Annals of Social Sciences & Management Studies
ISSN: 2641-838X

Juniper Publishers
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Opinion
Volume 9 Issue 4 - October 2023
DOI: 10.19080/ASM.2023.09.555768

Ann Soc Sci Manage Stud

Chain Intervention: Social Security System from Economics

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Submission: October 20, 2023; **Published:** October 30, 2023

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Abstract

This short opinion paper discusses about economical limitations of social security systems or welfare states. We focus on the common logic over welfare states, rather than categorize them. The start points are public assistances, based on right to life, and public health insurance, led by market failure. Public pension system, long-term care policies and some part of education subsidiaries are led by them. This result has some insight on discussion about reforms of social security systems in developed countries and introduction of Patient Protection and Affordable Care Act, or Obama-Care. By contrast, unemployment insurances has not economical relations, or are independent from the viewpoint of this paper.

Keywords: Public health; Economical; Social Security; Market; Political science; Sociology

Relations between Institutions

Until now, the theme of the \welfare state" has been mainly treated in political science and sociology. The purpose of this paper is to provide knowledge from economics in this regard. In economics, although there is a eld called \new institutional economics," it refers to repeated patterns of behavior of economic agents, then \Institution" was understood as the equilibrium of game theory[1]. Here, we will consider what is commonly discussed in the social sciences as "institutions." We then use the theory of economics to clarify how one system conditions another. By doing this, We will clarify the common logic of welfare state, which have been traditionally focused attention on their differences. Here, what is inevitably born in developed countries from the relationships between these institutions is referred to as a \ welfare system."

Public Assistance and Public Pension System

Public assistance systems exist in almost all developed countries. Countries such as France, Italy, Japan, and Spain have provisions for the right to life in their constitutions. This is the legal basis for the public assistance system. On the other hand, although the right to life is not explicitly stated in the constitution like in the United Kingdom and the United States, public assistance is allowed. The existence of public assistance itself is considered self-evident in developed countries. There seems to be little debate about the basis for this.

Public pension systems are also observed in many developed countries. In most countries, pension benefits are proportional to the insurance payment period and insurance fee, but in the United States, the amount of benefits is decreasing. The ratio of the average pension benefit to the average income of the working generation is called the replacement rate. This is often around fifty percent.

The reason for the introduction of public pension systems is often cited that the population continues to age in developed countries, and, even in countries where older people and working-age people often lived together, the rise in the number of nuclear families. However, from an economics perspective, if we consider a life cycle model, it seems natural for rational economic agents to save in anticipation of their retirement. Of course, because the actual progress of aging is brought about by a unexpected rapid decline in mortality rates and an increase in life expectancy, it is highly likely that real economic agents could not have predicted them. In fact, most public pension systems are operated on a pay-as-you-go basis. There is no doubt that there was an advantage in being able to pass on the burden to the next generation even if the pension insurance premiums were not sufficient from the \ initial old." With the trend of welfare reform since the 1980s, the public pension system has undergone some changes. However, the reforms are only partial, such as raising the benefit age to

[1]See North [1].

reflect the aging of the population. In economics literature, the privatization of the public pension system has been discussed, but this can only be described as a theoretical theory.

The reason is that there is a public assistance system. Suppose we completely abolished the public pension system. Of course, those who earn a lifetime income above a certain level, as life cycle theory predicts, people are likely to save money for retirement. However, for those whose lifetime income is below a certain level, it might be rational to spend all their income on consumption during their working years and rely on public assistance after retirement. In other words, without a public pension system, the public assistance system's finances are expected to be under significant pressure. For this reason, governments must enforce some form of savings.

Public Assistance, Public Education and Job

Training for the Unemployed Public provision and subsidies for education can be partly justified using the same logic as the public pension system. In many developed countries, around nine to twelve years of education is compulsory, and in some countries, tuition fees are virtually free not only for upper secondary education but also for higher education. Economic analysis has discovered the economic importance of secondary education[2], although primary education is taken for granted. Of course, if primary and secondary education is not publicly

provided, there will probably be a certain number of economic population that do not require it. It is easy to imagine that their incomes will be lower and they will become recipients of public assistance. In reality, even in countries where primary and secondary education is publicly provided, some groups that drop out from these education are targeted by various social policies for such as unemployment and crime. Of course, education has various values, and is not provided publicly based solely on economic logic. However, this is considered to provide a minimum guideline. A similar argument can be made in the public vocational training system for the unemployed.

Public Medical System

The public medical system is another starting point for a \ welfare system". The economical basis for its introduction has traditionally been said to be \market failure" such as adverse selection and moral hazard[3]. In recent years, behavioral economics arguments have also been used. In any case, the public medical system is fully acceptable from an economic standpoint. However, it is important to be aware of the limits of what economic theory recognizes necessary policies as a countermeasure for market or individual failure. First, adverse selection only justifies compulsory enrollment in health insurance. If the government sets certain standards, private sector can provide insurances that meets government requirement The problem of moral hazard cannot be solved by government intervention. The issues in behavioral economics are wide-ranging, so it is difficult to evaluate them. However, it seems that there are many cases where compulsory enrollment in insurance is the only justifiable intervention.

Once again, the existence of public assistance is one of the reasons for compulsory insurance enrollment. If an economic agent who does not have medical insurance for some reason becomes seriously ill or injured, they might not receive appropriate medical care. In such cases, the situation may worsen to the point where it cannot be undone, resulting in a significant drop in lifetime wages. In that case, public assistance might end up bearing the burden.

The burden of medical care becomes heaviest in old age. If there is no public medical system for the elderly, the public pension system may partially lose its meaning. Even if the public pension system secures income in retirement, if a person develops a serious illness and the treatment costs are enormous, they will end up bankrupt and receiving public assistance. Here, this assumes that recipients of public assistance are also exempt from medical expenses.

Long-term Care and Public Health

Regardless of whether they are public insurance or a government finance, many developed countries have some form of public long-term care policies. From the standpoint of market fundamentalism, this raises the question of why the private insurance market does not respond to the risk of long-term care. Of course, long-term care insurance itself can have adverse selection and moral hazard problems. However, at the same time, a logic similar to that of the public pension system also operates. This can be easily seen by looking at the case of the United States, which does not have a public long-term care system for all population. Elderly people with low assets will stay in private nursing homes as long as they have money. When they run out of assets, they spend their later years in nursing homes. In other words, in the end, the entire amount will have to be paid out publicly.

Furthermore, in many countries, long-term care benefits do not only support the lives of elderly people with declining functional abilities, but also preventing care-takers from worsening further and suppressing the need for further nursing care benefits, Maintaining good health also helps to curb increases in public medical expenses. However, even among developed countries, there are countries where the public long-term care systems is not large enough. This is because the long-term care benefit is only a living assistance. Then this is probably because the long-term care system itself and other systems have a weak effect on reducing the number of beneficiaries.

[2]See Hall, Jones [2] and Sala-i-Martin [3].

[3]See Cutler, Zeckhauser (2000).

How to cite this article: Miyazawa K. Chain Intervention: Social Security System from Economics. Ann Soc Sci Manage Stud. 2023; 9(4): 555768.
DOI: 10.19080/ASM.2023.09.555768

A similar role can be seen in public health policy. Government intervention in public health is justified due to its huge externalities. However, in part, it can be thought that it plays a role in lightening the financial burden on the public medical system and public long-term care system.

Welfare Reform and Obama-Care

Now, let's take a look at how welfare reforms that have been underway since the 1980s and Obama-care in recent years are evaluated from the perspective of the welfare system. Of course, assessing the magnitude of the impact of welfare reform will depend on each analytical framework. However, from the perspective of the welfare system, it was not very significant. Of course, part of the reason is that even if we try to reduce public insurances, which is operated on a pay-as-you-go basis, benefits cannot be reduced for those who have already paid premiums, A major reason for this is that short-term fiscal restructuring effects could not be expected. However, as discussed in this paper, even if benefits are reduced in some institutions, benefits in other systems will increase. On the other hand, the United States appears to be moving toward universal health insurance, despite strong opposition from conservatives. Of course, this is due to the importance of values such as equality and fairness in American society. However, this reflect the fact that people who are not enrolled in public health insurance might worsen their medical conditions, lose their human capital, permanently reduce their income, and become a burden on public assistance, and that it is necessary to prevent people from becoming a burden on the elderly medical care system in their old age.

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