

# Weakening Family Networks in the Age of Weakening Public Welfare: Vulnerability in the East Asian Countries

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## I. Neoclassical liberalism in the age of globalization: a clever choice?

### 1 Three principles concerning the economic policy

There are three representative principles that are frequently referred to when people, whether in daily conversation or in academic discourse, discuss which principle a society should be built upon or how income distribution should be implemented:

- Efficiency: leads to economic growth.
- Fairness: equality of opportunity.
- Equality: equal result for all.

Those who believe in economic growth, typically found in the neoclassical economist group, assert that economic growth, although sometimes accompanied by disparity, raises the overall level of welfare in society and that excessive redistribution of wealth leads to stagnation and deprivation of the weak as a consequence. Those who stress the value of equality do so from diverse positions. They range from those who totally negate the market economy to those who think market mechanisms are necessary but sufficient income redistribution is also required. Fairness exists somewhere between these positions. Some argue that in order for a market society to work, people need to believe that they are participating in a fair game with the same starting line in the economic field. Many sociologists, especially those who study social stratification and social mobility, think that the distinction between fairness and equality is not negligible, since support from or taking over parents' assets is a problem primarily from the fairness principle.

In real social processes, these three values (growth/effectiveness, fairness and equality) sometimes help each other, but most of the time are in conflict. During the Meiji Restoration (明治維新 Meiji-ishin) in Japan<sup>1)</sup>, the abolishment of the class system (士農

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1) Some see the Meiji Restoration of 1868 as a type of civil revolution, similar to those seen in western ↗

工商 shi-no-ko-sho) , thus the attainment of fairness, formed a substructure to economic growth, since social mobility is a necessary condition for the development of a market economy. In a time of economic boom, growth in the national economy might go hand in hand with income equalization. This was the case in Japan during the 1960s and 1970s. Once the economy plunged into depression in the 1990s, however, many politicians and economists started to form the opinion that economic growth cannot be achieved without necessary competition and some degree of income disparity.

Relatively apart from real economic trends, liberalism theory has recently become more influential in academic fields, especially among social philosophers and social scientists. Since the publication of *A Theory of Justice* by John Rawls in 1971 (RawlsJ 1971), most well-known social thinkers like Amartya Sen and Ronald Dworkin have discussed the pros and cons of Rawls's liberalism (Sen 1980; Dworkin 1981a,b). Rawls's version of liberalism, which puts emphasis on the fairness principle, determined and channeled the subsequent discussions on "what principle a society ought to be built upon."

Proponents of fairness take their stand on its strong and simple logic: a person should not be held responsible for matters whose consequences he/she did not have the chance to alter. One cannot choose the country one is born in. Neither can a person choose his or her birth family. Country and family are the two main sources of unfairness, by which people are forced (or entitled) to be on an uneven starting line. Of course, another important source of unfairness is the "age". People's lives are strongly affected by the age in which they are born. In Japan and Korea, the young are said to be trapped in a severe economic mire while older people enjoyed relatively wealthy lives during the years of high economic growth. That is why some have referred to the recent late marriage and low birthrate among young people in Japan as a "sabotage of the young"<sup>2)</sup>.

Recent academic discourses on societal constitutive principles do not seem to pay much attention to the equality of results as popular and political discussion does. One reason for this might be that the reasoning for equality in results is much less persuasive

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\ countries. This view is contestable especially because the Meiji Restoration was in the first place a "return of the King (天皇Tenno)", not a revolution brought about by civil power. Nonetheless, the Meiji restoration and civil revolution share a lot of important features like the implementation of the abolition of the class system and the freedom for individuals to choose their own occupation.

2) The most miserable generation in Japan might be the 'Generation Y' (second baby boomers) born in the period 1972-1981. In order to enter college, they had to face a fiercely competitive exam war with the rest of their enormous age group. After college, however, they experienced a major job crunch caused by the bubble burst. Although neither the time they were born nor the timing of the economic bust were the fault of Generation Y, they had to suffer most. The vested group, the elderly, has kept their job as regular workers by excluding Generation Y, which has good potential productivity, from the labor market.

than those for fairness and economic growth. Once misfortunes are considered to be a loss that has to be compensated by the fairness principle, justifying the equality principle becomes much harder. Perhaps in part for this reason, the equality principle appears for the most part to be simply anti-market propositions, void of substantial logic.

## 2 Popular (mis)understanding of “market mechanism”

To begin with, what is the problem with the “market mechanism”? To be sure, some critics of the market economy confound the means with the ends of the market function. The market mechanism is a means of economic growth, not the purpose itself. Thus there are few economists who totally deny the role of government. Neoclassical economists think that the best way to achieve economic growth is by the enhancement of the market mechanism and that governments should do whatever is needed to make the market work. Moreover, every textbook of economics today includes a detailed analysis of “market failures”.<sup>3)</sup>

Economic growth supposedly brought by promoting efficiency, and thus the market mechanism, does not tell us anything about equality and fairness. However, the fact that neoclassical economists are not so much interested in equality or the fairness principle does not necessarily mean they advocate the “law of the jungle”, where the strong outdo the weak in a zero-sum society. A zero-sum society is the last kind of society that neoclassical thinkers would support, for economic growth itself implies a non-zero-sum state. They simply assert that pursuing equality through excessive redistribution of income might impede growth, and in turn lessen the income of all members. This could bring about a zero-sum society, or worse, (complete) economic breakdown.

## 3 Risk, uncertainty and the globalization

“Growth policy vs redistribution policy” has long been the main agenda in economic and political decision-making, but it seems that it has been losing the basis for argument in recent years. Here’s why.

It has become a popular view in the literature of economics that “risk” and “uncertainty” are two different things (Knight 1921; Kreps 1988). Risk follows the known probability distribution (e.g. normal distribution). This feature is important, for risk is “calculable” using statistical methods. For instance, insurance companies earn their profit by reducing risks. They collect a large amount of individual customers to the level where their risks become calculable by the “law of large number”<sup>4)</sup>. Where there is an

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3) There are four types of market failure: external economy, public goods, asymmetric information and decreasing cost.

asymmetry of information that could cause an insurance market failure, the government provides social assurance. Most of the risks can be reduced through the market and the government, therefore it is basically under domestic governmental control.

In contrast, uncertainty is the situation where things happen in a way that does not follow any known probability distribution. Therefore, it is not predictable by any means<sup>5)</sup>. Recent incidents of global economic crisis are typical indications of this uncertainty. The Asian Financial crisis in 1997 and the worldwide simultaneous plunges in stock prices caused by bad subprime loans are two major world economic crises<sup>6)</sup>. Globalization brings about uncertainty which cannot be managed by domestic government. To address it properly, the problems which cannot be dealt with by domestic governments are problems of uncertainty. Today's economic trends combine the effects of many different government policies, some of which are social-democratic, others are neo-liberal.

However, this does not mean that the role of the government has lost its importance. Textbooks of economics describe that the roles of a domestic government are threefold: to provide services that the market cannot provide efficiently, to help a domestic economy to grow, and to provide social security through benefits and social insurance. The classical discussions about the role of the government focus on whether it should put emphasis on the economy or social security. Globalization and the accompanying uncertainty, however, seem to have diminished the power of government to boost the economy, since this depends less on domestic policy and more on factors over which a domestic government

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4) The law of large number has been vital to the modern development of inferential statistics, which is entirely built on the "central limit theorem" to estimate any parameters. In order to get a proper estimation, inferential statistics needs a sufficient number of samples collected by random sampling. Although inferential statistics itself was invented to reduce the costs of sampling, measuring risk is still very expensive, especially when it involves complex issues as in the case of governmental decision-making.

5) Sociologists and economists have slightly different views on the distinction between risk and uncertainty. Popular sociological understanding is that the distinction between risk and uncertainty depends not on the computability itself, but on the people's ideas or common understanding about what is calculable (and thus manageable) and what is not. Therefore the distinction varies according to the time and the society (Giddens 1990=1993). Giddens is known for the theory of "sequestration of experience", that is, in order for a modern society to work with efficiency, some experience that is thought to be beyond human control must be put aside in everyday life (Giddens 1991=2005). Birth, death and some kinds of disease are some examples of this ultimate "externality". Taking out these experience from everyday life, a society can enjoy its controllability. In a certain sense, uncertainty is a kind of externality.

6) There is a frequently told story about the currency crisis of 1997. A once major hedge fund collapsed in this crisis, in spite of the fact that two of its board members were Nobel-prizewinners in economics (Robert C. Merton and Myron Scholes). They had won the prize for inventing a means of calculating risk in equity markets. The fund's collapse has been held up as illustrating the importance of the distinction between risk and uncertainty.

has little influence or which it cannot monitor simply because they are “out of range”.

With these points in mind, it can be argued that because of ongoing globalization so-called neo-liberal (market-oriented) policies are losing their basis for effectiveness. A government might never see the results of a domestic growth policy owing to the shock from some foreign catastrophe. Thatcherism in the 1980s and Koizumi’s “structural reform” (構造改革 *kozokaikaku*) of the 2000s had many features in common, such as privatization of public services. The fact that each has had different accomplishment might partly be a result of the changing global situation. In this age of uncertainty, therefore, it is wise for a domestic government to underscore its commitment to social security issues, since domestic growth policy cannot defend the nation from global shocks.

Of course this is not to say that macro economic policy is no longer important. The probable reason for Japan’s stagnation in recent years (the “lost 10 years”) has been the poor productivity of white-collar workers. As is well known, in 2005 the productivity of service industries in Japan dipped to the lowest level among developed countries. The problem of weak economy in Japan has not been caused by excessive redistribution of wealth (which has not occurred in Japan anyway, as we will see later) but is due to excessive governmental regulation of industries, especially service industries. This regulation has not so much protected the weak but strengthened the various vested interests of established groups. Protection of vested interests through governmental regulations is the core reason for Japan’s low productivity. Distinguishing between regulation policy and redistribution policy is quite important here. Former might lead to the protection of the vested interests of the rich, while latter is essentially the income transfer from the rich to the poor. Seen in this light, Japanese government is “small” in terms of redistribution but “large” in terms of regulation.

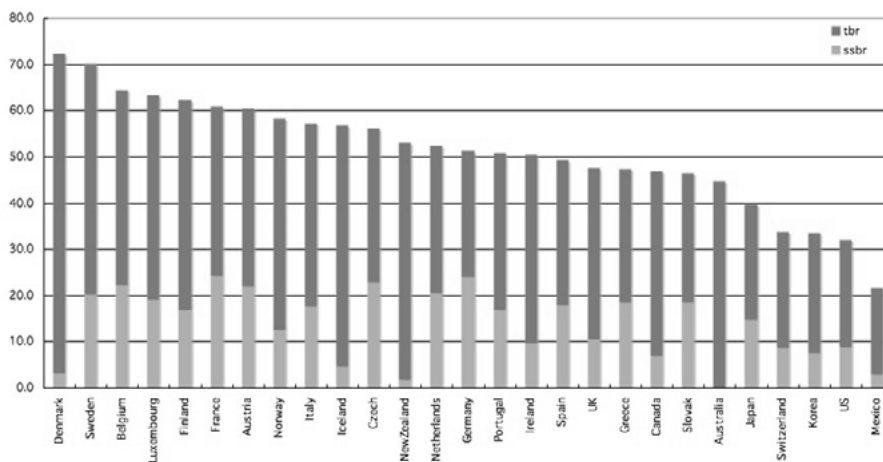
## II. Problems in East Asian Countries

### 1 A vicious circle in East Asian countries

If globalization creates the uncertainty which renders a domestic economic-boost policy less effective but a government nonetheless sticks to a classical growth policy (or worse, to a regulation policy just to protect established groups), therefore downrates the social security level, the nation might go nowhere good. This unfortunate combination seems to be happening in East Asian countries like Korea and Japan. Most East Asian countries are poor in terms of public provision of welfare. Figure 1 shows the national contribution ratios of major countries. Japan and Korea are in the bottom five.

Even more depressing is the fact that in these countries weak welfare support by government and weakening family support are now in a vicious circle.

Figure 1: National Contribution Rate (2004)



- a. Data: OECD National Accounts 1993-2004, OECD Revenue Statistics 1965-2005.
- b. Mexico and Portugal:2002, Switzerland: 2002, Japan: 2007 (estimation) , others: 2004.
- c. tbr: tax burden ratio, ssbr: social security burden ratio.

In most countries, the family is the ultimate safety net. Homeless people are usually those who cannot or will not resort to help from their family members. The extent a person has to turn to the family depends on the national policy, but in most countries a person is not allowed to receive benefit unless he or she no longer has a family who can afford to help them. On the other hand, this function of the family as a safety net is exactly the factor that makes the family a barrier to equality of opportunity.

To say that the family is an obstacle to the fairness principle might sound odd to some, but it is quite obvious sociologically. Sociologists have long studied stratification and how it is reproduced over generations. We have identified three types of resources that are handed down from parents to children; economic capital, social capital, and cultural capital. People of means directly transfer their assets to their children, while a middle class mode of reproduction uses human capital (education) as the medium. In any case, the continuation of the class, and thus the uneven starting line, cannot be achieved without the family system.

The anti-fairness function of the family can be eased to some extent by educational subsidies<sup>7)</sup>. The safety-net function of the family can also be supplemented by

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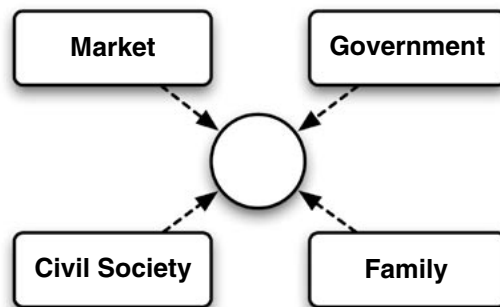
7) The theory of cultural capital includes some reservation about the fairness-promoting power of educational subsidies. Cultural capital can usually be accessed and learned in early childhood in the home. There is a viewpoint that school education can not do much to overcome the handicap in cultural capital as uses it as a distinction marker of a “good” student (Bourdieu 1979=1989).

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governmental policy, but the extent of governmental aid differs from country to country.

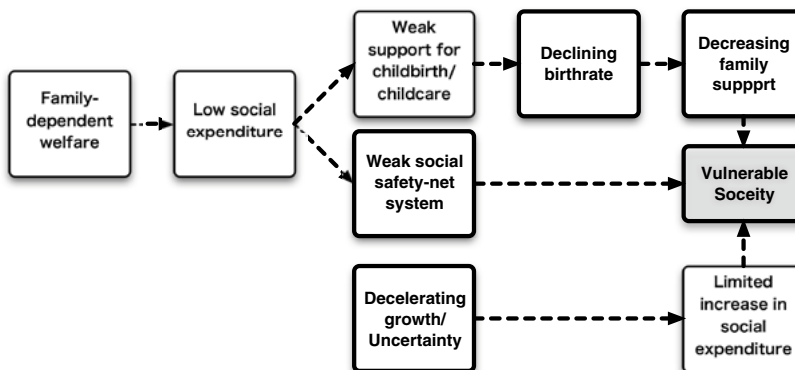
There are roughly four types of resource provider in modern states: market, government, the family and civil society (Figure 2). Typical welfare regime theories focus on the first three of these. In social democratic countries, welfare is achieved through redistribution by the government; in liberalistic countries, by the market; in conservative countries, by the family.

Figure2: Four major resource providing sections in modern states



Those countries that have placed the burden of providing aid for the non-laboring population on the family sector, however, are facing unprecedented hardships. This dysfunction is especially prominent in East Asian countries like Korea and Japan, and even in some European countries like Italy. In these countries, welfare depends heavily on the support provided by family members. As shown in Figure 3, this has had two negative effects on welfare. One is that because of the family-dependent childcare system, social

Figure 3: How family-dependent welfare system leads to vulnerable state



support for childcare has not developed well. This in turn leads to a declining birthrate, which shrinks family networks and further weakens family support. The other effect is that a family-dependent safety-net system has long made social aid for the weak and the poor unnecessary.

In this manner, the “Asian” version of family-government relations has resulted in a problematic situation. A similar problem appears with the relation between the family and the market. A low level of governmental support naturally results in either dependency on the family or dependency on the market. Here, it can be argued that the amount of resources a person can get through market distribution hinges only on how much money he or she has. This is not always true, however. Even if people have sufficient income, they cannot obtain resources from the market unless the market provides goods that have been traditionally available within the family. The more conservative a country is the less likely it is that the market will provide these domestic labor services.

## 2 Challenge of Japan: an unprecedented adversity or a paradigm of East Asia?

Although East Asian countries continue to face similar problems owing to the combination of weak family and weak governmental aid, there are important variations within them. The first difference is the impact of the economy. The second is the timing of the welfare-family crisis.

As Eun pointed out, one of the turning points of Korean family formation was the Asian currency crisis of 1997 (Eun 2003). Unemployment among young Koreans rose dramatically after the 1997 economic crisis (see Figure 4). The crisis can be understood as “shock”, since the unemployment rate recovered after 2000 but did not fall below the previous level. Following this shock, the shift from regular employment to irregular jobs has speeded up. Eun argues that this economic crisis has had an impact on marriage, too. Figure 5 shows that the proportion of single people in Korea grew a little from 1995 to 2000.

On the other hand, the unemployment rate in Japan shows different tendencies. The “shock” for the Japanese economy was not so much from globalization, but more often than not seen to be brought about by the failure of domestic control of the economy. Excessive regulation of finance after the bubble burst caused a major credit crunch. It was after this burst that Japan entered into a lengthy recession. To be sure, the crisis of 1997 affected the Japanese economy, but not to the extent of the shock felt by Korea and other East Asian countries. Figure 6 shows the movement of the unemployment rate in Japan. In Korea the rate peaked in 1998, but in the case of Japan it continued to rise until 2003, which clearly shows that the crisis of 1997 was at most just one of the reasons for Japan’s economic problems.



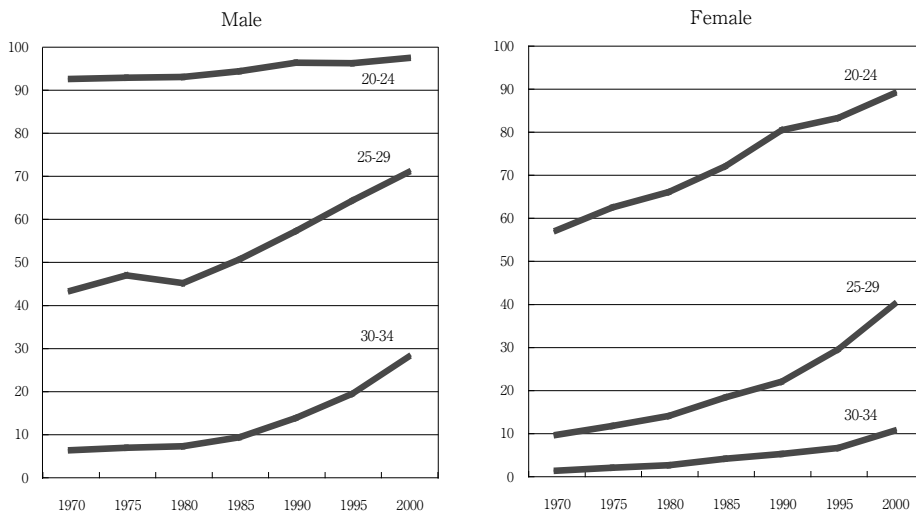
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**Figure 4: Unemployment rate of Korea**



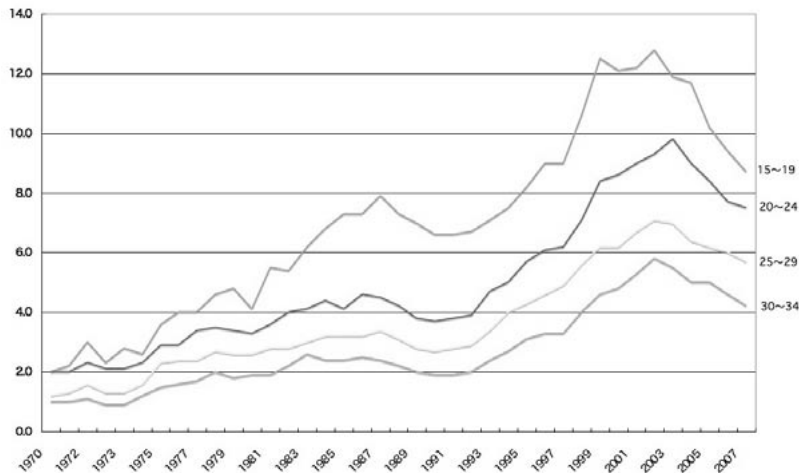
a. Graph is made by the data in K.-S. Eun (2003).

**Figure 5: Proportion of single people by age in Korea**



a. Graph based on data in Eun (2003).

Figure 6: Unemployment rate of Japan



a. Data: Japanese Labor Survey (2007)

The major global crises in recent years have mostly been financial ones. The currency crisis in 1997 was said to have been caused by the practice of short selling by hedge fund groups. The impact of the subprime mortgage financial crisis of 2007 is spreading throughout the world by the system of securitization of subprime loans. Japan's bubble burst of 1991 was of course a financial crisis, but it did little harm to other countries' economies. On the other hand, Japan's crisis and subsequent long recession is seen by the U.S. as a good negative case from which to learn how to deal with a bubble burst. A financial crisis is a typical example of uncertainty, which can only be studied by examining rare cases. This is not a "risk" which can be calculated on the basis of repeated incidents.

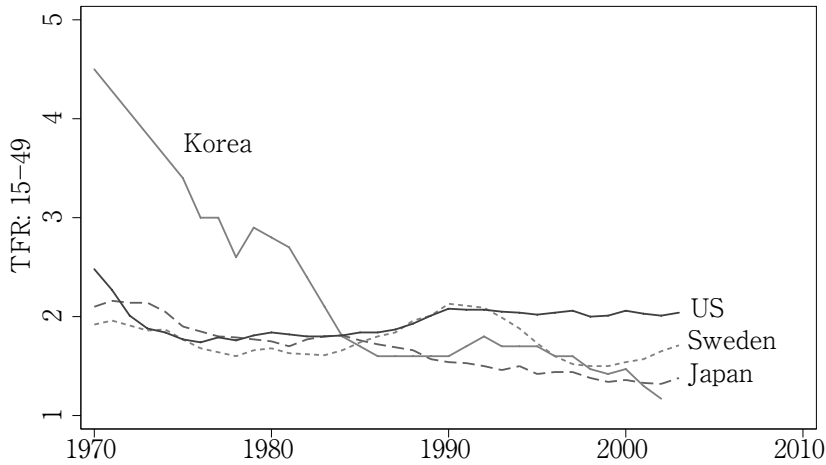
At any rate, while the hardship of Korea can be explained by the shock of the 1997 global financial crisis, Japan's decline is rooted more in structural problems. We have to be careful not to ascribe all the economic problems of East Asia countries simply to the globalized economy.

The second difference between Korea and Japan concerns movements in the birthrate. See Figure 7. The Total Fertility Rate (TFR) in Japan dropped below the replacement level in 1974 and has been constantly declining since 1984. Korea enjoyed a high birthrate of 4.5 in 1970 before it plunged into a period of steep decline. This means that Japan is already an "aged" society with 16% of population aged 65 or above, while Korea is still a "young" society compared to Japan with 7% of the population classed as aged.

Figure 8 is a scatter plot of the national contribution ratio and the aged population

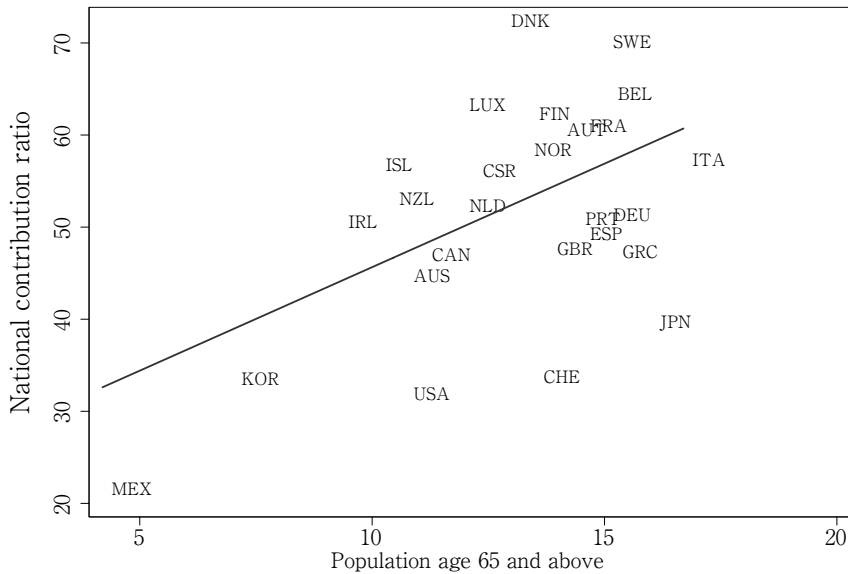
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Figure 7: The trends in total fertility rate



a. Data: UN Demographic Yearbook. Japanese data by National Institute of Population and Social Security Research.

Figure 8: Aged population ratio and national contribution ratio



a. Data: population aged 65 and above: UN, 2005, "World Population Prospects 1950-2050: The 2004 Revision", Database: Department of Economic and Social Affairs, Population Division, New York.

b. Data: National contribution ratio: OECD National Accounts 1993-2004, OECD Revenue Statistics 1965-2005.

c. Note: Line in the figure is the OLS fitted line.

ratio (population aged 65 or above) of OCED countries. This clearly shows the difficulty Japan faces now. There are few countries that have a higher ratio of aged people and few countries that have a lower national contribution ratio than Japan.

The consequences of Japan's declining birthrate are twofold. It compromises the welfare system because income redistribution from the labor population to the non-labor population gets more and more difficult. If we call this problem a macro dysfunction, the other problem is a micro one. Fewer marriages and a declining birthrate as well as an increasing number of divorces means diminishing family support. It is not a problem *if* people can provide themselves with enough reserves for the future through stable jobs. But in Japan the ratio of regular jobs has been declining and that of irregular jobs has been increasing since the 1990s. This is still not a serious problem *if* a person has reliable family members when one becomes sick, for example, , or *if* government provides ample support. But the declining birthrate might jeopardize both these safety devices. Among family sociologists in Japan, there has been a dispute over whether Japanese intergenerational support is seen along paternal lines (in which only married sons support their parents) or bilinear lines (in which both married sons and married daughters support their parents). However, irrespective of the result of this argument, given the fact that most families have only one child the Japanese family will have to be bilinear in order to make family support sustainable.

### III. Concluding Remarks

In order to cut off the vicious circle in which weak public welfare and family-dependent welfare bring about the weakening of family through declining birthrate, we have to establish a social security system that cannot be swayed by uncertain global economic shock.

This problem can be said to be a peculiar one in East Asian countries, but variation exists within those countries. Japan and Korea are both countries with low level public and family-dependent welfare. However, Japan, now facing extreme aging, has to build a sustainable redistribution system and has to abolish many regulations that defend the vested groups. This is the way where economic productivity is enhanced and the fairness is achieved.

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