serious by-products as environmental problems on the other. Peoples concern shifted from promoting economic growth to improving the quality of life.

The diversification of social expenditure and its expansion led people to overlook the cost-benefit ratio of social welfare. In only a few years, the pension Plan for the self-employed virtually went bankrupt. Medical care also needed cuts in benefits and an increase in contributions. It was evident that public social welfare policies of the high growth era needed reexamination.

The government should work to improve governance capacity. The effectiveness of any system is ultimately to depend on how well it is administered.

The major points relating to lessons derived from Japanese experiences may be stated as follows In the first place, Japan introduced a comprehensive universal social security system at a point of time when Japan was not developed. They recognized clearly the importance of human capital formation. This is pertinent for developing countries like India. Of course, certain considerations are to be taken care of. India should be careful with regard to its implementation precisely to evaluate to what extent it is feasible. India should try to regenerate its long tradition of informal social security systems and assistance systems directed particularly more towards the more vulnerable sections of the society. In other words, there is a need to explore ways to leverage India's community support system. Secondly, Japan has an excellent record of private-public synergy for the initiation and delivery of social security services. Of course, India has been experiencing quite satisfactory system, particularly in health care sectors. Thirdly, Japan has a strong social capital base. This acts as a catalytic agent in improving the co-coordinating and monitoring of the system. India should look into this area. Fourthly, in Japan, issues relating to social security concerning the child rearing, women and the elderly are adequately addressed. India's social security system should also focus on it adequately for different reasons. On top of all these, efforts are required to build a sound governance mechanism with the approach to be inclusive, transparent and accountable. Government's role is of critical importance as Government of Japan used to play as regulator, insurer and moderator. All in all, India needs a few but focused social security schemes, covering both basic social security needs and contingent needs. Japan may provide an appropriate insight for formulating the right kind of social security systems.

#### **Section 4 :** **Summary and Conclusions**

Japan has to restructure its social security system time to time, particularly in response to (a) a far more rapid ageing of population, (b) the slow –down of long term economic growth and (c) deteriorating equity in the intergenerational transfer of welfare. The social security system has the following key features:

(i)The government plays the role of provider as well as regulator( the method of financing and delivery is unique in Japan).The state as provider ,as in the Pay-as-you – go system collects contributions which are treated as taxes and then provide facilities to those entitled. (ii) The Government pursues the social security system through the tax system for financing the wide variety of outlays in three ways: the direct taxation on benefit income, the indirect taxation on like consumption by benefit recipients, tax breaks for social purposes. Tax is designed in such a way as to stimulate the tax-up of private social security provisions. Government claws back the money through direct and indirect taxation on public transfer income and value of the tax advantages awarded for social purposes. (iii) Thirdly Government is also keen for private agents to provide social benefits. As it is recognized in Japan, this allows for diversity of investment risks, may lower costs may generate greater innovation in service delivery and program design. Private social arrangements can also complement existing non-private arrangements. Private or de-regulation is directed to make the use of the flexible and competitive welfare services. Japanese social security system has been comprehensive, universal fair and largely sustainable. However, the social security system in India leaves something more to be desired. The principal shortcomings are that they are narrow in scope and in the extent of assistance .All the risks are not covered. The types of facilities and rates and magnitudes of benefits are inadequate. The agencies for their operation are not efficient and appropriate.

Given this sporadic, fragmented and inadequate provision in India, there is a need for reform. To be meaningful, it should be also well articulated. Against this background, there is a need for defining and designing the role of the government as coordinator, provider and regulator of the system and also to articulate the right kind of fiscal reform so as achieve equity ,economy and sustainability and to examine the appropriateness of public-private partnership.

The study is pertinent, even though Japan has been occasionally restructuring the system; its basic elements remain the same. It would be fair enough to state that Japanese system could largely be translated in the case of India. This is true in the light of India's institutional strengths like well-established legal system, the parliamentary democracy, the free press a strong network of financial institutions the catholicity of the people and the historically –designed well-structured social and cultural system as in Japan.

In sum, the social security system in Japan has been expanded from occupation-based insurance to universal system (1981) covering all citizens. Medical insurance was instituted first, then pension system, which was enhanced in response to ageing State acts as insurer and the system was introduced at a time when percentage of workers other than wage earners in the work force was relatively high (1961).Price indexing was introduced in 1973.In 1961, the national pension scheme, in 1986, the reorganization of the scheme into two tier—basic pension and remuneration –based pension scheme and then corporate based plans were introduced.

As regards the health care system, the large portions of costs are covered by state-subsidized public health insurance system. Main provisions are private hospitals and clinics payments to providers is free for service Certain pension reforms like increase in state subsidy, final contribution level ceiling set by law 18.3 percent pension to be split at the time of divorce et were initiated. But there are certain problems like whether the pension system has restored confidence in the system's

sustainability, it has corrected intergenerational inequity, whether it is essential to switch from pay-go to fully funded to be able to cope with changes in population structure, whether it is possible to switch from basic pension component from premium to tax funded to protect minimum living standard

The problems in Japan's social security system may be stated like low fertility, aging and declining population ,pension and health care payout are ballooning as number of elderly are increasing ,disparities between pension schemes and generation are increasing etc The system should be linked to macro indicators

The social security in a large and diverse country like India is bound to be complex. About 400 million persons in India are in the working age group. Less than 8 percent are in the organized or in the formal sector. About 93 per cent are unorganized. Organized sectors workers have sufficient and reliable access to social security system. Unorganized workers contribute more than 60 per cent to GDP. Yet they do not have sufficient and reliable access to promotional and protective social security. The major problems of social security system in India are multiple schemes and programs at the central and state levels ; they have been framed at random at various points of times in response to the expedience of the day and they do not conform to any overall design nor do they represent any uniform policy or plan. As such the policies are lacking in consistencies. The key problems with social security system in India are that budgetary support not commensurate with the needs ,most come under welfare programs ,targeted, selective and conditional-bereft of inefficiencies, in-built biases discrimination , mis-targeting ,adverse selection, it assumes homogeneity covering unorganized workers limited coverage, arbitrary and complex procedures and prone to misgivings and leakages cost of administering outweigh benefits to individuals. There are a number of schemes covering various sections and target groups in India. But the focus and efforts are splintered due to various programs sometime; they are inflexible to the local area needs as the operational details are formulated at the central level, while putting pressure on the state budgets. State-wise incidence of chronic poverty is shown in Table 8. The pertinent issues are : social security and poverty reduction are to be seen as complementary measures to address each to reinforce other :universal approaches to reduce costs of administration and eliminate adverse selection : a package of basic minimum social security – promotional and protective to everyone: promote decentralized participatory approach wherein people can play a major role with the help of different institutions ;governance of the institutions to be improved in terms of inclusion, participation, accountability etc new institutions like self-help groups need to be galvanized in proper perspective enhancement of social capital base : the integration of the state, the market and the civil society. In India, out of the current circumstances of increased life expectancy, falling birth rates, and a weakening of the traditional multi-generational family structure emerges the public policy problem of designing the appropriate kind of social security. If the current trajectory continues, the challenges are likely to grow more acute and pressing. India needs a few but focused social security schemes covering both basic social security needs and contingent needs. States should get more flexibility in formulating the programs according to regional specifications and it will be desirable if the implementation of all these schemes is done at the *panchayat*<sup>7</sup> level with people's participation and social audit.

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7. Panchayet : India's village level institutions, constitutionally empowered to look after the local issues.



It is fair enough to maintain that India has a long tradition of informal social security and social assistance system directed particularly towards the more vulnerable sections of the society □The institution of self-sufficient village communities, the system of community resources, the system of joint family and the practice of making endowments for religious and charitable provided support but underwent steady and inevitable erosion. The social security initiatives of the centre, the States and NGOs implemented during the past indicated that the needs are much more than the supports provided and the efforts must be targeted and vast enough to cover the growing unorganized workers. It is true that the major security needs of the unorganized workers are food security, nutritional security, health security, housing security, employment security, income security, life and accident security and old age security (Dhas and Helen, 2008)

India needs to explore some ways to leverage its traditional social support system another challenge is finding the budgetary resources to finance these schemes. Many of the universal schemes have been converted into targeted ones due to the policies of fiscal targeting. At the same time, the coverage of social security measures for the vulnerable sections remains quite inadequate. Though India has recognized many social security initiatives and implemented them, the task ahead, i.e., giving a comprehensive basic social security cover to the poor and the vulnerable is an enormous task. Caring for the elderly is one of the sine qua non of India's ancient civilization and culture. Relationship-based society like India has been trying to cope with social changes through a rule-based system.

Countries like Japan are beginning to feel the strain that their rapidly growing elderly populations are placing on the economy. Given that India has a large unorganized sector, a rapidly growing elderly population, the existence of poverty, inadequate social safety net, budgetary crunch, India is required to design its social security system and to learn from the experiences from Japan.( Chambers 1992, Cook *et al* 2003).

There are some points of experiences which India should emulate and should try to explore ways of leveraging our existing system. They are, among others, like the recognition of the importance of social security system even at the early stage of development, the need for quality social capital, the role of the Government, as promoter, insurer, and coordinator, the synergy between the public and private institutions towards building insurance mechanism, the care for the child rearing, women and the elderly.

**Table 1: Dependency Ratios of Selected Countries.**

Note: D/R = Dependency Ratio defined as the ratio of persons above 65 years to persons between 20 to

Years	2000		2025		2050	
	Age 65+	D/R	Age 65+	D/R	Age 65+	D/R
Taiwan	8.6%	13.9%	17.8%	29.2%	29.3%	56.2%
Japan	17.1%	27.5%	28.0%	51.0%	34.3%	70.7%
China	6.9%	11.2%	13.7%	22.1%	24.4%	44.0%
Germany	16.4%	26.3%	24.6%	42.5%	30.0%	57.6%
Sweden	17.2%	29.4%	23.2%	41.6%	25.7%	47.2%
U.K.	15.6%	26.4%	20.4%	34.8%	25.7%	47.0%
U.S.A.	12.4%	21.0%	18.2%	32.8%	20.6%	38.6%

65 years.

Source: U.S. bureau of the Census – Quoted in “Taiwan: Compulsory Occupational Pensions Under Reform” by Shean- Bii Chiu, in the book titled “Pensions in Asia: Incentives, Compliance and their Role in Retirement” Edited by Noriyuki Takayama, Published by The Institute of Economic Research, Hitotsubashi University, Kunitachi.

**Table 2: Social Security Expenditures in Japan by category, fiscal year 2005 and 2006**

Years Expenditures	2005	2006	Compared with the previous year	
			Amount of increase	Rate of increase
Total	100 million Yen 877,827 (100.0)	100 million Yen 891,098 (100.0)	100 million Yen 13,270	% 1.5
Medical care	281,094 (32.0)	281,027 (31.5)	▲ 66	▲ 0.0
Pensions	462,930 (52.7)	472,253 (52.1)	10,322	2.2
Welfare & Others	133,803 (15.2)	136,818 (15.4)	3,015	2.3
Of which Long term Care	58,795 (6.7)	60,601 (6.8)	1,806	3.1

Note : ( ) The ratio to the total is expressed as a %

**Table 3 : Social Security Expenditure by category as a % of National Income in Japan**

Social Security Expenditure	2005	2006	Increase compared With previous years
Total	% 23.94	% 23.87	% ▲ 0.07
Medical care	7.67	7.53	▲ 0.14
Pensions	12.63	12.68	0.05
Welfare & Other	3.65	3.67	0.02
Of which Long-term Care	1.60	1.62	0.02

**Table 4: Social Security expenditures by functional category as % of National Income in Japan**

Social Security Expenditure	2005	2006	Increase compared with the previous year
Total	% 23.94	% 23.87%	% point ▲ 0.07
Old age	11.89	11.97	0.07
Survivors	1.74	1.73	▲ 0.01
Invalidity benefits	0.61	0.69	0.08
Employment injury	0.26	0.26	▲ 0.00
Sickness and health	7.50	7.36	▲ 0.14
Family benefits	0.85	0.82	▲ 0.03
Unemployment	0.37	0.33	▲ 0.03
Housing	0.09	0.09	0.00
Social assistance and others	0.63	0.63	▲ 0.00

Note : Following the enforcement of the Services and Supports for Persons with Disabilities Act, it is necessary to keep in mind that the expenditures and their functional classifications have changed in fiscal year 2006. Some items were transformed from “Family benefits” or “sickness and health” to “Invalidity benefits”. In addition, the extraordinary subsidy for the Services and Supports for Persons with Disabilities Act greatly increased the “Invalidity benefits” expenditure. Therefore, simple data comparison of fiscal year 2006 and before should be avoided.

**Table 5: Per Capita Social sector revenue expenditure (SE) of 14 Indian States for NSSO Quinquennial years( in Indian Rupees) and Human Development Index (HDI)**

43 <sup>rd</sup> Round (1987)	SE	HDI 1981	50 <sup>th</sup> Round (1994)	SE	HDI 1991	55 <sup>th</sup> Round (2000)	SE	HDI 2001
Punjab	249	2	Kerala	605	1	Maharashtra	1273	4
Kerala	248	1	Tamil Nadu	559	3	Punjab	1025	2
Gujarat	240	4	Maharashtra	522	4	Kerala	971	1
Maharashtra	234	3	Haryana	513	5	Tamil Nadu	931	3
Haryana	227	5	Punjab	497	2	Karnataka	900	7
Tamil Nadu	218	7	Rajasthan	478	11	Haryana	897	5
Karnataka	213	6	Karnataka	465	7	Gujarat	865	6
Rajasthan	184	12	Gujarat	451	6	Rajasthan	820	9
Andhra	173	9	Orissa	392	12	Andhra	737	10

Pradesh						Pradesh		
West Bengal	163	8	Andhra Pradesh	374	9	West Bengal	736	8
Orissa	154	11	West Bengal	348	8	Orissa	609	11
Madhya Pradesh	150	14	Madhya Pradesh	313	13	Uttar Pradesh	420	13
Uttar Pradesh	113	13	Uttar Pradesh	313	13	Uttar Pradesh	420	13
Bihar	91	15	Bihar	257	15	Madhya Pradesh	355	12

Source: Computed from RBI Bulletin, various years and National Human Development Report 2001.

**Table 6 : Trends of Social Sector Expenditure in India ( Central and State Governments together)**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
As % of GDP:						
Total Expenditure	28.26	28.77	28.85	27.82	28.3	27.19
Expenditure on Social Sector	6.04	5.93	5.93	5.68	5.66	6.04
Education	2.98	2.96	2.96	2.79	2.74	2.87
Health	1.25	1.28	1.28	1.26	1.25	1.39
Others	1.81	1.68	1.68	1.64	1.67	1.78
As % of total expenditure:						
Expenditure on social sector	21.4	20.6	20.6	19.7	20.4	22.2
Education	10.6	10.3	10.3	9.7	9.9	10.6
Health	4.4	4.5	4.5	4.4	4.5	5.1
Others	6.4	5.8	5.8	5.7	6	6.5
As % of social sector expenditure:						
Education	49.4	49.9	49.9	49	48.5	47.6

Health	20.7	21.7	21.7	22.2	22.1	23
Others	29.9	28.4	28.4	28.8	29.5	29.4

Source: Budget documents of Central and State Governments; RBI

**Table 7: Trends in Employment in Organized and Unorganized Sectors in India (in Million Rupees)**

Year	Organized	Unorganized	Total Workforce
1983	24.01(7.93)	278.74(92.07)	302.75
1987-1988	25.71(7.93)	298.58(92.07)	324.27
1993-1994	27.37(7.31)	347.08(92.69)	374.45
1999-2000	28.11(7.08)	368.89(92.91)	397.00
2005-2006	26.46(7.54)	358.45(92.46)	384.91

Source: Ministry of Labor and Employment, Director General of Employment and Training and Economic Survey ( various years)

Note: Figures in the ( ) are in % to the respective totals.

**Table 8: Comparison of Incidence of Chronic Poverty in India**

State	NSSO 50th			NSSO 55th		
	Extremely Poor	Very Poor	Moderately Poor	Extremely Poor	Very Poor	Moderately Poor
Kerala	1.5(2.0)	9.4(9.8)	16.0(14.5)	0.2(0.9)	1.9(6.2)	7.5(13.7)
Tamil Nadu	1.9(3.7)	12.4(18.2)	20.6(21.7)	0.6(1.2)	5.7(7.9)	14.4(14.6)
Punjab	0.1(0)	3.0(2.2)	8.7(8.6)	0.0(0.0)	1.1(0.9)	4.9(4.5)
Gujarat	0.5(1.2)	6.5(10.7)	15.6(17.6)	0.2(0.4)	3.3(3.7)	9.1(11.1)
Haryana	1.1(0.2)	8.8(4.9)	19.5(11.5)	0.6(1.2)	1.5(3.6)	5.9(6.4)
Maharashtra	3.2(5.9)	16.0(18.4)	21.9(16.6)	0.7(2.4)	6.5(12.4)	16.8(14.4)
Karnataka	1.4(4.9)	11.2(21.7)	19.0(18.1)	0.3(1.9)	3.3(9.3)	13.6(15.3)
All India	2.0(2.9)	14.7(15.1)	22.1(17.7)	0.8(1.2)	8.2(9.2)	18.3(14.8)

Source: NSSO Govt. of India 2006-2007

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