

6 March 2002

between Tax and Public and Private Benefits. I will be the moderator of today's seminar. My name is Yamada, and I am a researcher at the National Institute of Population and Social Security Research.

This workshop has three purposes: (1) to explore the concept of net social expenditure; (2) to discuss the characteristics of net social expenditures in Japan; and, (3) given available data on net social expenditures, to investigate the policy implications that we can draw from the data.

This workshop draws on the welfare science research project for the year 2001. We also received support from the Onshi Zaidan Boshi (2.25) fund, which has a special budget for inviting foreign scholars.

I would now like to introduce our panelists. First, to the left is Mr. Willem Adema, Economist for the Organization for Economic Co-operation and Development (OECD). Since 1996, Mr. Adema has been involved in developing and improving social expenditure statistics. Today, we will ask Mr. Adema to give the keynote speech.

Next to Mr. Adema is our Institute's own Ms. Yukiko Katsumata, who heads the third office for planning. Ms. Katsumata has been in charge of developing the expenditure data we estimate and announce. We recently submitted Japan's net social expenditure data to the OECD for the first time. Ms. Katsumata played a central role in submitting that data to the OECD and to the International Labor Organization (ILO).

6 March 2002

Next to Ms. Katsumata is Professor Hiroshi Miyajima from Tokyo University. Professor Miyajima's specialty is fiscal policy. In 2000, with regard to reforming the social insurance system, Professor Miyajima was a member of the government's expert committee. In that expert committee, Professor Miyajima made reference to net social expenditure statistics, so many of you may be familiar with this topic.

Next to me is Professor Atsushi Seike of Keio University. Professor Seike's specialty is labor economics. We have asked Professor Miyajima and Professor Seike to comment on the presentations we will be receiving from our speakers, Mr. Adema and Ms. Katsumata, and then we will invite our commentators to join us for a panel discussion.

Let me briefly explain the program. After I finish speaking about the purpose of this meeting and introducing the panelists, I will invite Mr. Adema to give his keynote presentation. He will be followed by Ms. Katsumata, who will give a presentation on the situation in Japan, and the reasons why net social expenditure is low in Japan. We will then take a 20-minute break. After the break, we will invite Professors Miyajima and Seike to give us their comments. Finally, we will have a question-and-answer session. Without further ado, Mr. Adema, please.

#### **KEYNOTE SPEECHES**

Mr. Willem Adema, Economist, Organization for Economic Co-operation and Development (OECD): First of all, thank you all very much for coming and taking the time to listen to me.

6 March 2002

Fortunately, you will also hear many other people, so I hope it will be worth your time. I would like to thank the National Institute of Population and Social Security Research for inviting me here, and the Imperial Gift Foundation for supporting this event. It has been very useful for me. It is my first experience of Japan, and so far I have enjoyed it very much. I hope that I can do a little bit in return by giving you a presentation that is not too boring.

(PowerPoint, p.2) About six or seven years ago the OECD started producing a social expenditure database. We were trying to get a view of what countries were doing in terms of social efforts, and that basically led to, within 10 years of its birth, *orthodox* statistics. The project involves collecting detailed information on what countries do in terms of public pensions, disability pensions, survivor pensions, unemployment benefits, family benefits, social assistance, and health. There are other categories, but these are a few of the main ones.

These data, which were fairly new seven years ago, give a slightly misleading picture of what is happening in terms of social effort across the OECD area. That is why we decided to develop what is better known as net social expenditure (SOCX), and began trying to take account of the impact that tax systems have on social expenditure aggregates. From that we can try to address the question of what governments really spend on social effort.

There is more social spending that is channeled through the private sector—employers provide social benefits, non-government organizations provide social benefits—and all of these benefits together with the public ones go into the hands of the recipients. Therefore, if we account for these two, we can try to get an answer about what the recipients of all social benefits actually receive. Many of the private sector interventions are due to public

interventions, either through the tax system or through legal means. I will get back to these later. These are the items I will be addressing in the next half an hour or so.

(PowerPoint, p.3) First, I have to very briefly set the scene and try to define what is social and what is not. The first line reads, "Toward a social purpose," and those are the contingencies I have already referred to. The OECD Social Expenditure Database recognizes 13 broad categories, the most important of which are old-age cash benefits, disability support, health, unemployment, and family support. But there are other items. The expenditure has to go toward a social purpose. Government intervention to build roads is not included under social expenditure.

Then, in public spending, it almost goes without saying that a social program redistributes money from one group of people to another, either because it is income-tested or means-tested, or because it tries to get around risk selection. It gives the same kind of health package to people who are more likely to be sick than others; it shares the risk of that. Hence, there is a redistribution of resources.

The other important element is compulsion: that is, if people are forced, which they often are in the case of public programs, to participate in a pension scheme or any other insurance scheme, such as health insurance, that normally also leads to redistribution. There is one exception, which is what we call notionally defined contribution schemes. These schemes are completely, actuarially fair, so whatever you pay in terms of contributions now, you get back in terms of benefit payments five years later. Even with these schemes, however, the public

6 March 2002

often intervenes because the scheme starts paying contributions on behalf of people who cannot pay. Even here, there is an element of redistribution in practice, but not ex-ante.

If I talk about public or private, I basically refer to the distinction within the national accounts: if the finances of a fund are controlled by a public authority, including the government, I regard the fund as public; if the finances of a fund are not controlled by government or go through private insurance funds, then I regard the fund as private.

In all spending issues, but particularly with social spending, there are a couple of caveats that should be kept in mind. If a public budget can record exactly how much money goes into a pension and how many individuals receive such a pension, it is much more difficult to get a very good view of what local governments spend, for instance, on family services, and whether or not these services are actually social or go to a sports facility. I do not know how many local governments there are in Japan, but I presume there are many so it would be very difficult to get a good view of this. Employer spending on sickness benefits, while workers are at home and absent from work, is also very difficult to record. Consequently, the quality of such data would necessarily be lower than the information included in public administrative datasets.

Individual spending raises the same problem. Some individual programs will actually be social because they are tax-financed, so public money goes toward them. If they are tax financed, depending on the nature and the design of the tax survey, and the tax form that is filled in when you complete your income tax form each year, it can actually be figured out. But it is not always very easy.

6 March 2002

I will give you some rough figures. The first refer to 1997. This is all ancient, I know, and I hear you say that. The reason for this is that a little later I will refer to tax data. Although aggregate tax data for the year 2000 is by now available, detailed information on taxes levied on particular benefits only become available after two years. So, at the moment, I have 1997 data. Very shortly, I will collect data for 1999.

This simple figure shows (PowerPoint, p.4) you what governments actually spend across the countries concerned: I have taken six countries out of a sample of 18. These countries are interesting for reasons that will become obvious later. As you can see, most countries spend about 40% of gross domestic product (GDP) as public spending: Japan's public spending is not that different from either Germany or the United Kingdom, but it is about 10% higher than the United States, and 10% lower than Denmark.

If you ever have the opportunity to go to Denmark, you will find it is a wonderful country where people love to pay taxes. They have great faith in the government and in the government's ability to provide services; as long as everyone has that faith, then it will work. In many other countries, people have less faith in the government and would prefer lower tax levels. That is clear here (PowerPoint, p.5). In Denmark, as I said, people like paying taxes. What you can see in Denmark is that there is no tradition of a social security system. Danish social spending is financed, often directly, out of tax revenue. It is only recently, I think in the last 10 or 15 years, that certain benefits have started to be financed on the basis of social security contributions. Mind you, this is only public spending. A lot of spending through the

6 March 2002

private sector by employers is operated by insurance systems run by unions, but that is not included here.

The chart (PowerPoint, p.6) shows that tax levels in Japan are very similar to those in the United States. You can see that social security contributions in Japan are relatively important, much more so than social security contributions in the United States and those in the United Kingdom. The United States and the United Kingdom have welfare systems that—more than in other OECD countries—rely on income-tested social benefit provisions, where a benefit depends on a person's income. Normally, these are tax-financed rather than on the basis of a person's security contributory record.

I have already shown an overall picture of government spending. In Japan, as you saw, public social spending was not that high, whereas overall public spending as a percentage of GDP was fairly average for the six countries included here. Now, here you get a little bit of a picture as to why spending in Japan is lower than that in other countries. Ms. Katsumata will probably tell you much more about this, but this chart is somewhat illuminating. As you can see, Denmark has a very comprehensive welfare state. The importance it places on pensions, cash benefits (that is the blue block above it), health, and other social services is not that different. Actually, income support for the working-age population (the second bar) is fairly big in Denmark, and bigger than its pension component. What you see across the board is that pensions are important everywhere, and that health is important everywhere.

The Netherlands—I am Dutch, so I can make this joke—is sick. We have a population of 16 million people and almost one million people receive a disability benefit, which explains why

6 March 2002

there is so much spending on income support for the population. This is sometimes known as the Dutch disease.

Denmark stands out in that it has a lot of other service spending, a large part of which is for childcare facilities. But, you see that Japan has very limited spending on income support for the working-age population. To a certain extent, this is due to limited spending on unemployment benefits, which may be related to a certain amount of over-employment in the private sector. The other low item is other services. Now, Ms. Katsumata is much better placed than I am to speak on this, but it may well be that this reflects somewhat of a measurement problem in terms of local government spending.

That was the traditional picture and, as I said at the beginning, it is somewhat misleading. You get the picture that Denmark and the Netherlands spend far more than Japan and the United States; they do, but the difference is not that big. Basically, what we have done, because we knew there was a problem, was to try to measure the first-round effects of the tax system on public social spending. (PowerPoint, p.7) We knew when we started the database that in Japan, and in other countries such as Korea and Germany, as you will see later, most benefits are paid without being taxed. People who receive benefits do not have to pay tax on them. In the Netherlands, the United Kingdom, and in many other European countries people do pay tax and that makes a huge difference. Thus, we tried to account for that tax effect and two other tax effects, which I will discuss later.

Let us look at direct taxes (PowerPoint, p.8). Remember that the Netherlands and Denmark were countries with spending on income support for the working age population, disability

6 March 2002

benefits, sickness benefits, other cash benefits, and leave benefits after childbirth—0.5% of GDP in Denmark is spent on parental leave benefits for a year after childbirth. All of these benefits are normally taxed. Tax rates differ by benefit: people on social assistance pay fewer taxes, and people in receipt of a public pension are often favored by the tax regime. So, people in the working age population normally pay the highest taxes on benefit incomes.

As you can see, the Danish and the Dutch governments claw back 4% of GDP in taxation on benefit income alone. You may want to recall page six of the presentation. Denmark spent 30% on social spending, but 4% of GDP is immediately taken back by the central government. As you can see, benefits are fairly strong in the Netherlands, too. That effect is not so strong in the other countries where benefits are generally untaxed, as they are in Germany. There is still a considerable amount of benefit spending claw-back in Germany, because there are taxes paid by civil servants on their very generous pensions. But other benefits in Germany are untaxed.

(PowerPoint, p.9) The second issue is indirect taxation. If you have social spending, as a government, you give money to people and they have to go and buy goods with it. I have assumed in these calculations that people on benefits do not save. That is not entirely correct, of course, but the error coming from that assumption will not be that big. Indirect tax rates in Europe are fairly similar, except in Denmark where they are very high; they are much lower in Japan and in the United States. If you have lower indirect tax rates, the benefit you have to pay to generate a similar level of utility can be lower. Hence, if you correct for that feature, you take away yet another factor that distorts the international comparison between high indirect tax countries and low indirect tax countries. You can see that the effect is important—

6 March 2002

2% of spending goes back to the government via indirect taxation in most European countries, except in Denmark where it is almost 4%.

(PowerPoint, p.10) There is a third item in the list of tax issues for which we have to account. This is what I have labeled "Tax Breaks for Social Purposes." I will now hurry up and put in some information, which is on later sheets, but you can read that later. Why would you have tax breaks if the public can organize them by themselves? For efficiency or other political reasons, the government may decide that it would be much better if the private sector provided benefits. That is what happens in the United States: there is no universal public health system and employers provide health-care coverage for most of their employees. The system consumes a lot of money, but it also consumes public money in the sense that it is financed by tax advantages and tax expenditures given by the government to all those employers who insure their employees. This is one reason why you might use tax expenditures to change behavior. Another reason is to change individual behavior and try to give tax breaks to people who might otherwise not take up an individual pension. You try to encourage people to save for old age. Those two items—tax breaks toward pensions and health—are the largest components of tax breaks for social purposes.

There is one other item. In a lot of countries, cash support for families often goes through the tax system. Some countries still do it the old-fashioned way by just paying a cash benefit to a family depending on the number of children, their age, and so on. But increasingly, in a lot of countries, this is done through the tax system, either through tax credits or non-wastable tax credits; that is, tax credits, which, if a person does not have a high enough tax liability, are

paid out in cash, although the system is operated by the fiscal authorities in many countries. These benefits are similar to cash benefits; they do not try to change behavior.

Let us move on and see how important they are (PowerPoint, p.11). You can immediately see that in a country with high public spending such as Denmark, they are not important. Why would they be? The government has no reason to try to stimulate private saving behavior. Everyone gets decent public benefits, so there is no utility in it. Germany is one of the countries where child benefits go through the tax system, which explains the very high figure there. You will see that in the United States, and to a lesser extent in the United Kingdom, but mainly the United States, although the tax rates are not very high, the tax breaks are not very high. The value of all these tax advantages toward medical programs exceeds 1% of GDP.

Now, let us look at public spending before and after the corrections. There is one thing I must say before I go any further: thus far, all items were related to GDP at market prices. That is the standard, popular measure for measuring the size of a society's economy. (PowerPoint, p.12) Here, I have used GDP at factor cost. The reason for this is that I have made a correction for indirect taxation, so I also have to make it in the denominator. That is why the number on the axis does not quite match the number on the axis of the first five sheets in the presentation. Anyway, the story is the same. In Denmark, you see that the government really spends less and that real public spending in Denmark on social purposes is 10% of GDP lower than that recorded in the OECD database; in Japan, you can see that it does not make too much difference; in the United States, spending after accounting for the tax system is actually higher, because of the value of the tax breaks for social purposes; in Germany, you can see that the difference is not that big, nor is it in the United Kingdom; and, in the Netherlands, the

6 March 2002

difference is already a little bigger. You can see that whereas Denmark was clearly the top big spender in our limited six-country dataset, it has now been overtaken by Germany, because the Danes get so much spending money back through the tax system.

Now, I am going to go through this very quickly. As I have said, there are private programs and I have already alluded to them. There is the health system in the United States, and there are often occupationally organized private pension systems in countries such as the Netherlands and the United Kingdom. (PowerPoint, p.13) There is no huge private pension system in Japan that is comparable to these other three countries. In Germany and in Denmark, there is not one either because, as I said, the public pension benefits are very generous. They are actually both earnings-related, so there is no need for additional private pension insurance. I will leave the rest of the story for reasons of time.

There are two ways of doing this, one of which I have already alluded to; that is, to use tax breaks to try to get people to change their behavior and take up private pensions or private health insurance; another way of doing it is by strict and straightforward legislation. What you have seen, for instance, over the last few years in a lot of European countries, is that health insurance has been privatized. Health funds have almost ceased to exist and employers have been made responsible for paying sickness benefits, which basically means that the money goes straight from the employer to the individual. There is no longer a public fund. The money is totally private. The government just provides legislation; but apart from that, it is private. (PowerPoint, p.14)

6 March 2002

There is actually a program in Japan, which is similar and let me look this up because I checked it before I came up here. In the social expenditure database, we have very small spending items for Japan. The program is called Employee and Farmer Pension Funds, and I think that these people have to insure themselves. The funds as such are private, which is why it is regarded as mandatory private spending rather than public (PowerPoint, p.15).

Anyway, let us see how important all this is. Private spending in countries with large public spending is not that important. There could be a reason for private insurance in that, over the last 30 years, the prosperity of the countries of Europe, as well as Japan, the United States, and many OECD countries, has grown. So there would be more money for individuals to spend on their own protection insurance. Maybe they do so through life insurance programs or other insurance and savings vehicles, but those are not recorded here.

What you can see is that the Netherlands and the United Kingdom have significant private pension sectors, which is why they have lower public social spending than Germany or Denmark. You can also see that the United States has a huge private spending sector, and this is about 8%. About 2.5% percent of it, or less than about 2%, will probably be for pensions and the remainder will be for health spending. From one of the first charts it was clear that health spending in the six countries was fairly similar. If you add to that about 6% or 7% GDP on private health, plus 1% GDP in tax breaks for social purposes on health, it is clear how expensive the American health system really is. This raises questions, of course, as to whether or not private solutions are always more efficient than public ones. Then again, I could probably get a facelift in the United States at the expense of my health insurer. Maybe I could not do so in Japan.

6 March 2002

The other interesting point is that private spending in Japan is relatively limited. Now, I am not too sure why this is; I mean, there is one reason. I do not think this estimate includes private health. But, more importantly, I think is that this estimate includes spending on tax-exempt employee plans and certain retirement allowance plans, but not the large share of severance payments and retirement allowances paid by enterprises. These are not included. You can actually and rightfully argue about whether these are actually social spending items, whether they are pensions or not; but, I think that in reality, they will often be used as resources in retirement by those people who receive them. There might be a case for including them and that might be a gap, I am sure, Ms. Katsumata will tell me I am completely wrong about.

This should be the last chart (PowerPoint, p.16). If we put this all together, as I said, Denmark was the highest spender in public terms, accounting for both the tax system and private spending. The latter component is not that important to Denmark. You can see that spending drops by about 10% or 11%. You can also see that Germany is now the biggest spender, because it does not tax benefits except for civil servant pensions. In Japan, although still well below what other countries spend, the gap is not as large as the initial picture suggests, where spending in Denmark was more than twice as high. It is still 10% higher, but the gap is not that big. The Netherlands and the United Kingdom, and more interestingly the United States, are sort at the same spending level, which is just below a 25% of GDP. As I have said, if you realize that the U.S. health system is very expensive, it may not be that efficient, and it is one of the largest contributors to the high numbers in the United States.

6 March 2002

(PowerPoint, p.17) What have we actually learned? Why is this important? And, more importantly, what does this not tell us? First, we have learned the traditional view that Nordic countries, such as Denmark, Sweden, Norway, and Finland, probably spend more on social effort than other countries, but the difference is not that big. It also mainly goes through public channels, whereas other countries more likely—and increasingly—use private channels to deliver social benefits. The tax system can severely distort international comparisons, but private benefits are not the same as public benefits. This chart may indicate that the United States spends the same amount of money on social efforts as the Netherlands; but it does not indicate that the United States does so efficiently, or that it does so while redistributing a lot of money from people on high incomes to those on low incomes.

I do not yet have good data that gives a more comprehensive view of resources and their redistribution. The spending programs of the United States are income- or means-tested. So, these programs for social assistance, welfare, and earned-income tax growth have a high degree of redistribution. These are much higher than social security programs, which basically pay out benefits on the basis of contributory records. But, all of the other countries, which do not have income-tested social benefit programs, generate redistribution in their tax system through progressivity. This is not necessarily because of their social programs, but by the way in which progressivity impinges on income taxes of the wider population. Obtaining a fuller, better view of how the U.S. system redistributes resources compared to the Danish system is something for future research. This is only a first step. Thank you.

Mr. Atsuhiko Yamada, Researcher, National Institute of Population and Social Security Research: Thank you very much. At the very end, we will have time to entertain questions, so

6 March 2002

at this time I would like to invite Ms. Katsumata to give us her presentation. Ms. Katsumata, you have the floor.

Ms. Yukiko Katsumata, Senior Researcher, National Institute of Population and Social Security Research: Good afternoon. It is a great pleasure for us to be able to hold this open forum with Mr. Adema of the OECD present to talk about net social expenditure. We are compiling data on expenditure and funds ourselves, but it is difficult for us to carry our research beyond that scope. As Mr. Yamada said, in 2000, people gathered to consider this issue.

I think it was in July when we had the meeting and Professor Miyajima, one of the panelists, said that Mr. Adema had written a book about net social expenditure. He quoted from the first edition of Mr. Adema's book. Mr. Adema spoke about the close relationship between social expenditure and the tax system. He underscored the fact that we need to look at it. Because we were not members, we did not have the data and we wondered what would happen if Japanese data were included. In a sense, that is what Professor Miyajima said. That kicked off our efforts at the Institute, and we looked at social benefits as part of the benefits paid out, and we compiled relevant statistics. Therefore, we decided to compile data on net social expenditure, and that is how we got involved. In August of 2001, we distributed a Japanese translation of the second edition of Mr. Adema's book, and we were at last able to incorporate the data for Japan.

6 March 2002

I reviewed the history as to why we incorporated Japanese data, because there is a close relationship between social expenditure and the tax system, which needs to be followed. That is why the Japanese government decided to provide the relevant data to us.

In that sense, as I was directly involved in the compilation and the work was undertaken in a relatively short time, I agree that there are things we may have overlooked. However, we need to link net social expenditure to the tax system or other wider concepts. You can say that social expenditure in Japan is less than in the other countries. I would like to explain why that is so. (PowerPoint, p.2)

As has been said, there could be some problems with the estimates. For example, if you look at local governments and their social benefits, we do not have a framework in place to aggregate their estimates. If you look at papers written by Mr. Adema, the same may hold true for other classifications. At our institute, we do have rough estimates of expenditure by local governments. Even if such figures were included, expenditure in Japan would not be far greater than that in other countries. I am not going to go into that subject. However, we need to underscore the fact that there are differences in institutional frameworks.

As Mr. Adema said, there is the public system and there is the private system. How do we combine the two? There will be differences in the way they are combined. In addition, there are differences in the tax system, especially with regard to tax expenditure for social purposes, and whether there are tax credits for social purposes. This concept was not included in the concept of social expenditure in the past. So, in trying to come up with an estimate for net social expenditure, we wanted to look at the scope of different expenses. (PowerPoint, p.3)

6 March 2002

First, there is mandatory private social expenditure. There could be some legal stipulation that makes something mandatory to offset something that is public in nature, and that was included in our estimate. However, in the company pension system, there is the Employees' Pension Fund (EPF), the nationalized pension system, and the pension system for those who are engaged in agriculture. These were all included among social benefits.

According to materials compiled by the OECD, besides public social expenditure there is also mandatory private social expenditure. I included the items above as part of private social expenditure. Something that is not usually included, but which we included this time is mandatory or compulsory auto insurance. There is also voluntary private social expenditure. What is included in that? As was mentioned earlier, some of the benefits paid out at the time of retirement, such as tax-qualified pensions, were not included in the social welfare program; however, tax-qualified pensions are now included as part of voluntary private social expenditure. Similarly, retirement benefits are also paid to employees of small and medium-sized enterprises (SMEs). Again, this was included in voluntary private social expenditure.

In addition, I tried to pick up some of the major factors. There is a law in place covering public education and school health centers. If one is sick or injured while attending elementary or junior high school, which is compulsory in Japan, this law would cover such expenses. This is quite a large sum and that is why I also included the benefits in voluntary private social expenditure. In addition, there are direct taxes incurred for benefits and these were exempt.

6 March 2002

When looking at public pensioners, a pension is income and they may be paying for various social programs such as the national health system. We decided that such premiums should be deducted. In addition, indirect taxes, such as Value Added Tax (VAT) are estimated. Again, these were deducted in accordance with how things are done at the OECD. In addition, there are tax credits for social purposes. These are for items that should be paid as taxes, however, tax credits are provided, so they were added.

(PowerPoint, p.4) If you refer to my handout, you will see a table. I apologize that it is somewhat crowded, so refer to the handout rather than the slide itself. Here we have a list of tax credit measures and we have the items included. To start with, to the extreme left are basic deductions and special deductions. Special deductions amount to 0.1 trillion yen and basic deductions amount to 2.2 trillion yen for the dependents. The total is 2.3 trillion yen. We believe that these could be deemed tax credits for social purposes. So, this 2.3 trillion yen was added.

(PowerPoint, p.5) Furthermore, there could be a reduction of income due to premiums for different pensions. If one pays for social programs, whether it is the individual concerned or the employees, you get deductions for the payment, which means that amount would not be deemed part of your income. We wanted to come up with an estimate and this is based upon information from the Ministry of Finance (MOF). In total, 4.2 trillion yen was the aggregate we obtained. However, at the OECD, they are not included as part of net social expenditure.

This is a new trial and a new endeavor. We changed the scope and we included some new estimates. As a result, you can see in this line something very similar to what you saw earlier,

6 March 2002

which is the GDP number for 1997. I received the numbers from Mr. Adema and factor prices were included. As you can see, among the OECD countries, Japan is one of the lowest spending countries in terms of social expenditure.

As Mr. Adema demonstrated, I believe there is a limited number of comparable countries. The reason why I cited the Republic of Korea (ROK), is that it has become a member of the OECD. Looking at social expenditure for the first time, we have an OECD member that is spending less than Japan. That is why we included ROK. (PowerPoint, p.6 & p.7)

We are looking at gross and net expenditures. The ranking does not change whether we look at gross or net. If you look at Scandinavian countries, it was mentioned that the net and the gross rankings might change depending upon the tax system. However, as far as the rankings of both Japan and the ROK are concerned, whatever your perspective is, the message is that social expenditure in Japan is low, and that is not because of the calculation method. It is simply that social expenditure in Japan is much lower than that of other OECD members. If you look at it chronologically, you will see the same trend. Before ROK became a member of the OECD, Japan consistently ranked bottom. Having said that, people say that if we make the comparison in terms of GDP, and as Japan has a relatively high GDP due to a high economic growth rate, if the comparison is vis-à-vis GDP you might get the inaccurate picture of less being spent on social expenditure. (PowerPoint, p.8)

What would be the effects if economic growth is excluded? Here, public expenditure growth rate is on the vertical axis. From this, we deducted GDP growth and looked at how it had been over the past 20 years. (PowerPoint, p.9) As you can see, during the last 20 years, public