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# Can formal elderly care stimulate female labor supply? The Japanese experience



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### ABSTRACT

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This study analyzes the impacts of the Japanese Long-Term Care Insurance (LTCI), a decade after its launch, with respect to the female labor supply in Japan. The radical program has caused the emergence of markets for various care services apart from permanent institutional care, which is only a major formal care sector in many developed countries. The availability of various formal care services can stimulate female labor supply through a reduction of the burden of informal caregiving. To investigate the impacts of the LTCI, we compare the labor market behavior of females who face requirements for elderly care in their household for three periods—before the launch of the LTCI, four years after the launch, and ten years after the launch. Our empirical analysis indicates positive effects of the launch and diffusion of the LTCI on female labor supply. As a result of the LTCI, care for male elders is no longer an obstacle for female labor supply, but care for female elders is still burdensome. We also find that the care requirement reduces the probability of being a regular worker; however, regular workers are more likely to utilize formal care, whereas many nonregular workers provide informal care by themselves. *J. Japanese Int. Economies* **34** (2014) 98–115. University of Tokyo, 7-3-1 Hongo, Bunkyo, Tokyo 113-0033, Japan; Nihon University, 12-5, Gobancho, Chiyoda, Tokyo 102-8251, Japan.

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## 1. Introduction

To address the issue of the world's fastest population aging, the Japanese government established a radical program called the Long-Term Care Insurance (LTCI) in 2000. This study attempts to globally publicize the unique Japanese experience, because many other countries may also encounter an explosion in demand for elderly care in the near future. Our study investigates who the LTCI has affected and how much. Specifically, we concentrate on the effects of the LTCI on female labor supply, which is one of the program's main targets under the slogan of "Socialization of Care."

"Socialization of Care" is a policy objective that claims the release of women from the severe burden of voluntary caregiving for coresident elders, which the LTCI does by presenting a market-oriented solution. Specifically, the LTCI does not provide cash allowance for informal caregivers, but covers only purchased service cost through formal sectors. This policy has created a large consumer demand for formal care and new markets have emerged for various services such as home care (*houmon kaigo*), day care service (*tsuusho kaigo*), and short-stay care (*tanki nyuusho kaigo*).<sup>1</sup>

The existence of these service markets differentiates Japan from many other developed countries in which institutional care for permanent living comprises only a major formal care sector.<sup>2</sup> In these countries, because informal family care is the only available method of dealing with coresident disabled elders, care requirements generally reduce the labor supply of their household members. Several studies such as Carmichael and Charles (2003), Heitmueller (2007) and Heitmueller and Inglis (2007) have empirically found this negative effect and suggested the expansion of formal care provisions as a policy option for stimulating the female labor supply. The Japanese situation provides an existing example of such a policy.

Because of the industrialization of the care service sector, Japanese families have access to many methods of managing elderly care, which might affect their labor market behavior. As proposed by Carmichael and Charles (1998), under a standard utility maximization model for individual household members, care requirements can have either positive or negative effects on the working status of an individual. A negative effect is the substitution between care and work under a time constraint. On the other hand, a positive effect is that people increase their labor supply to manage care costs. Such a positive response has barely been found in previous empirical studies using European and American data. However, because of the existence of formal care services, this positive effect may be more dominant in Japanese households.

Our study aims to measure the impacts of the social insurance for elderly care. Similar to the preceding program in Germany,<sup>3</sup> the LTCI has been continuously revised to balance costs and benefits under the unstable social condition caused by aging. For example, based on the discussion in a government panel called the National Council on Social Security System Reform (*Shakai Hoshou Kaikaku Kokumin Kaigi*), the government is currently planning to exclude elders with lesser care requirements from LTCI coverage. However, because of the lack of empirical studies, it is not clear who will be influenced by such a reform or to what extent.<sup>4</sup>

In this study, we consider the influence of the LTCI on the labor market behavior of the spouses of the sons of coresident elders. In Japan, before the launch of the LTCI, daughters-in-law were the typical caregivers. Although coresidence of elders and their daughters has become less frequent today, an investigation of the labor supply of coresiding daughters-in-law is a simple and natural method of evaluating whether the LTCI has achieved its policy objective. We estimate the effects of care requirements on the probability of employment and working hours of coresiding daughters-in-law. To consider the effects in greater detail, we estimate the switching regression model for the working hours of regular and nonregular workers.

<sup>1</sup> For English translations of Japanese legal terms in the LTCI, we referred to Sumii and Sawada (2012).

<sup>2</sup> Many countries have formal sectors for home care and day care services, but their market volumes are limited. Bolin et al. (2008a) analyzed home care sectors in European countries.

<sup>3</sup> See Campbell et al. (2010) for details of previous reforms of the social insurance program in Japan and Germany.

<sup>4</sup> With regard to the choice of program coverage, Häcker and Hackmann (2012) investigated the German program.

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