Towards a More Resilient Society: Lessons from Economic Crises

Report of the Social Resilience Project
October 2010

Coordinated by

Japan National Committee for Pacific Economic Cooperation (JANCPEC)

財団法人 日本国際問題研究所
The Japan Institute of International Affairs

Published in Japan in 2010 October by
The Japan Institute of International Affairs (JIIA)
Kasumigaseki Building 11F
3-2-5 Kasumigaseki Chiyoda-ku, Tokyo 100-6011 Japan

Tel: +81-3-3503-7744 Fax: +81-3-3503-6707
http://www.jiia.or.jp/

The responsibility for facts and opinions in this publication rests exclusively with the authors and their interpretations do not necessarily reflect the views or the policy of JANCPEC, PECC or their supporters.

ISBN978-4-8193-0210-4

Contents

Foreword

Two major economic crises have hit the Asia-Pacific region in the past 13 years. Our society has to be resilient against these economic shocks. To facilitate discussions on the development of social safety nets in this region, the Japan National Committee for Pacific Economic Cooperation (JANCPEC) launched the Social Resilience Research Project (SR Project) in 2009 as a PECC international project.

The SR Project consists of four teams – pensions, medical insurance, unemployment insurance, and macro analysis of savings/consumption – and each team comprises two to seven research members. This is the first time that PECC has addressed these particular social issues; heretofore it has been exclusively concerned with measures to liberalize and promote trade and investment.

JANCPEC held the PECC International Workshop on the Social Resilience Research Project on March 4-5, 2010 to compile an interim report for this project. Attended by a hundred people from industry, government, and academia, the workshop was successful in soliciting comments from various perspectives and further deepening and refining our research activities.

This report, including policy recommendations and individual research papers, is the final output of the SR Project's first year. The report's findings will be reported to the 19th PECC General Meeting, and might also be reflected in the policy recommendations considered during APEC 2010 Yokohama.

In 2010 APEC will be meeting in Japan for the first time in 15 years. The international community has high expectations of Japanese leadership, and JANCPEC would thus like to contribute to APEC activities via the SR Project in order to realize APEC's growth strategies.

The views expressed herein are the personal views of the individuals indicated, and do not necessarily reflect the views of PECC. However, I hope that these inputs will prove useful in illuminating the way ahead for the region and APEC.

In closing, I would like once again to express my heartfelt gratitude to the SR Project members for their enthusiastic commitment to this study and their immense contributions to this project as well as to the many people who worked so hard in preparing this report.

October 2010

Yoshiji NOGAMI
Chair, JANCPEC
President, Japan Institute of International Affairs

Executive Summary

I. Introduction

A financial crisis of a "once-in-a-century" scale has struck at the underpinnings of social safety in the Asia-Pacific region. The earlier 1997-98 crisis saw vigorous debates over social safety nets, but these debates quickly faded after 2003 because, with Asia's export markets in Europe doing well at the time, the crisis was overcome simply by pursuing the liberalization of investment and trade. The situation this time is different in the sense that market conditions in Europe and the US are worse than in Asia, inspiring little hope for economic growth by relying on exports to these economies. On the other hand, we are in a similar situation to the previous financial crisis in that the debates over social safety nets are about to fade again as the economy in this region starts to recover, led by the robust development of emerging markets in Asia. Many economies in this region are gaining economic impetus by increasing exports to developing Asian economies.

Economic crises have hit our economies almost every ten years during the past two decades. Being aware that we must consider not only economic rescue policies in the short term but also the resilience of infrastructure against frequent economic crises in the long term, we launched the Social Resilience Research Project (SR Project) last year as a PECC International Project. Discussing policies and economic models tailored to the new structure within the context of a major paradigm shift from export-led growth to domestic demand-led growth is also of significance. Both APEC and Asia must have been aware after experiencing this worldwide financial crisis that export-led growth relying on a certain big economy is fragile and that domestic demand needs to be expanded for solid economic growth. A system of efficient social safety nets functions to increase consumption instead of savings and helps boost domestic demand.

The SR Project is designed to shed light on the importance of social safety nets and to closely examine the mechanism of their roles in the domestic economy. This topic has never been discussed in depth among APEC economies. Overly focused on the liberalization of investment and trade, APEC has let slip opportunities to discuss the sense of security of those persons who underpin liberalization and brisk domestic demand as well as social safety nets for them in connection with a major paradigm shift toward the construction of a resilient model for sustained economic growth. In this regard, the SR Project is a very good opportunity to focus more on the social and living conditions of people and to share good or bad practices for social safety nets in the Asia-Pacific region. Comparative research on the actual status of Asian social safety nets would definitely be useful if we are to make our society more resilient against economic crises that may occur again in the future.

The SR Project has a four-fold focus: the pension systems, medicare systems, and unemployment insurance systems in the Asia-Pacific region, and a macro analysis. A working team was formed in each field, and research members on each team pursued studies, collaborating with each other while focusing on their own subjects. An interim research report was made during the PECC International Workshop on Social Resilience Project held in Tokyo on March 4-5, 2010. The head of each working team as well as team members presented their research findings and received advice and suggestions from commentators and participants. Having summarized the discussions at the very successful and useful Workshop and recognized their next tasks and future directions, each working team continued its respective research, incorporating and referring to the comments and suggestions made at the Workshop; a final report was then completed and is to be submitted to the leaders of APEC.

The economies in this region are recovering steadily, and now is the time to pay more attention to organizing domestic social safety net systems. Instead of missing this opportunity again as we did in the late 1990s, we should highlight the significance of constructing a resilient society and take action as soon as possible. Not enough time remains for most Asian economies, which are aging rapidly. Many economies in Asia will face the population onus period within 30 years, though they are now enjoying a population bonus. Korea, China, Thailand, and Singapore will fall into the population onus period in 2015-25, and Vietnam, Malaysia, and Indonesia in 2025-40. Before these economies experience the population onus period and during the period of population bonus when economies can gain more economic resources, they should establish secure systems of social welfare, including pension and health care, and prepare for aging societies.

II. Team Report

1. Pension System Team

The pension team submitted four papers. The paper written by Professor Mukul Asher from the National University of Singapore focuses on how the pension arrangements can be improved in Asia-Pacific economies to enhance social resilience. Enhancing social resilience in Asia-Pacific economies would require that pension reforms be regarded as being integral to overall economic, social and political management of an economy rather than being of secondary concern. Moreover pension reforms will require complementary reforms in other areas such as fiscal policies, labor markets and financial and capital markets.

There are several factors that have increased the urgency of conventional and innovative initiatives concerning pension policies and processes with the objective of making pension promises more credible in Asia-Pacific economies. First, Asia-Pacific economies are exhibiting rapid population aging arising from declining fertility rates, and increasing longevity. Second, increasing informalization of the labor market relationship requires innovative approaches, including better designed and funded social pensions, to extend pension coverage. Third, rapid aging as well as accelerating industrialization and urbanization in Asia-Pacific economies are expected to increase the resources, both public and private, needed for pensions and for health care. Fourth, pension arrangements for cross-border workers have acquired greater importance as their numbers grow, and because of opportunities to take advantage of potential demographic complementarities between low fertility economies and those economies where the ratio of the working age population to total population is still rising.

The urgency of pension reforms has increased but the 2008 global crisis has made this task even more complex, primarily due to its adverse impact on medium-term growth and on fiscal sustainability. The global crisis also led to a considerably less benign environment for generating returns from pension assets. Pension reforms will also need to accommodate global concerns about the nature of current economic growth, as environmental issues gain greater prominence and the social and human costs of conventional growth patterns that assume ever rising consumption of goods and services per person become more evident.

Professor Asher argues that each Asia-Pacific economy would need to construct a pension reform package suited to its own policy objectives and economic, fiscal, and institutional capacities. Major elements of such a package for each economy would include a differing mixture of greater competence or professionalism in performing core functions of provident or pension fund organizations; parametric and systemic reforms; budget-financed retirement income transfers; creation of a labor market environment in which some retirement income could be obtained by the elderly from remunerative economic activities; conversion of home equity into retirement income streams; and the use of microfinance to develop micro-pension products. Healthcare measures and habits that enable individuals to resist the onset of geriatric diseases should acquire greater prominence, if the elderly are to be able to participate in remunerative economic activities.

In constructing context-specific pension reform packages, the Asia-Pacific economies would need to pay considerable attention to, and be open to, innovations in pension design and delivery systems. The reversibility issue in pension design would also need to be addressed. Construction and maintenance of robust databases, strong analytical capabilities, appropriate organizational structures and mindsets, and understanding of the subtleties of pension economics (particularly sustainability over a long time-horizon, the tyranny of seemingly small numbers exerting a powerful impact on pension scheme viability) will also be needed. It is vital that provident and pension fund organizations publicly communicate to stakeholders stochastic actuarial assessments providing long-term projections of the impact of changes in demographic, labor market, and other variables on the sustainability of current pension arrangements. The importance of social pensions financed from budgetary resources, requiring fiscal and public service delivery capacities, would need to be recognized.

As the single most important macroeconomic variable in social resilience is the medium-term trend in economic growth, which is widely shared among the population groups, the task of sustaining such growth without undermining the environmental and social capital of societies merits serious consideration. This will require much greater emphasis on indigenous capacity for rigorous pension policy research, and the willingness of policymakers to incorporate research findings into pension design and processes.

The second paper, written by Mr. Cagri Kumru and Professor John Piggott from the University of New South Wales, Australia, points out that throughout the developed world, pay-as-you-go (PAYG) social security was the backbone of retirement income support for most of the 20th century. Over the last two decades or more, however, governments everywhere have retreated from their unsustainable promises, as they try to balance adequate retirement benefits against manageable tax burdens and fiscal stress. The trigger for this tension has been a demographic shift. Pay-as-you-go plans worked well when labor forces were always growing relative to retired populations. The prototypical social security plan is a Ponzi scheme in which ever-increasing human resources are required for sustainability.

Retirement financing has become the battleground for social resilience. It is imperative that at least the less well-off elderly receive government assistance, since they have few resources, neither human capital nor financial or real assets. However, funding all the retired adequately requires tax rates on the working population that will test social cohesion. Most governments have coped with this by reducing benefits surreptitiously – reducing survivor benefits, for example, or altering indexation arrangements. Such changes provide short-term political relief, but do little in the long term to buttress social resilience – the beneficiaries of survivor benefits, for example, are likely to be among the oldest and poorest in the retired pension community.

With this scene setting in mind, the Australian paper re-visits means-testing as a policy option. Means-testing has a surprisingly bad connotation among policy makers worldwide. The main reason for summary rejection of this policy paradigm is that the marginal tax rates faced by those from whom a benefit is being withdrawn are usually very high. However, the Australian authors will argue that this has been overblown, and that, in fact, the distortions and adverse impacts on consumer choice from a means-tested program may be less than those associated with a typical social security program.

The case for means-testing has been strengthened in recent years not only by the imperatives of demographic transition, but also by new analytic insights that indicate that a means-tested program may in fact be second-best optimal. If this is true, then means-tests, which, when they do crop up, are typically very crude, will require detailed attention to optimize their design impact. Means-test design has received virtually no attention either by academic researchers or by policy-makers, and their potential has not yet been anywhere near realized.

The paper written by Dr. Hyung-Pyo Moon from the Korea Development Institute briefly examines the current social issues in Korea and discusses agendas and suggestions on a new social policy. Korean society is currently faced with new challenges such as rising income inequality, declining social mobility as well as rapid population aging. Furthermore, increasing social instability calls for the government to intervene in a more active and preemptive manner in its social policy stance. In particular, policy priority should be placed on the reinforcement of a basic social safety net to restore the eroding middle-income class. This paper suggests the challenges and strategies for social policies, including social welfare, labor, education and old-age income security, that should be emphasized in the process of developing and implementing the policy.

The Korean paper emphasized that the new social policy should be geared toward preemptive social investment and system improvement to counter potential risks and enhance individual progress. In order to accomplish these policy goals the government should pursue three driving strategies: a preventative and investable approach, a user-oriented integrated approach, and a life-cycle approach. Under these basic concepts, the major policies in each sector suggested in the Korean paper can be summarized as follows. First, it is crucial to reinforce the basic social safety net and expand the coverage of social insurance and public assistance programs. Second, it is important to guarantee equal education opportunities through the qualitative improvement of public education and reduction in the cost of private education. Third, it is necessary to allow for equal opportunities at the starting line through aggressive early investment policies. Fourth, policies that promote quality and creation of jobs should be pursued as well as sustained. Lastly, to counter increasing longevity risk, it is urgent to expand the pension coverage and compliance of the challenged groups, including atypical workers and the self-employed.

The paper written by Professor Noriyuki Takayama explains how the social security pension system has developed in Japan, where its current coverage is nearly 100 percent, including the self-employed and full-time housewives. He argues that development of the Japanese system looks like a dividend from economic growth, and that it was attained through strong political will. Both demographic and economic factors in future Japan will probably impose greater stresses on social security pension programs, which are based on pay-as-you-go defined-benefit financing. Japan has virtually made major pension reforms every ten years to contain increasing costs while assuring adequate income after retirement. The future picture is yet uncertain.

2. Medicare System Team

Medicare system team examined health insurance systems of Japan and China. The first paper written by Dr. Miho Sekimoto and Professor Masko Ii illustrates Japan's health insurance system and the second paper prepared by Dr. Etsuji Okamoto analyses the role of Japan's National Health Insurance in insuring the indigent population and balancing the income inequality. Ms. Hiroko Uchimura wrote the third paper which explains the status and problems of China's health systems including the recent development of health insurance policies.

(1) Japan’s Health Insurance System (by Dr. Miho Sekimoto and Professor Masko Ii)

Since World War II, many developing economies tried to introduce a healthcare system similar to those that had already been in place in developed economies. However, such a system has often tended to aim at people living in urban areas but not at those living in rural areas. Unlike many of these developing economies, Japan had already introduced a kind of universal health insurance system, though mostly pro forma, at the end of the 1930’s and introduced a more genuine universal insurance system in the early 1960’s, which is still evolving. In light of the above, developing economies that in the process of moving from a partial health care system to a universal system would benefit significantly from drawing on the Japanese experiences in this regard.

A distinctive feature of Japan’s experience is that mandated social health insurance was attained at a time when people not employed in the formal sector comprised a large proportion of the total population. The origin of the health insurance system in Japan dates back to the early 20th century. The Factory Law, which aimed to protect factory workers, was introduced together with the rise of modern industry in Japan. About 30 years later, the National Health Insurance Law was enacted, the purpose of which was to insure the general population in rural areas, mainly farmers. To implement this insurance system, each municipality formed a National Insurance Association and became an insurer. The general population in rural Japan had a sense of solidarity that had been developed through irrigation and rice-farming activities in each village, which created a sense of local community and mutual assistance. Such a sense of local community suited the scheme in which the municipality was the insurer and contributed to the implementation of the social health insurance system targeting farmers. After the Second World War, the social health insurance system was restructured and attained formal universal coverage. The social insurance system ensures equitable access to health care services for the whole population in Japan.

The present social health insurance system, however, needs to be reformed to respond to emerging issues. In addition to the insurance premium, general tax revenues also fund the insurance fund in Japan, which is a common feature in developing economies. This mixed system has caused problems in the role of insurers. The role of insurer should be clearly and appropriately designed, and who has the responsibility for the balance of the insurance fund also should be clarified. In addition, Japan’s experience in struggling to respond to the ageing population will also provide suggestions to some developing economies that are predicted to face aging problems in the near future.

(2) Insuring the no- or low-income population and balancing the income inequality: the National Health Insurance program as the base of Japan’s social security (by Dr. Etsuji Okamoto)

Guaranteeing a universal coverage of health insurance to all population including the indigent requires an effective income redistribution mechanism in the health insurance system. Two options are available: one is an ample subsidy from the tax revenue and another is an income-metered premium structure. In case of Japan, the first is implemented by the Livelihood Protection Act with means-testing and another is implemented by municipal National Health Insurance system. These two systems are closely related because indigent people migrate between the two systems because a majority of households of municipal National Health Insurance (NHI) have no reported income and are always at the verge of poverty. The municipal NHI has an income redistribution mechanism but its redistribution effect is weakened by the premium cap on high income households. How much of the income redistribution effects are weakened vary from municipality to municipality, but insurers must monitor and evaluate income redistribution effects carefully. The author proposed a formula to calculate the % of the premium "waived" for high income households. The government also monitors the income redistribution effects of the overall social security system and taxation by a questionnaire survey every three years. Although the accuracy of the survey is questionable due to the small sample size, there is a consistent trend of a widening gap between the rich and poor. Such widening gap is mitigated by the income redistribution effects of social security and the Lorenz curves suggest that municipal NHI overall considerably reduces the income inequality as measured by Gini coefficients through premium and health care benefit. But when one looks at municipal NHI particularly, one recognizes that the redistribution effect does not work above a certain income level (five million yen) because of the premium cap. Japan's experience of municipal NHI with its premium policy provides a useful tool for designing and evaluating the health insurance premium scheme for effective income redistribution and thereby achieving a universal coverage.

(3) Health System Reforms in China: Is Universal Coverage Enough to Solve the Problems? (by Ms. Hiroko Uchimura)

China's economic growth has been highly impressive. China has achieved over 9 % growth per year since the 1990s, which has attracted worldwide attention. Along with the economic development, socioeconomic conditions have changed considerably in China. These changes brought about decay in the conventional health systems based on state owned enterprises (SOEs) or people's communes. Instead, governments were required to take substantial responsibility for restructuring and financing the health systems. On the contrary, governments, and particularly the central government, actually tightened the fiscal investments in the health sector in the 1990s. As a result, most of the population was uninsured and individuals came to bear most of the financial burdens of obtaining health care services.

Against such deterioration in the health system, the central government eventually initiated restructuring of the health system at the end of the 1990s; that is, it institutionalized new health insurance programs. A health insurance program was established for urban employees in 1998 (Urban Employees' Basic Medical Insurance), and for the rural population in 2003 (new

Cooperative Medical Scheme). Pilot programs of health insurance for urban non-employees started in 2007 (Urban Residents' Basic Medical Insurance). Initially, the insurance coverage rate was quite low; however, recently, the government has increasingly stressed the importance of expanding the coverage and has increased the fiscal subsidy for the insurance funds. Consequently, health insurance coverage has substantially increased both in urban and rural areas. By the end of 2007, coverage of the new CMS reached 86.2 % (Ministry of Health 2008).

Expansion of health insurance coverage has resulted in some progress in health system reforms in China. However, broadening the coverage has not sufficiently reduced patients' financial burdens related to obtaining needed health services. In fact, in 2007, half of the total health expenditures were still financed through out-of-pocket payments (OOP). Is expanding health insurance coverage enough to lighten people's financial burdens so that they can access needed health care services? This is a key question to examine among the challenges in China's current health system.

The present Chinese government is concerned with these health issues, and has launched new health system reform plans. In April 2009, the government presented guidelines for the health system reforms which include fiscal outlays of CNY 850 billion (about US$125 billion) from 2009 to 2011 (details in section 5 of this paper). Not only the amount of funds but also their allocation in the health sector has a critical impact on the outcomes. The reform has just been initiated; hence, it is a good time to review current health systems in China and examine barriers to improving people's access to needed health care. In this context, this paper analyzes challenges in China's health system and proposes possible options to address the challenges.

3. Unemployment Insurance Team

In recent decades, unemployment has become a serious problem in East Asian economies, which were affected severely by the recessions stemming from the 1997-98 Asian financial crisis and the 2008-09 global financial crisis. Unemployment insurance (UI) is the most common public income support program for the unemployed in developed economies but it has been introduced in only about half of the economies in this region. The purpose of the UI Team, which produced five papers, is to share the experiences of the economies where UI has already been introduced and to consider the implications for the economies that have not yet introduced UI but aim to introduce it in the future as well as for the economies that have already introduced UI to make their societies more resilient together with other social security programs such as pensions and health insurance.

UI is considered to be a "luxury" good in developed economies. In fact, the incidence of UI is strongly related to the level of economic development.[1] However, as illustrated in Dr. Yasuhiro Kamimura's paper, which explores the characteristics of the labor market and unemployment insurance in East Asian economies, in East Asia it is neither related to per-capita GDP nor to the

[1] Vodopivec, Milan (2004) *Income Support for the Unemployed: Issues and Options (Regional and Sectoral Studies)*, the World Bank.

share of the agricultural sector, suggesting that UI can be successfully introduced without a high level of industrialization if it is adequately implemented with sufficient consideration to economy-specific features. In East Asia, UI was introduced in Japan (1947)[2], China (1986, limited to urban areas), Korea (1995), Chinese Taipei (1999), Thailand (2004) and Vietnam (2007), mostly in recent years. This team examined in detail UI schemes in four economies (Japan, Korea, Chinese Taipei and Thailand), after compiling an overview of UI schemes in this region.

In developed economies, UI is provided together with pension and health insurance as social insurance. UI is publicly provided primarily because its functioning is affected by strong information asymmetries that give rise to moral hazard and adverse selection problems. UI provides good protection, enabling a relatively high degree of consumption smoothing, for all covered workers compared with other alternative income support programs for the unemployed such as unemployment assistance, public works and severance pay, acts as an automatic macroeconomic stabilizer, and encourages the emergence or expansion of more risky jobs or industries that may increase efficiency, though it has also been found to create reemployment disincentives and wage pressure, which increase the equilibrium unemployment rate and make unemployment persistent.[3]

Nonetheless, the standard OECD-style UI program in developed economies is unlikely to function well in developing economies faced with large informal sectors, weak administrative capacity, large political risk, and environments prone to corruption.[4] In developed economies, the UI program typically requires that workers and their employers pay contributions that, upon separation, entitle workers to unemployment benefits according to predetermined eligibility conditions. To qualify for benefits, the worker must satisfy the minimum covered employment or contribution requirement. Continuing eligibility requires that applicants are available for and willing to take a job and that they actively search for a job while unemployed. In industrialized economies, unemployment typically denotes that a worker who does not have his own means of production has lost his work. In this sense, unemployment is a “discrete” event: employed or unemployed. In developing economies, though, unemployment is a “non-discrete” event. A large proportion of the workforce is “partly unemployed” or underemployed and the entry to informal employment and exit from it is easy with low entry/exit costs. Workers cannot afford to be jobless and therefore they undertake any type of work, even work that leaves them underemployed. Consequently in low income economies, the unemployed are not necessarily poor. Enforcement of the standard continuing eligibility conditions of the OECD-style UI program, if applied to developing economies, would hamper self-protection by taking away informal jobs and underemployment. In addition, monitoring of the continuing eligibility conditions would be too

---

[2] The numbers in parentheses show the year UI was introduced.
[3] Vodopivec (2004).
[4] Vodopivec, Milan (2009) "Introducing Unemployment Insurance to Developing Countries," *Social Protection Discussion Paper Series, No. 0907*, the World Bank.

costly, given the weak administrative capacity of developing economies.

The experiences of Thailand documented by Professor Yasuhito Asami provide a good example of the successful introduction of a UI program tailored to these circumstances in developing economies. Thailand introduced UI in 2004. Since then, the UI scheme has been generating healthy annual surpluses. It alleviated the plight of unemployed workers, at least to some extent, when the Thai economy was hit hard by the worldwide economic downturn in 2009, although it only covers workers in the formal sector. The main lessons from Thailand's experiences are as follows.

(1) *(Virtual) Exemption of informal sector work from disqualifying conditions for continuing eligibility*

As it is difficult for the Social Security Office to know who works in the informal sector, dismissed workers can continue to get unemployment benefits (UB) even after they start working in the informal sector, though they are formally disqualified from receiving UB. In other words, Thailand's UI is virtually designed on the assumption that many UB recipients would do part-time jobs in the informal sector during the period in which they receive UB.

(2) *Modest unemployment benefits with low premium rate*

The replacement ratio is 50% and the duration of UB is six months for involuntary separation. By making the duration shorter and the amount smaller, UI can maintain surpluses even with a low contribution rate (0.5% for both employees and employers). Many UB recipients do part-time jobs in the informal sector. Thus, even with modest UB they can continue to look for a decent job in the formal sector. Moreover, the small amount and short duration of UB give workers a strong incentive to search for a new job.

(3) *Co-existence with severance pay at initial stage*

Like many other developing economies, Thailand made it mandatory for employers to provide severance pay to laid-off workers. As there are significant overlaps in coverage, the mandatory severance pay system should be integrated into UI in the long run. However, the abolition of mandatory severance pay when introducing UI might complicate the negations on the design of UI. To start UI with modest UB without abolishing mandatory severance pay might be a practical way to introduce UI at an early stage of industrialization.

(4) *The best timing for the introduction of UI is the period of recovery from the global economic crisis*

Thailand introduced UI in 2004, seven years after the Asian financial crisis. It was the best timing, because the Thai economy was in good shape but people's memory of the social pain caused by the economic turmoil in 1997-98 was still vivid.

(5) *The introduction of UI is politically attractive*

It should be noted that the introduction of UI is likely to raise the popularity of political leaders who play a prominent role in its implementation.

(6) *Role of international organizations*

The feasibility studies conducted by international organizations such as the ILO, the World Bank and the Japan International Cooperation Agency turned out to be a very effective tool for the Ministry of Labor and the Social Security Office to persuade other government agencies and business leaders to agree on the introduction of UI.

The experiences of the economies that introduced UI in earlier years also shed light on important issues with which other economies may be confronted after the introduction of UI. In this regard, three economies -- Chinese Taipei, Korea and Japan – were examined respectively by Dr. Ke-Jeng Lan and Dr. Wen-Chi Chou, Dr. Myoung-Jung Kim, and Professor Naoki Mitani. In all these economies, UI was introduced in the 1990s or earlier and UI has been integrated with Employment Insurance (EI), together with Active Labor Market Programs (ALMPs).

In recent recessions, Employment Insurance played the expected roles in these economies of alleviating the plight of the unemployed with UB, preventing unemployment by preserving jobs and facilitating reemployment of the unemployed through various ALMP measures. Korea in particular was able to provide a large number of the unemployed with UB during the 1997-98 Asian financial crisis, which occurred just after the introduction of EI. Nonetheless, EI in these economies has been under pressure from recent structural changes in the labor market such as the increase in non-regular (non-standard) employees, together with aging and low fertility rates, which grew ever more serious during the 2008-09 global financial crisis. The implications of the experiences in these economies are as follows.

(1) *Public short-time work (STW) schemes played an important role in preserving permanent jobs during the 2008-09 global financial crisis*

Short-time work (STW) schemes are public schemes that are intended to preserve jobs at firms experiencing temporarily low demand by encouraging work sharing with subsidies to the firms or workers. To tackle the current job crisis, Japan and Korea conducted large-scale public STW programs as ALMPs and succeeded in preserving a large number of permanent jobs, particularly in Japan.[5] As the economic recovery gains momentum, it is important to begin phasing out these STW schemes so as not to hinder productivity-enhancing labor reallocation across sectors. As the experiences in OECD countries show that STW schemes tend to be most effective in the early phase of an economic downturn, it would be preferable to prepare them in advance, for example, by keeping a small but well-run STW scheme even in good times.

[5] OECD (2010) *Employment Outlook: Moving beyond the Jobs Crisis*, OECD, Paris.

(2) *Larger safety net for non-regular workers*

With growing shares of non-regular workers, Japan and Korea have made efforts to extend EI eligibility to vulnerable workers such as non-regular young employees and, in some cases, the maximum duration of benefits to provide better safety nets for such workers. However, such measures should be carefully designed so as to minimize adverse effects on work incentives that could lengthen the joblessness spell.

(3) *Assistance for the non-insured such as first-entry young unemployed workers without insurance records*

Faced with the growing share of non-insured workers, reflecting labor market slackness and structural changes, social assistance financed by the government is needed to help the non-insured such as young unemployed who cannot find jobs after graduation. In economies such as Japan, where temporary measures that support the training and livelihood of non-eligible unemployed have already been implemented, it is desirable to perpetuate these measures.

(4) *Activation measures for UB beneficiaries*

The negative effects of UBs on job search efforts or the duration of unemployment could be mitigated by activation measures such as frequent checks of active job search activities, intensive job-search assistance or the inclusion of training participation into the qualification conditions for UB. It should be noted, however, that putting in place such activation measures generally takes time, as it involves institutional changes associated with the operation of the PES, etc.

(5) *Evaluation of ALMPs*

A variety of ALMPs are provided in these economies. Nonetheless, these ALMPs have rarely been evaluated, though more effective and systematized ALMPs are needed under strict budget constraints. The compilation of relevant statistics is necessary so as to conduct scientific evaluation of the programs.

As mentioned above, the evidence in this research suggests that UI can be successfully introduced in East Asian economies without a high level of industrialization if adequately implemented. The period of recovery from an economic crisis is a good time to introduce UI or to improve EI as people have vivid memories of the social pain. These efforts will certainly enhance social resilience in this region.

4. Macro Analysis Team

The Macro Analysis Team submitted two papers: (1) “The Determinants of Saving Rates in Developed and Developing Countries: The Impact of Social Safety Nets” by Professor Charles Yuji Horioka, and (2) “The Uncertainty of Public Pensions and Precautionary Saving in Japan—Evidence from the Micro Data of Close-to-retirement Households” by Professor Wataru

Suzuki and Dr. Yanfei Zhou.

In the first paper, Professor Horioka analyzes the determinants of saving rates in the developed countries of the OECD and the developing countries of Asia and found that the age structure of the population (especially the aged dependency ratio) and financial development (credit availability) are the most important determinants of saving rates in both developed and developing economies and that the development of social safety nets and income levels are also important in some cases.

Turning to the policy implications of those findings, the apparent absence of a clear relationship between social safety nets and saving rates implies that improving social safety nets will not necessarily reduce household saving rates and stimulate consumption, but doing so may be desirable in any case because it will obviate the need for households to worry about unexpected contingencies, retirement security, etc., thereby enhancing household welfare. Moreover, a finding that financial development is more important as a determinant of saving rates implies that the development of capital markets (and the relaxation of borrowing constraints) will alleviate the need for precautionary saving (self-insurance), which is very inefficient, and serve as a partial substitute for the development of social safety nets, especially in economies with underdeveloped social safety nets, leading to lower saving, higher consumption, and higher household welfare. Thus, a two-pronged approach of simultaneously developing social safety nets and private capital markets may be the most effective way to enhance household consumption and welfare.

Using households' anticipated percentage/value changes of public pensions with respect to the present benefit level as proxies for public pension uncertainty, the second paper investigates the impact of public pension uncertainty on wealth accumulation by close-to-retirement Japanese households. A principal econometric finding is that households' financial wealth holdings are positively and significantly related to public pension uncertainty for various measures of wealth and both uncertainty proxies. It is also found that households discount future pension benefits much more heavily than the government's planned pension cut. Simulations suggest that approximately 10% of the net financial assets and 5% of the gross financial assets of close-to-retirement households are held as a precaution against public pension uncertainty. These findings are in accordance with the precautionary saving model and provide supportive evidence for the hypothesis of excessive saving and wealth accumulation by elderly Japanese households.

III. Policy Recommendations

Having acknowledged long-term projections of the impact of changes in demographic, labor market, and other variables on the sustainability of current pension arrangements, each Asia-Pacific economy would need to construct a pension reform package suited to its policy objectives and its economic, fiscal, and institutional capacities in order to enhance social resilience.

Much greater emphasis on indigenous capacity for rigorous pension policy research and the willingness of the policymakers to incorporate research findings into pension design and process will be required. It should also be borne in mind that the new social policy should be geared toward preemptive social investment and system improvement to counter potential risks and enhance individual progress.

A growing number of economies in the Asia-Pacific region are making efforts to develop a national health insurance with universal coverage. Having gone through the pains of development later than Western economies but earlier than other Asian economies, Japan's experience in designing its health insurance system might have important implications for setting-up a national health insurance system in developing economies.

Health policy makers and the general public should not neglect the important role of a health insurance program as a social security system and its most important functions: redistribution of wealth and securing the integrity of the nation. Japan’s experience will be a lesson to economies for achieving both universal coverage for health insurance and social integrity through effective redistribution of wealth.

For economies that have unemployment insurance, it is recommended that they reform their respective schemes and adequately cover people who are really in need of social protection. Economies such as Hong Kong (China), Singapore, Malaysia, the Philippines, and Indonesia that do not yet have unemployment insurance systems could consider introducing unemployment insurance or strengthening other schemes that would suit their situations. These efforts will certainly enhance social resilience in this region.

The period of recovery from an economic crisis is a good time to introduce unemployment insurance or to improve employment insurance as people have vivid memories of the social pain. For developing economies that want to have an unemployment insurance system, Thailand’s successful introduction of such a system would be a good example. Economies in this region could learn a lot from the experiences of the economies that introduced unemployment insurance in earlier years, such as Japan, Korea, and Chinese Taipei.

Improving social safety nets may be desirable in any case because it will obviate the need for households to worry about unexpected contingencies, retirement security, etc., thereby enhancing household welfare. The development of capital markets will alleviate the need for precautionary saving (self-insurance), and serve as a partial substitute for the development of social safety nets, leading to lower saving, higher consumption, and higher household welfare. Thus, a two-pronged approach of simultaneously developing social safety nets and private capital markets may be the most effective way to enhance household consumption and welfare.

As one important macroeconomic variable in social resilience is the medium-term trend in economic growth, which is widely shared among population groups, the task of sustaining such growth without undermining a society's environmental and social capital merits serious consideration.

When discussing social security schemes including pensions, medical insurance, and unemployment insurance, needless to say, we should keep in mind that since these schemes are interrelated and intertwined, the so to speak horizontal approach to the issues is of critical importance; namely while conducting research and analysis on each scheme, we must study the schemes in totality and in a comprehensive manner.

We also recognize that there are no panaceas applicable for any economy and in any time. What we have engaged in is to collect and share good practices and bad practices with a view to enhancing resilience of societies, not to impose any fit for all solutions on anyone.

To promote policy innovation, it is essential to compile comparable and longitudinal data relevant to social issues; for this purpose, it is expected that the StatsAPEC will be upgraded to the level of the Eurostat in the EU.

APEC also needs to take up social resiliency issues and consider what infrastructure resilient against economic crises we can establish in the Asia-Pacific region's economies. A working team should be formed to discuss how to make our society more resilient against economic crises and to design effective social policies for the economies of this region.