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NOTE

THE ROLE OF THE PRIVATE COMPANIES IN THE FINANCING AND IN THE COST CONTAINMENT OF HEALTH CARE

—AN INTERNATIONAL PERSPECTIVE—

By Shuzo NISHIMURA*

I Introduction

What is the difference of the systems between the national health services system and the national health insurance system? After showing the difficulties of classifying these two systems, Abel-Smith [1984] contends that the national health services system 'to be seen as universal entitlement for all citizens rather than entitlement to the benefits of the main system, or different funds being determined by whether social security contributions have been paid'.

When he refers to these different funds, the most important difference is whether those are financed from the general taxes, or from contributions by employees and/or contributions by employers.

Though, in some countries like the United Kingdom, the costs of health care are mainly financed from the general taxes, most of the capitalist countries depend their health care costs on the contributions either from employers or employees. And the component of these three funds is significantly different among the countries which have national health insurance systems, as will be shown later in this note. Therefore, it might be an interesting task to inquire the effect of the difference of the contributions on the health care cost.

In a free enterprise society, to whatever extent the government intervenes in it, private companies are conscious about their labor costs. Thus there should be a significant concern about the amount of the contributions to the social security including the contribution for the social health insurance.

Labor unions also are interested in benefiting not only from direct wage payments, but from other types of compensations like sickness insurance.

However, little work is done about the international studies on the role of the private companies, both in the management side and in the union side, of the health care cost containment policies.

In this note, I will inquire, rather extensively and rather tentatively, this topic. This note consists of three parts: (1) the classification of several countries according to the difference of the contributions by employers and employees and/or general taxes

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broadly for the social security, (2) the effect of the difference of this component on the health care cost and on the overall economic performance, and (3) specific brief case studies on the role of the private companies in the United States and in Japan of the health care cost containment.

My tentative conclusion is this: though private companies, especially on the management side, would want to contain the health care costs, their various efforts seem to be unsuccessful. If the private companies, both on the management side and on the union side really want to contain the health care cost, they should accept the national health services systems, or they should at least establish more powerful unifying organization which reflects the voice of the companies.

Because of the lack of information, my conclusion is still at the level of the conjecture. However, I think this paper at least shows what each country can learn other countries' experience.

II Labor Cost and Financing of Social Security

Historically, originating from the Bismark's policy, most of the Continental European countries have been collecting the social security funds from the private companies as their contributions, contrary to the countries like the United Kingdom and Nordic countries which have been collecting social security funds from the general taxes.¹⁾

Nowadays, however, private companies expense significant amount of non-cash benefits to their employees in any country. Non-cash benefits consist of the following items: old age pension, sickness insurance, unemployment insurance, and allowances such as housing allowances and family allowances.

In order to know the role of the private companies in financing health care cost, it will be helpful to inquire their contributions for social security as whole. The reason why this work is done in this paper is partly because there are not enough data available for the share of the contributions for health care by private companies with comparable sizes of country samples.

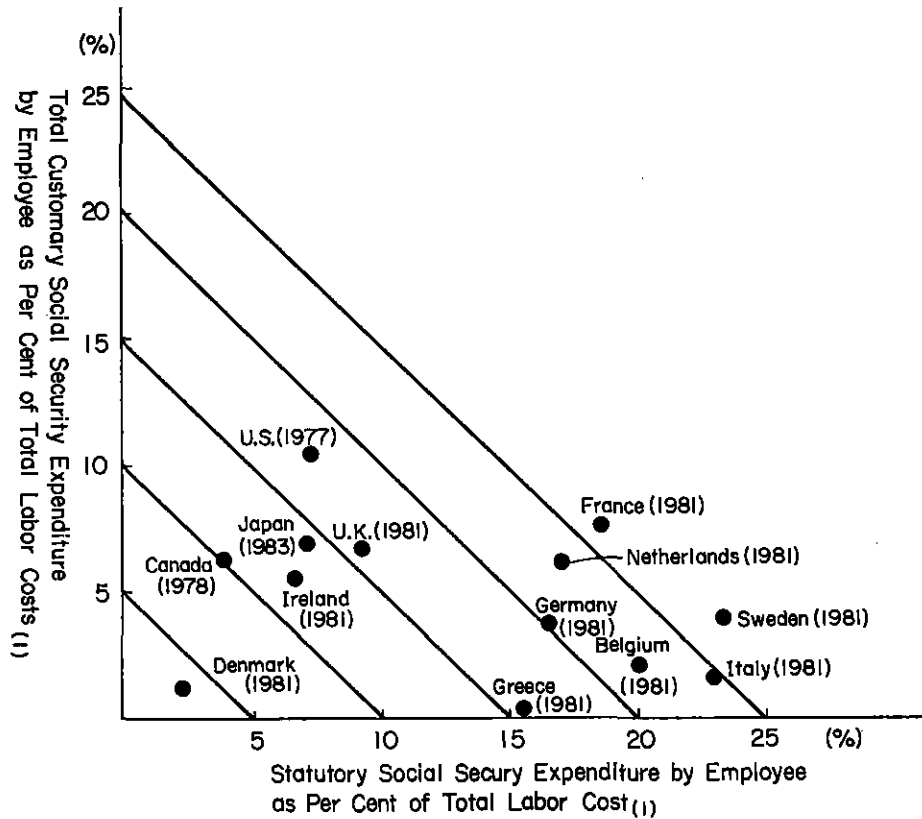
When we look at this non-cash benefits, it is important to distinguish the statutory/obligatory benefit from customary/voluntary benefits (the reason of which is explained later in this section). Therefore, Figure 1 shows how the companies expend such benefits as a percentage of their labor cost by distinguishing this difference. On the horizontal axis, the total statutory social security expenditure by employee as a percentage of total labor costs is shown. And on the vertical axis, the total customary social security expenditure by employee as a percentage of total labor costs is measured. Therefore negative 45 degree slope indicate the degree of the sum of these two categories.

Among the OECD member countries, it is clear that in most of the Continental European countries, private companies expend the considerable amount of non-cash benefits to their employees.²⁾ Meanwhile, in the United States, Canada, the U.K., and

1) Denmark is an exception.

2) More detailed studies on this issue are found in Hart [1985].

Fig. 1. Structure of Labor Costs as a Percent of Total Labor Costs (1)



- (1) The definitions for the total labor costs, the total customary social security expenditure, and the total statutory expenditure are on the basis adopted in the EC survey shown below. However, the source of data for the U.S., Canada, and Denmark are from U.S. Statistics shown below. As for Japan, the data are from Japanese statistics shown below. Data are for workers in manufacturing industries with 10 or more employees, in principle. However, in case of Belgium, it is for workers with 50 or more employees and in case of Japan, it is for workers with 30 or more employees.

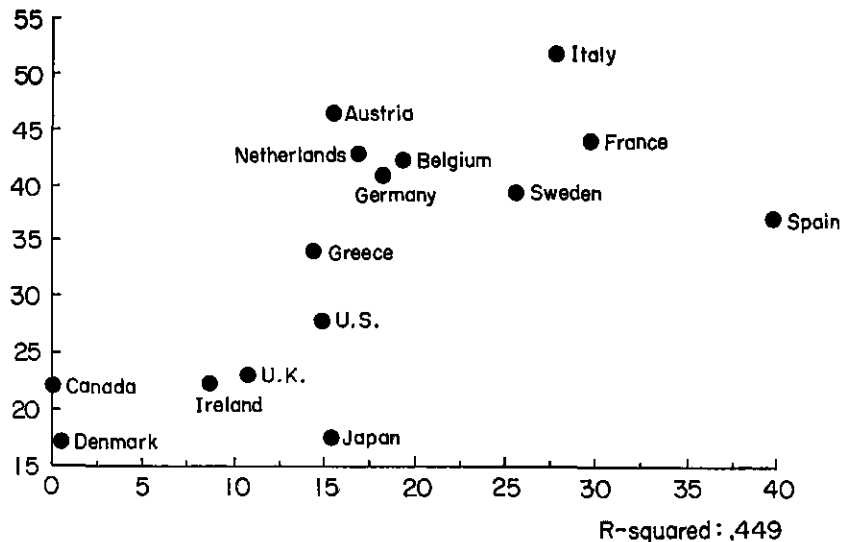
Source: For EC countries except for Denmark, Statistical Office of the EC, *Labor Costs, 1981-1983*. For the United States, Canada, and Denmark, U.S. Dept. of Labor, *Handbook of Labor Statistics, 1985*. For Japan, Japanese Ministry of Labor, *Survey of Welfare Facilities System for Employees, 1983*.

Japan, private companies dispense with lesser amount of statutory non-cash benefits.

It is, however, interesting that in countries other than Continental European countries, private companies expend a considerable amount of customary/voluntary benefits to their employees.

Since it seemed that the relatively high labor costs in Continental European countries have negative effect on the productivity growth, many researches have been done about

Fig. 2. Social Charges as a Percentage of Wage Costs and Employees' Contributions as a Percentage of Total Compulsory Charges in Selected OECD Countries⁽¹⁾



(1) Social Charges as a Percentage of Wage Cost as of 1979 and Employees' Contributions as a Percentage of Total Charges as of 1978.

Source: Institute der Deutschen Wirtschaft (IW): *IW-Trends 1980* (Cologne, 1980); OECD: *Revenue Statistics of OECD Member Countries, 1965-79* (Paris, 1980). Cited in International Labor Office, *Financing Social Security: The Options: An International Analysis*, (Geneva, 1984).

the relationship between the extent of the labor cost and the productivity growth.

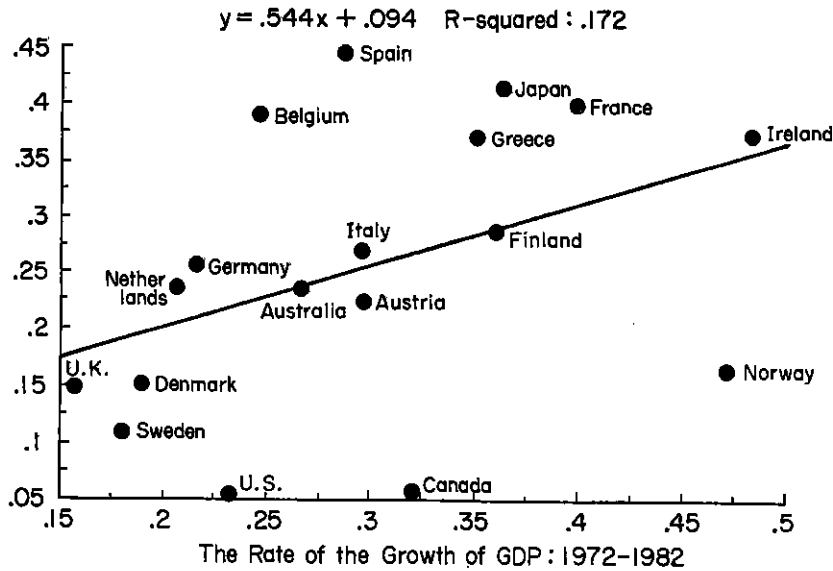
Incidentally, these researches seem to be motivated also by the purpose to inquire the fairness of the competition in the international trade. That is, when we argue the fairness of the competition in the international trade, we often compare the direct payment of wages in different countries. In this respect, Continental European countries, by being neglected the amount of the non-cash benefits, are misguided that their companies pay less amount of wages.

However, according to several studies, higher compulsory social security contributions by employers do not necessarily lead to the higher labor costs. For example, A. Euzeby and C. Euzeby [1984], by inquiring the statistical data among 16 OECD countries, indicate as follows. '[T] here is no correlation between total labour costs and the share of the social charges of an enterprise represented by these costs or by employers' contributions in compulsory charges taken as a whole.' Part of their findings is shown in Fig. 2.

Their main conclusion as well as more specific detailed study by Hart [1985] is quite suggestive in the evaluation of the financing of social security system.³⁾ When in the

3) Hart [1985] compares the difference of the component of labor costs with respect to the United States, the United Kingdom, Germany, and Japan.

Fig. 3. The Relationship between the Rate of Growth of the Compensation per Employee and the Rate of Growth of the Gross Domestic Product in Selected OECD Countries, 1972-1982. (1)



(1) GDP is deflated by the GDP deflator. Therefore it is measured in the real term. Compensation per employee is also in the real term.
Source: OECD, *Measuring Health Care: 1960-1983: Expenditure, Costs and Performance*, OECD (Paris, 1985)

countries like the U.K. and Denmark, labor costs are relatively lower, their countries, on one hand, have to increase the general tax rate in order to maintain the social security system.

On the other hand, in the countries which have relatively higher labor costs, private companies are urged to adopt capital-intensive technology. Therefore in these countries, labor productivity per workers becomes higher and, as a result of it, the overall rate of growth of the national economy performs well.

Meanwhile, voluntary/customary contributions play the different role in the relationship between social security expenditure and overall economic performance. Since these contributions are not, by definition, statutory, they are, in general, influenced by the economic fluctuation. Though the rigorous analysis is not done, this can be seen partly in Fig. 3. During 1972-1982, when most of the industrialized countries suffered from the economic recession, workers' compensations heavily influenced from the lower rate of the economic growth, with the exception of the case in Japan the United States and Canada suffered from the relatively lower rate of growth of worker's compensations.⁴⁾

4) GDP may not be a suitable measure when we judge about the ability of financing social security and of paying workers. For instance, in Japan, the growth rate of GNP is relatively higher than that of GDP, because her GNP heavily depends on exports. Therefore, we should be careful in judging this result.

III Economic Growth and the Health Care Cost

In the preceding section, as a prerequisite for the analysis of the relationship between health care cost and the overall economic performance, I investigated the relationship between the social security cost and the overall economic performance.

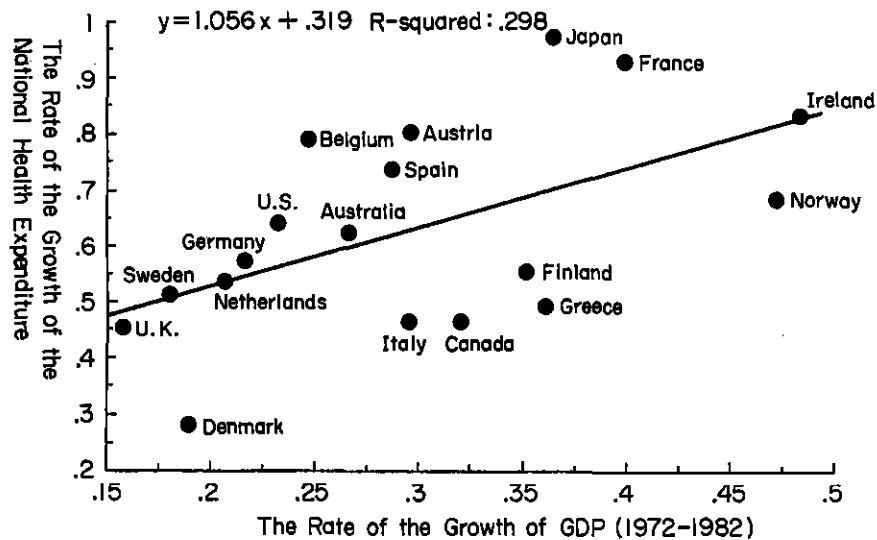
One of the most important points which I tried to show in the preceding section is that even the mandatory contributions by the employers for the social security cost do not have the adverse effects both on the national economic performance and on the workers' compensations.

If, however, we keep in mind the cost containment in the health care, the problem become much complicated. Although, in the case of the pension, the increase of it will directly lead to the increase of the welfare, the increase of the health care benefits does not necessarily mean the increase of the welfare of workers.

However, we can safely conclude from Fig. 4 and Fig. 5 that the United Kingdom, Canada, and the Nordic countries have more 'effective' measure to containing health care costs. These countries perform relatively lower growth rate of health care expenditures.

Here, I do not necessarily intend to use the 'effective' as a favorable term. The term 'effective' might be interpreted as 'powerful'. The reason why these countries have a powerful measure to contain health care costs is quite clear. It is from the general taxation that these countries finance for the cost of health care. In an era of lower

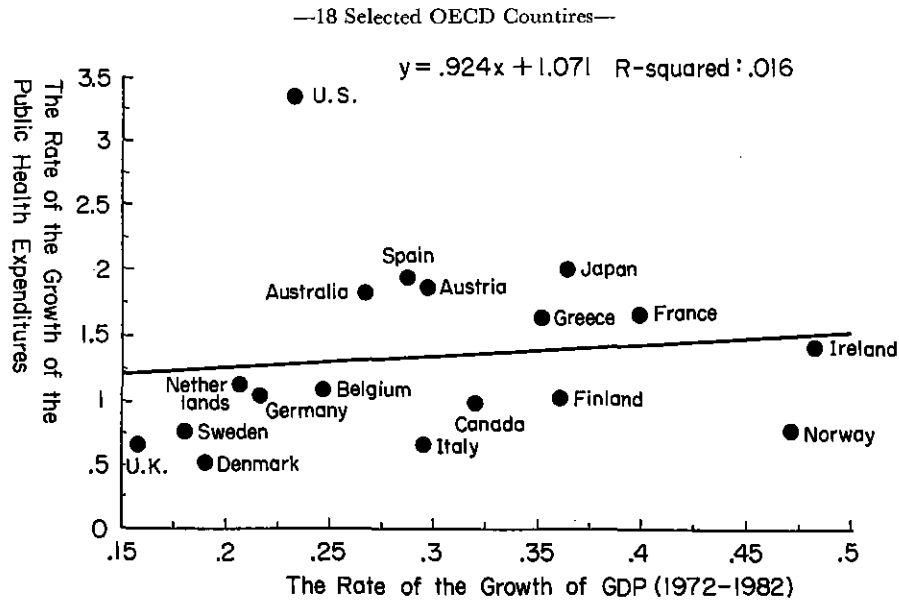
Fig. 4. The Relationship between the GDP Growth Rate and the Rate of the Growth of the National Health Expenditures: 1972-1982. (1)



(1) See footnote on the Fig. 5.

Source: OECD: *Measuring Health Care; 1960-1983*, OECD (Paris, 1985)

Fig. 5. The Relationship between The GDP Growth Rate and The National Health Expenditure Growth Rate: 1972-1982. (1)



(1) GDP (Gross Domestic Expenditure) is deflated by the GDP deflator. Therefore, it is measured in the real term. Since deflators for the health care expenditures are not available for all OECD member countries, public health expenditures are also deflated by GDP deflator.

Source: OECD, *Measuring Health Care: 1960-1983*, OECD (Paris, 1985)

economic growth, this resource is so scarce that it seems easier to form national consensus to contain the public expenditure for health.

On the other hand, in the countries whose financial resource owe mainly to contributions by employers, the government seems to play as a mediator between the private companies and health professional's society. Since private companies have another measures to avoid the increase of the labor costs, their voices and incentives to contain health care cost might be weaker when we compare the situation in tax-financing countries.

Here 'another measures' mean (1) substitution from labor to capital and (2) much eager persuasion from the management side to labor unions on the 'crisis' of social security.

It appears to me that this second measure is important for the national economic efficiency. That negotiations are done about the social security at the company level implies those countries have decentralized adjustment mechanism for forming the national consensus about social security.

Since resources by general taxation can be used to more diversified and discretionary purposes (like defence expenditures) other than welfare expenditures, cut of the welfare expenditure from general taxation makes people feel unreliable on the government.

As a conclusion, statutory contributions by the companies for the social security seem to be more flexible measure when we compare with the financing of social security by general taxation.

However, voluntary/customary contributions have different functions. As we can recognize from several figures (scatter diagrams) which I showed in this paper, the United States and Japan are positioned as outliers. In these countries, the share of voluntary/customary contributions plays the significant role in several ways.

In the next section, I will consider the role of voluntary contributions by examining these two countries as case studies.

IV Voluntary Contributions as a Measure of Health Care Cost Containment

Though both statutory contributions and voluntary contributions by employers are accounted for the labor costs, their economic functions seem to be quite different. For the understanding of this, it might be interesting to review the long-lasting controversy in the Japanese labor movement.

For the labor movement in Japan, voluntary contributions by employers was a double edged knife. Needless to say, for each labor union, to accept the voluntary contributions was favorable in the interest of it. However, as a national labor movement, this brought about the difficulty to the solidarity of unions. Because only employees who are hired at affordable companies could live with it.

Voluntary contributions, by its nature of voluntariness seemed to contribute to widen the relative deprivation of workers. Of course, on the management side it was a effective measure to attract the skilled workers. As Hart [1985] indicates, non-cash benefits play as a measure of attracting skilled workers in any country.

However, there was another hypothesis about this in the labor movement in Japan. Leaders of the labor movement in Japan who were from skilled workers contended that better welfare for the skilled workers will, soon or later, penetrates into the less skilled workers.

Their justification of this can be interpreted in a following way: if skilled workers get higher standard of welfare, they will work hard and contribute to the higher economic growth at the macro-level. This will contribute to the higher standard of the welfare at the national level.

Though I do not assert it conclusively, the latter hypothesis seemed to have accrued to be true in Japan. In case of national health insurance system, this seems to have had the same result. Japan has two-tier health insurance system. One is managed rather independently by large companies. And that system financially supports the health insurance system for the self-employed and elderly people.

However, from the view point of cost containment, Japanese system seems to be less effective. At the same time, the U.S. system also seems to fail to manage this.

Recently, in the United States, many private companies are eager to contain the health care costs for the purpose of reducing the labor costs. Some companies even adopt prevention measures like what is done in Japanese major companies.

However, these efforts are doubtful at least for the purpose of containing the overall health care costs. This lesson can be learned from Japanese experience.

Instead, Japanese companies are weighing on collective bargaining to the health professionals society. This effort also is what they learn from European experience.

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