Comment on Dr. Palmer’s Presentation

PRI, MOF, ADBI Joint Conference  2014.3.6

Hisakazu Kato (Meiji University, Japan)
Summary of “Financial Sustainability of Swedish Welfare Commitments”

- Ratio of social expenditure to GDP in Sweden is almost constant since 1980 by introducing rule-based fiscal discipline and NDC scheme.

- Alva and Gunnar Myrdal had warned about the dire consequences of the declining birth rate and the ageing population. (If we had an economist such as Myrdal, our agony about the burden of social security by aging would be less than in real situation in Japan.)

- Dr. Palmer emphasizes that “what distinguished Sweden from most of the rest of the world was the awareness of the importance for women’s participation in the labor market.”

- He also insists that Sweden undertaken many structural reforms in latter half of the 1990s, that is “the dawn of the ruled-based policy”, and he also stressed the importance of “foresighted policy”.
Sweden’s gross social expenditures are slightly lower than 30% of GDP, and Japan’s one is increasing rapidly from 1980’s.

Sweden’s government sets the budget rule, such that:
1) saving goal (create surplus of on average 1% of GDP per year over a business cycle)
2) budget ceiling,
   those are based on expenditure and revenue forecasts.

Sweden has adopted the counter-cyclical deficit policy.
(I consider that it is the very principle policy on macroeconomics, but it is almost impossible to run and to adopt in reality.)

For the above policy, Sweden reduced the deficit and debt because of the 2008-2009 recession.
Summary of “Financial Sustainability of Swedish Welfare Commitments” (cont.)

- I would like to quote that “already in the 1990s Sweden’s taxes and benefits for older workers did not provide substantial disincentives for older workers to remain in the labor force, as opposed to many other European countries.”

- Sweden’s pension scheme comprises from NDC + FDC. NDC has the features, those are 1) intergenerational neutral, 2) benefit is proportionate to the individual’s level of contribution etc.

- Pension scheme with NDC has some functions to maintain sustainability.
  1) annuities calculated on the basis of account balances at retirement and projected (birth) cohort longevity.
  2) indexation including the forecast of the growth of labor force is important tool to balance the long-run account.
  2) adopting solvency ratio and automatic balancing mechanism
Dr. Palmer shows that Sweden’s the social expenditure ratio to GDP is constant for two decades, on the other hand, Japan’s the ratio to GDP is increasing rapidly. (cf. Fig.2)

Considering the aging situation in Japan compare to Sweden, should we more devote the economic resources to social expenditure in future?

As the result, will the Japan’s government lose the fiscal sustainability?

In addition, from my research result, I observed the negative relation between economic growth and social security expenditure, is it serious trade-off?
GDP Growth Rate and the Social Expenditure in OECD Countries

Using Panel data from 1980 to 2002 by OECD "Social Expenditure data base"
Sweden’s government adopts the rule-based policy, and sets the budget goal and ceiling on expenditures. For those policy, Sweden has been successful to control debt.

I envy your country that can be performed these policy! Japan is the world’s worst and largest debtor nation in turn. (See next Figure)

In order to establish the rule-based policy or so, were there many political conflicts among some political parties and people?

Did both Center-right and Social Democratic Party agree to adopt the counter-cyclical deficit policy in 1990’s?
General Government Gross Debt (International Comparison)

<table>
<thead>
<tr>
<th>CY</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>114.9</td>
<td>129.0</td>
<td>137.6</td>
<td>144.7</td>
<td>153.5</td>
<td>158.3</td>
<td>166.3</td>
<td>169.5</td>
</tr>
<tr>
<td>U.S.</td>
<td>64.2</td>
<td>60.5</td>
<td>54.5</td>
<td>54.4</td>
<td>56.8</td>
<td>60.2</td>
<td>67.8</td>
<td>67.4</td>
</tr>
<tr>
<td>U.K.</td>
<td>52.3</td>
<td>47.4</td>
<td>45.2</td>
<td>40.5</td>
<td>41.1</td>
<td>41.6</td>
<td>43.9</td>
<td>46.1</td>
</tr>
<tr>
<td>Germany</td>
<td>62.3</td>
<td>61.8</td>
<td>60.8</td>
<td>60.1</td>
<td>62.5</td>
<td>65.9</td>
<td>70.2</td>
<td>71.8</td>
</tr>
<tr>
<td>France</td>
<td>70.4</td>
<td>66.8</td>
<td>65.7</td>
<td>64.3</td>
<td>67.5</td>
<td>71.7</td>
<td>74.1</td>
<td>76.0</td>
</tr>
<tr>
<td>Italy</td>
<td>131.8</td>
<td>125.7</td>
<td>120.8</td>
<td>120.1</td>
<td>118.8</td>
<td>116.3</td>
<td>116.8</td>
<td>119.4</td>
</tr>
<tr>
<td>Canada</td>
<td>92.9</td>
<td>89.6</td>
<td>80.5</td>
<td>80.7</td>
<td>78.6</td>
<td>74.7</td>
<td>70.8</td>
<td>69.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CY</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>166.8</td>
<td>162.4</td>
<td>171.1</td>
<td>188.7</td>
<td>192.7</td>
<td>197.5</td>
<td>205.3</td>
<td>214.3</td>
</tr>
<tr>
<td>U.S.</td>
<td>66.1</td>
<td>66.5</td>
<td>75.4</td>
<td>88.8</td>
<td>97.8</td>
<td>102.2</td>
<td>109.8</td>
<td>113.0</td>
</tr>
<tr>
<td>U.K.</td>
<td>45.9</td>
<td>47.0</td>
<td>57.1</td>
<td>72.0</td>
<td>85.6</td>
<td>99.9</td>
<td>105.3</td>
<td>110.4</td>
</tr>
<tr>
<td>Germany</td>
<td>69.8</td>
<td>65.6</td>
<td>69.9</td>
<td>77.5</td>
<td>86.3</td>
<td>86.4</td>
<td>87.6</td>
<td>86.2</td>
</tr>
<tr>
<td>France</td>
<td>71.2</td>
<td>73.0</td>
<td>79.3</td>
<td>91.2</td>
<td>95.5</td>
<td>100.0</td>
<td>105.1</td>
<td>108.2</td>
</tr>
<tr>
<td>Italy</td>
<td>117.0</td>
<td>112.4</td>
<td>114.9</td>
<td>128.0</td>
<td>126.7</td>
<td>119.8</td>
<td>127.0</td>
<td>129.6</td>
</tr>
<tr>
<td>Canada</td>
<td>88.6</td>
<td>85.0</td>
<td>69.2</td>
<td>81.5</td>
<td>83.0</td>
<td>83.4</td>
<td>85.8</td>
<td>85.5</td>
</tr>
</tbody>
</table>

(Source) OECD “Economic Outlook 92” (December, 2012)
(Note1) Figures represent the general government-based data (including the central/local governments and the social security funds).
(Note2) FY2013 draft budget is not reflected in the above data.
I consider that the NDC is the gift of change in thinking and many developed countries refer to your system. In addition, the automatic balancing mechanism of pension scheme is the most important to maintain the sustainability of financing.

In Japan, it is very difficult (almost impossible) to use indexation (named macro-economic slide) in auto to balance the pension accounts in the long-run.

I would like to ask again on the political conflicts about adopting the automatic balancing mechanism or indexation in auto. Did the commitment or rule-based policy in your country become the seeds of political disagreement?
Dr. Palmer explained that health care provision is public welfare service in Sweden, in other hand, we are much depend on public insurance about health care system.

To prevent unnecessary visits to medical facilities, Dr. Palmer said that there is a small user fee with cap based on accumulated fee payments. Is that effective?

In Japan, our copayment at medical facilities is about 30%, but this is not effective tool to prevent unnecessary visits. Though we adopt the free access to any doctor or any hospital, some economist insists to introduce the GP institution similar with your country. Do you consider how about this idea?

In recent years, the increase in health care costs is significant. Therefore, we are looking for ways to reduce the growth of health care spending. (cf. next figure)
7.1.2. Annual average growth rate in per capita health expenditure, real terms, 2000 to 2011 (or nearest year)

Source: OECD” Health at a Glance 2013”
Lastly, I would like to discuss about family policy. Alva and Gunnar Myrdal emphasized importance of maintaining dependency ratio to sustain the social welfare system in your article. Furthermore, Dr. Palmer explained family policies such as provision of day care service and family cash benefits.

For a long time, we are struggling to very low fertility problem, but there is not the solution easily.

As the following figure says, we can expect that TFR will be higher as increasing expenditure of family policy.

From the experience of Sweden, please any advice to us.
Family Policy and TFR

\[ TFR = 1.197 + 0.168 \times \text{family policy exp.} \]

\[ (9.42) \quad (3.85) \]

\[ R^2 = 0.36 \]

Data: OECD "Social Expenditure database", UN "Demographic Yearbook", EU "Eurostat"

Author’s calculation
The expenditure for family policy is still less!
Thank you very much!