

# The Working Poor, Borderline Poor, and Developments in Public Assistance Reform\*

*Kohei Komamura*  
Keio University

## I. Introduction

When at last Japan entered a period of recovery following the prolonged recession in the wake of the collapse of the bubble economy, there was an immediate burgeoning of interest in issues such as disparities in income and the working poor. Two of the main factors behind these developments were the poor working conditions of contingent workers, who grew in number during the long recession, and the rise in the number of older people on low incomes with population aging. However, the two issues of income disparity and poverty often tend to be conflated.

OECD estimates indicate that there is a strong correlation between the extent of disparity in income measured by the Gini coefficient and the poverty rate based on deviation from median income.<sup>1</sup> It might seem, therefore, that income disparity and poverty might be dealt with in the same way. In the discourse on specific policies, however, interpretations of disparity in income and poverty differ.

Regarding income disparity, some argue that those who work harder should be rewarded for their efforts and that a certain degree of disparity is acceptable. Nonetheless, there are probably few who would actively welcome an increase in the number of people whose standard of living is below the public assistance level that is the guaranteed minimum standard of living; in other words, an increase in the number of people in poverty.

There is also a tendency for income disparity and poverty-related issues to generate media interest that not infrequently leads to their becoming part of the political agenda.<sup>2</sup>

---

\* I would like to thank the participants and all concerned in the “Japan’s Future and the Income Security System” workshop hosted by the Foundation for Workers’ Welfare and Cooperative Insurance (Zenrosai Kyokai) and chaired by Professor Takahiro Eguchi of Tsukuba University, whose insights helped shape this paper.

<sup>1</sup> OECD, *Society at a Glance: OECD Social Indicators 2005 Edition*.

<sup>2</sup> In Japan, these issues are often discussed as political issues arising from the policy of deregulation pursued by the Koizumi administrations. A similar trend may be observed

In addition to this superficial discourse, debate is also advancing concerning how the social security system and labor policy should tackle the growing disparity in income and the rise in the number of poor, and there is particular interest in reform of the public assistance and minimum wage systems. One particularly effective way of reducing the working poor would, of course, be to enhance the public assistance system, raise the minimum wage, and strengthen these systems' operation. Due to severe financial constraints, however, there is a strong argument for streamlining the public assistance system and lowering the assistance level. Against the backdrop of fierce global economic competition, there is also strong resistance, particularly among businesses, to raising the minimum wage.

The public assistance system, which by acting as a guide to minimum income serves as a reference point for the minimum wage, has remained largely unchanged in its basic design since its institution. A 15% reduction in real terms in the future benefit level of the basic pension owing to the constrained state of pension finances following reforms to the pension system in 2004, however, has reversed the level of the basic pension and public assistance benefits and, with the gap between the two widening, the social security system as a whole is losing its consistency.

The rise in the number of young people who are not in education, employment and training, dubbed "NEETs," and also the number of atypical workers who form the core of the working poor is leading to an increase in "borderline" households that, though not in receipt of public assistance, exist in a similar state of poverty. The need for a policy response targeted at households with members capable of working is rising, and the traditional system of comprehensive, uniform public assistance centered on cash benefits needs to be reformed.

In order to consider what kind of policy response is required to tackle poverty of this kind, it is necessary first to clarify our definition of the working poor, whether in terms of low-wage workers from the point of view of labor and employment issues, or in terms of the borderline poor from the point of view of income security issues. In this paper, we examine the income security system for working households in poverty—i.e., the working poor and borderline

---

in other countries, and findings regarding the extent of the income disparity and number of people in poverty vary widely according to the definitions and statistics employed.

poor—from the point of view of reform of the public assistance system and consistency with the minimum wage system.

## II. Analysis of Working Poor and Borderline Poor

### 1. Who Are the Working Poor?: An International Comparison

Exactly who constitute the working poor is not very clearly defined, which means that it is necessary to clarify how much work one has to do to be “working,” and how poor one must be to be “poor.” Definitions and concepts have to be adjusted and compared regarding whether the concept of the working poor covers simply low-income workers or the borderline poor left out of public assistance despite living on a working income on or below the public assistance standard; whether on a household basis or an individual basis; and adjusting for household size.

On the European Foundation for the Improvement of Living and Working Conditions’ website,<sup>3</sup> for example, which gives the proportions of the working poor according to individual developed counties, there can be found a careful comparison of statistics and definitions (of the poverty line, working situation, and working hours) used by each country to estimate the working poor (see Table 1). Based on analysis of this kind, working poor rates are estimated by Eurostat according to a common measure (see Table 2).

The 60% of median income used by Eurostat as a common relative poverty line provides an effective measure for assessing the performance of the social security systems, labor markets, and policies of the EU’s members, having comparatively homogenous income security policies. Where social security systems differ significantly, however, as in Japan and United States, no more

---

<sup>3</sup> <http://eurofound.europa.eu/>. For national and comparative analyses of the working poor in EU states, see “Low-wage workers and the ‘working poor’” and “Working poor in the European Union (report)” accessible at the above website, where estimates of the working poor in the United States are also reported. Official estimates of the working poor in the U.S. differ according to how work status is defined: workers are defined as people working at least 1 week in a year by the Census Bureau, and at least 27 weeks in a year by the Bureau of Labor Statistics. As a result, whereas the proportion of working poor is 5.8% of individuals and 7.1% of households according to the Census Bureau, the respective proportions according to the narrower definition of the workforce used by the Bureau of Labor Statistics are 5.3% and 6.6%. (See U.S. Department of Labor Bureau of Labor Statistics, *A Profile of the Working Poor* [2000, 2004].)

**Table 1. Developed countries' definitions of the working poor**

Country	Statistics	Workers covered	Poverty line
EU	Eurostat	Persons working at least 15 hours per week	Income of less than 60% of median income in each country after adjustment for household size on an equivalence scale
France	Institut National de la Statistique et de l'Économie (INSEE) - Academics National Action Plan for Social Inclusion 2001-2003/2003-2005	Individuals involved at least 6 weeks annually in the labor market (including working and job-hunting)	Income of less than 60% of median income in each country after adjustment for household size on an equivalence scale
Belgium	National Action Plan for Social Inclusion 2001-2003/2003-2005	Individuals involved at least 6 months annually in the labor market (including working and job-hunting)  Persons working at least 6 months	Income of less than 60% of median income in each country after adjustment for household size on an equivalence scale
Switzerland	Swiss Federal Statistical Office	All working people regardless of hours worked	Government-defined adjusted unit benefit (adjusted according to standard housing costs and social insurance contributions)
	Academics	Full-time workers working at least 36 hours weekly  Persons involved in labor receiving income at least 40 hours weekly	
United States	Census Bureau	Working hours of family members sum to at least 1,750 hours (44 weeks annually)	Federal poverty line
	Bureau of Labor Statistics	Individuals involved in the labor market for at least 6 months (27 weeks) in a year (including working and job-hunting)	
	US researchers in general	Adults working at least approximately 1,000 hours	Poverty lines set at 125%, 150%, and 200% of the federal poverty line
Canada	National Council of Welfare (NCW)	Workers and self-employed whose wages and other compensation account for at least 50% of family income	Poverty line (monetary base) set by Statistics Canada
	Canadian Council on Social Development (CCSD)	Adult persons in employment working at least 30 hours weekly and part-time at least 49 weeks annually	Poverty line set by CCD
	Canadian Policy Research Networks (CPRN)	Full-time workers throughout the year	C\$20,000 per year
Australia	Social Policy Research Centre	Working individuals regardless of hours worked	the Henderson absolute poverty

Source: European Foundation for the Improvement of Living and Working Conditions, *Working Poor in the European Union (report)*. (<http://eurofound.europa.eu/>).

**Table 2 Proportions of working poor in EU states**

	Poor as percentage of all employees (%)
Austria	6
Belgium	6
Denmark	4
France	7
Germany	10
Greece	9
Ireland	6
Italy	10
Luxembourg	8
Netherlands	7
Portugal	5
Spain	9
United Kingdom	7
13 countries overall	8

*Source:* European Foundation for the Improvement of Living and Working Conditions, *Low-wage Workers and the "Working Poor"* (<http://eurofound.europa.eu/>).

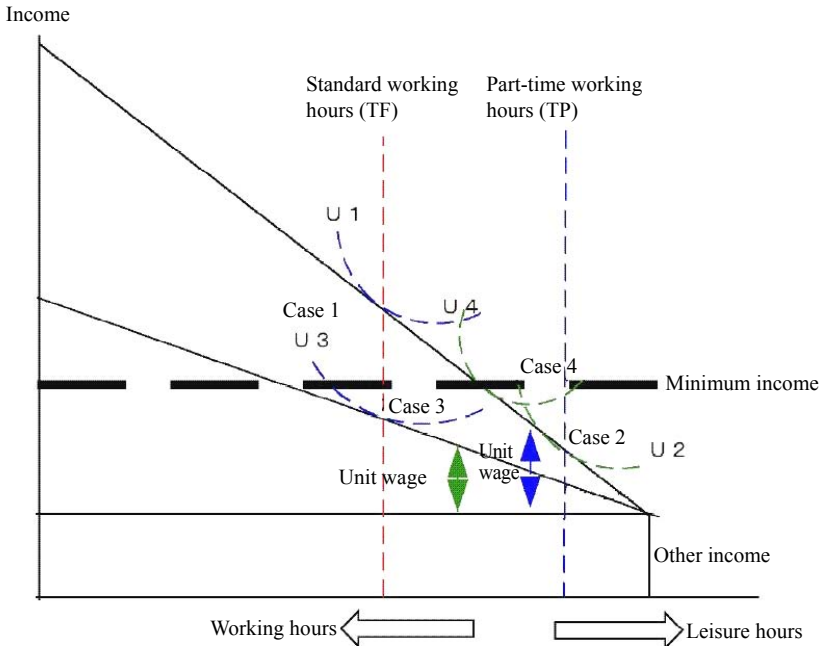
than simple international comparisons are possible, which makes it difficult to draw out clear implications concerning specific problems with income security and public assistance systems as they stand at present. In order to analyze the efficacy of income security systems from a policy point of view, it is, rather, necessary to ascertain the state of poverty starting from the poverty lines established by government policy in each country.<sup>4</sup>

## 2. Definition of Working Poor and Income Security Policy

From the point of view of labor economics, the relationship between the working poor and labor policy and income security policy may be depicted as shown in Figure 1, in which leisure hours (workers' disposable hours less working hours) are plotted on the horizontal axis and income on the vertical axis. The curve  $U_i$  is the indifference curve for income and leisure. Income level A-A is the minimum income level of single-person households under the public assurance system. Case 1 shows the case of a person on wage level  $\alpha$  who clears

<sup>4</sup> In the absence of any nationwide system of public assistance in the U.S., the official poverty standard is established by the Census Bureau. Regarding poverty thresholds in the U.S., treatment of non-cash benefits and taxes and the National Academy of Sciences' (NAS) quasi-relativized poverty line are also discussed.

**Figure 1. Working poor as defined in labor economics**



income level A-A when working standard working hours TF. Case 2, on the other hand, shows the situation where a person on the same wage level  $\alpha$  has other income and, having a strong preference for allocating his/her time to leisure and other uses, chooses to work shorter working hours TP, as a consequence of which income level A-A is not exceeded. Being “working poor” in such a case is a question of personal choice, rather than a matter for government policy. On the other hand, a worker’s situation becomes a matter of concern for labor policy when, as in Case 3, he/she receives wage income  $\beta$  and still cannot clear income level A-A despite working standard working hours TF.<sup>5</sup> This is because wage level  $\beta$  is too low, necessitating that the minimum wage be raised until it is consistent with the public assistance system that provides for a guaranteed minimum living standard.<sup>6</sup> In Case 4, a worker

<sup>5</sup> Assumed to be 8 hours daily for 22 days in order to allow comparisons to be made between the minimum wage and public assistance.

<sup>6</sup> A comparison of the minimum wage and the minimum wage level established in each prefecture under the public assistance system reveals that the levels of the two are

cannot work the standard working hours for some reason (e.g., due to ill health or caring for a family member) and does not reach income level A-A even when other income is taken into consideration, qualifying as a result for support under the public assistance system. People working in the manner shown in Cases 3 and 4 are exactly the kind of working poor who are targeted by instruments of income security policy such as public assistance.<sup>7</sup>

### 3. Examples of Estimates of the Working Poor in Japan

The definitions of the working poor being debated in Japan are vague. While some see the working poor simply as low-wage workers, others define them as workers who work at or below the poverty line, which is defined as the public assistance standard.

How many people are there in circumstances such as Cases 3 and 4 in Figure 1? Several points need to be taken into consideration in answering this question. In the economic model shown in Figure 1, the issue of the working poor is considered on the basis of the individual. From an income security policy point of view, however, the working poor are interpreted in terms of households that do not reach the minimum income level provided for by the public assistance system despite the addition of other incomes as in Cases 3 and 4.<sup>8</sup> It is also necessary to take into consideration that the minimum income levels set by the public assistance system are in fact provided on a household basis according to household type, and that various deductions are also allowed.

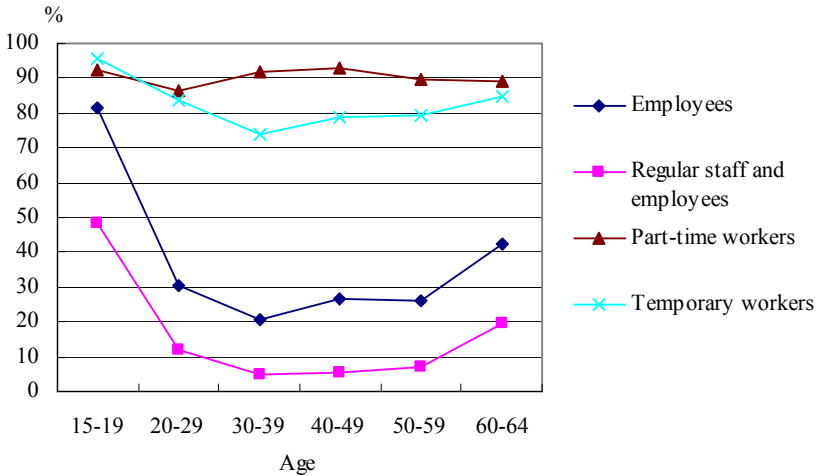
---

reversed when factors such as housing assistance, exemption from payment of health insurance and national pension contributions, and the reductions in various taxes, public charges, and fees for use of public services enjoyed by recipients of public assistance are taken into consideration. Under the revised Minimum Wage Act, the minimum wage is set for each region taking into consideration consistency with the public assistance system.

<sup>7</sup> Here, however, the unemployed are not included in the working poor. The differences in policy implications according to interpretations of the working poor are succinctly summarized by Murakami (2008).

<sup>8</sup> This is only when considered from the point of view of income policy. As Goka (2007) observes, (i) the question of poor working conditions and (ii) medium to long-term changes in household composition, rather than temporary status, mean that the focus needs to be placed on the working poor on an individual basis (e.g., contingent workers). It is also necessary to pay attention to the medium and long-term continuation of poverty, rather than its limitation to a temporary state. For an overview of the literature in this field, see Komamura (2006). For a dynamic study of poverty using panel data, see Ishii and Yamada (2006).

**Figure 2. Proportion of working poor rate on individual basis**



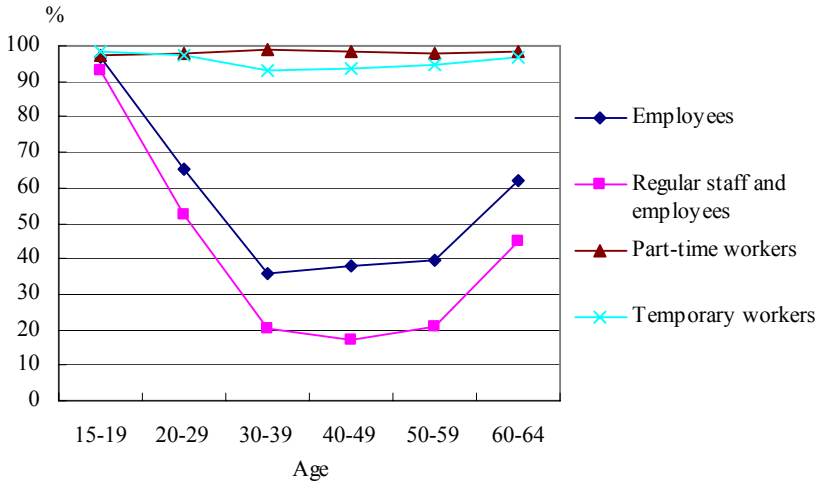
Source: Compiled from RENGO-RIALS (2006).

Despite such differences in the definitions and methods of counting the working poor, several studies have sought to estimate their number. Goto (2006), for example, estimates the poverty rate among households whose main source of income is wages and salaries using data from *Shugyo kozo kihan chosa* (Employment Status Survey), and finds the rate in 2002 excluding households receiving public assistance to be 24%. Also using data from the Employment Status Survey, RENGO-RIALS (2006) has estimated the working poor on an individual basis, reporting the proportions of the working poor measured based on the minimum cost of living of one-person households (“one-person basis”: 1,863,000 yen) and minimum cost of living of three-person standard households (“household base”: 2,947,000 yen) to be, respectively, 28.5% and 47.1%. The estimates by age group and form of employment are shown in Figures 2 and 3. Based on these results, 8.2% of regular employees, 90.8% of part-time workers, and 84.3% of temporary workers would be classified as working poor on an individual basis, while on a household basis, 29.2% of permanent employees, 98.3% of part-time workers, and 96.3% of temporary workers would be classified as working poor who earn wages that are below the public assistance standard.

With estimates of the working poor using aggregated data of this kind, the working poor are insufficiently defined and identified in terms of (i) whether



**Figure 3. Proportion of working poor on household basis**



Source: Compiled from RENGO-RIALS (2006).

the units of measurement and income are the individual or the household, and (ii) how the minimum income level should be viewed. Precise measurement of the working poor requires data containing (i) information on working status in terms of working hours and number of days worked, and (ii) information on household incomes. Presently, however, the amount of micro data available for research that meets these conditions is limited.<sup>9</sup> Adopting a different approach from Goto and RENGO-RIALS, therefore, Iwai and Murakami (2007) sought to estimate the working poor on an individual basis taking into consideration both household income and working status using micro data from the Employment Status Survey. They found as a result that the proportion of the unemployed and working poor among the unemployed and employed was 12% in 2002, confirming that the proportion has risen mainly among younger age groups since 1992. While Iwai and Murakami's estimates make excellent use of the micro data, several points need to be borne in mind. Firstly, while they use the public assistance standard as the minimum income standard, there are limits to what can be ascertained from the income data due to (i) the income data used to determine

<sup>9</sup> One data source containing information on both labor status and household information and income is *Rodoryoku chosa* (Labor Force Survey). However, use of micro data from this survey is not allowed for research purposes.

whether a person is poor being categorical data, (ii) calculation of the base amounts of public assistance based on the number of members of households in broad age groups, (iii) failure to deduct social insurance contributions and taxes when calculating minimum income, and (iv) various additions not being factored into account.

While estimates such as those cited here may be effective for ascertaining major trends such as the rise in the number of low-income workers, it is not necessarily possible to derive policy implications for the public assistance system from them.

In other words, the above estimates are limited in that a simple comparison is made between wages, which are paid on an individual basis, and the public assistance system, which is largely designed on a household basis. Even if the wages of individual members of a household do not exceed public assistance, they are not covered by the public assistance system—that is to say, they do not become a target of policy—unless the total income of co-resident family members is less than the public assistance standard.

#### **4. Estimates of Numbers of Working Poor and Borderline Poor Households Measured Using the Public Assistance System Standard as a Benchmark**

At this point, therefore, we estimate the proportion of working households that live at or below the minimum income level of the public assistance system in the strict sense and that do not receive public assistance; that is, the proportion of working poor and borderline poor households. These estimates are essentially a reworking of the results of estimates reported by the author in 2002.<sup>10</sup> We begin by briefly describing the estimation method below.

##### **(1) Calculation of Livelihood Assistance and Base Cost of Living**

Livelihood assistance is provided in the form of basic cash benefits, and consists of two types: Type 1 and Type 2. Type 1 is the cost per family member of food, clothes, and other such expenditures, and Type 2 is the cost of expenditures on things that are used by the family as a whole, such as utilities, furniture, and household equipment. The amounts of benefits differ according to grade of region. Region grade is determined according to differences in consumption level, and consists of three grades that are each further subdivided

---

<sup>10</sup> RENG0-RIALS (2006).

into two sub-grades. Additions according to family circumstances and other allowances are also added to these amounts. Here, we calculated the base cost of living based on the public assistance base amounts by aggregating the benefit amounts established for each region grade by the public assistance system based on micro data from the 1984 and 1999 *Zenkoku shohi jittai chosa* (National Survey of Family Income and Expenditure).

## **(2) Calculation of Deducted Amounts**

Deductions from income were as follows.

Earned income exemptions and basic exemptions: Exemptions to nurture the desire to work as well as corresponding to necessary and recurring rising demand with work

Basic exemption schedule: Basic exemptions, social insurance contributions, and income taxes established for each grade of region

## **(3) Determination of Minimum Cost of Living**

The minimum cost of living under the public assistance system was adopted as the low-income earner line. However, calculating the minimum cost of living under the actual public assistance system is extremely complex. In this study, we estimated the minimum cost of living according to the household composition and recognized income of each household. However, the micro data do not contain all the variables necessary to completely reproduce the minimum income as determined by the system. Therefore, the minimum cost of living was estimated taking into consideration factors including Type 1 housing, Type 2 housing, additions for old age, additions for single parents, and additions for child care. It therefore needs to be remembered that our calculations incorporate only a part of the system's actual coverage. Particularly important to note is that housing allowance is not taken into consideration. The minimum cost of living was calculated as follows.

Minimum cost of living livelihood assistance standard (Type 1) +  
livelihood assistance standard (Type 2) + additions = minimum cost of living

#### **(4) Calculation of Recognized Income (Recognition of Income)**

Alongside the minimum cost of living, an important task when determining public assistance benefits is recognition of income. Normally, the income approved under public assistance is calculated by taking the sum of various incomes (including pensions and other social security benefits) and deducting from this total earned income and basic exemptions provided for by public assistance, incomes taxes, social insurance contributions, and so on. The difference between this and the minimum cost of living is then paid as public assistance. In these estimates, we calculated recognized income as follows by deducting actual exemptions under the system, income taxes, and social insurance contributions from total household income.

$$\text{Recognized income} = \text{annual income} - \text{estimated annual income tax} - \text{annual social insurance contributions} - \text{exemptions}$$

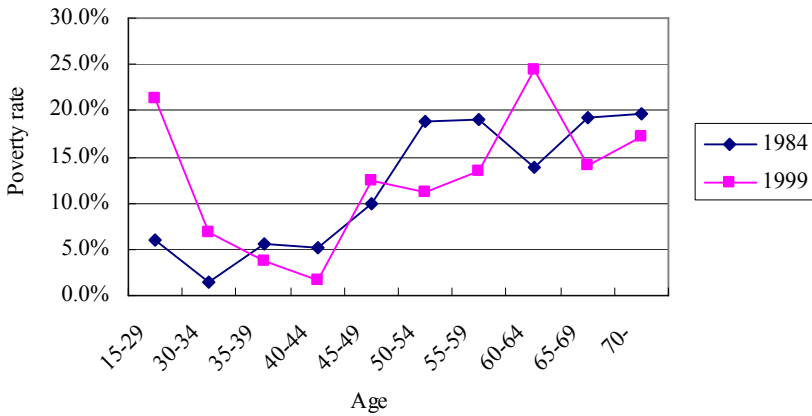
The results of counting households having a recognized income of less than the minimum cost of living are shown in Table 3. Here, the years 1985 and 1999 are shown in order to enable a long-term comparison to be made.

Trends according to single-person/ordinary households and age group are shown in Figures 4 and 5. A comparison firstly with the estimates calculated based on aggregated data from the Employment Status Survey by RENGO-RIALS (2006) and others reveals the proportion of working poor and borderline poor households to be lower. Also evident, however, is that the proportion of working poor and borderline poor is almost twice as high in 1999 as in 1984. Regarding trends by age group, moreover, it can be seen that, while the sample of single-person households in the National Survey of Family Income and Expenditure and the estimates of single-person households may not be not stable, the poverty rate among young single-person households aged up to 30 rises sharply. Regarding ordinary households, the poverty rate rises in all age groups, and a breakdown by age group reveals a U-shape trend similar to that estimated based on the aggregated data from the Employment Status Survey.

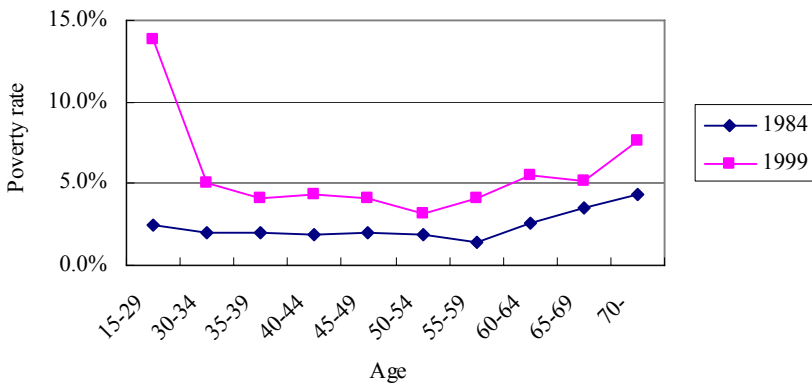
**Table 3. Estimates of working poor and borderline poor households**

	1985	1999
Under-65 single-person working households	7.94%	11.1%
Multi-person households with working head aged under 65	2.05%	4.55%
Overall	2.80%	5.46%

**Figure 4. Proportion of working poor and borderline poor single-person households**



**Figure 5. Proportion of working poor and borderline poor ordinary households**



### **III. Role of the Public Assistance System for the Working Poor and Borderline Poor**

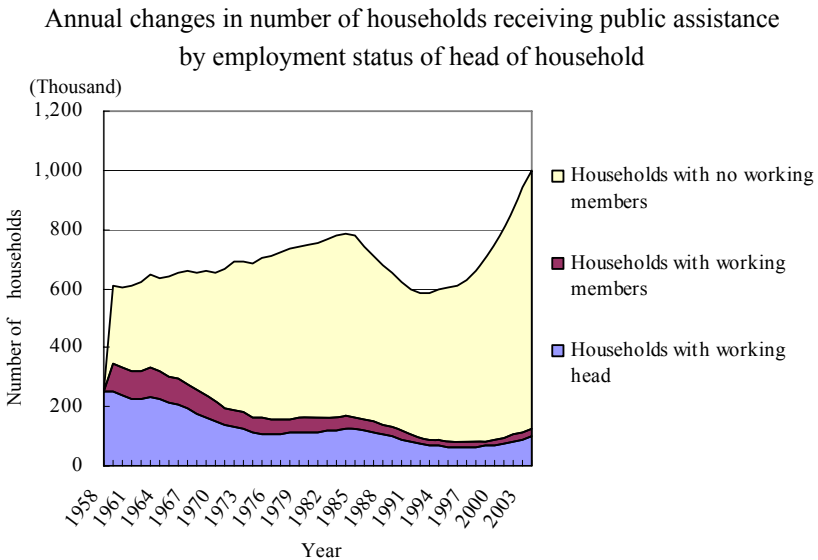
#### **1. Current State of the Public Assistance System**

Launched with high ideals after World War II, the public assistance system formed the core of Japan's social security system during the chaotic aftermath of the war. Public assistance expenditures accounted for 46% of the Ministry of Health and Welfare's budget in 1950, and in 1951 the assistance rate reached 24 per thousand. Thereafter, economic recovery and the establishment of a social insurance-based social security system founded on universal pension and insurance coverage in 1960 resulted in the role of the public assistance system being curtailed. Since the collapse of the bubble economy, however, the importance of the role of public assistance has steadily risen. The monthly average number of households receiving public assistance in fiscal 2004 was 998,000, and the number of recipients reached 1,420,000, the highest level since 1980. From a long-term perspective, the role of the public assistance safety net has changed dramatically since World War II.

Figure 6 shows trends in the number of households receiving public assistance broken down according to the working status of the heads and members of households. Active households whose heads or members are working and receiving public assistance initially made up almost half of all households receiving assistance. When the system was launched, there were many households that were in poverty despite working, and it can be seen that such households, too, were covered by public assistance. Subsequently, the number of active households receiving public assistance gradually declined as a proportion of all recipients in tandem with changes in economic conditions, and in fiscal 2004 the proportion of non-working households among all recipients of public assistance had risen to 87.5%. In addition, an examination of households on public assistance by household type shows that the proportion accounted for by older person households had risen to 46.7% in fiscal 2004, followed by invalid households (24.8%), disabled households (10.3%), single female-parent households (8.8%), and other households (9.4%).

Table 4 shows the labor force participation rates by household type, from which it can be seen that, among households on public assistance, single female-parent households have the highest participation rate at approximately 50%. With the exception of other households (38%), all other types of household

**Figure 6. Trends in households receiving public assistance**



Source: Compiled from Ministry of Health, Labour and Welfare, *Heisei 16-nen hihogosha zenkoku issei chosa* [General National Survey of Recipients of Public Assistance 2004].

**Table 4. Labor force participation rates by type of household**

Older person households	Single female-parent households	Disabled and invalid households	Invalid households	Disabled households	Other households
2.68%	49.36%	8.79%	8.71%	8.98%	37.33%

Source: Compiled from Ministry of Health, Labour and Welfare, *Heisei 16-nen hihogosha zenkoku issei chosa* [General National Survey of Recipients of Public Assistance 2004].

exhibit low participation rates: disabled, invalid, and disabled/invalid households (8%) and older person households (2.7%). From this it may be inferred that the rise in the proportion of older person households—in other words, population aging—has had a major impact on the rise in the proportion of non-working households among households on public assistance.

What then of the situation of households under the age of 65 that are on

public assistance if we exclude the impact of population aging? In fiscal 2004, the number of households on public assistance headed by persons aged under 65 was 510,000, which figure includes the disabled and invalids as well. The number of active households headed by someone aged under 65 receiving public assistance was 97,000, which accounts for only 18.9% of under-65 households receiving assistance.

## **2. Public Assistance System and Working Poor and Borderline Poor Households**

What are to make of the finding that 5.46% of households in 1999 were working poor or borderline poor? This means that there were almost around 1.50 million households with a working head aged under 65 and whose combined household income was at or below the public assistance standard (referred to below as “under-65 working poor households”). Given that approximately 57,000 under-65 working poor households on public assistance according to the 2000 *Zenkoku hihogoshi issei chosa* [General National Survey of Recipients of Public Assistance 2000],<sup>11</sup> this means that the rate of coverage of under-65 working poor households is extremely low (less than 4%).<sup>12</sup>

An examination of the situation of people on public assistance according to the 2004 *Zenkoku hihogoshi jittai chosa* [National Survey of Public Assistance Recipients 2004] shows the number of working households headed by someone aged under 65 and in receipt of public assistance was approximately 96,000, 1.7 times higher than in 1999. If the public assistance coverage rate is assumed to be unchanged, however, the proportion of under-65 working poor households may be 9.2%. Although the use of households as the unit of measurement rules

---

<sup>11</sup> Borderline working poor households that are not receiving public assistance form the overwhelming majority. Very few are on public assistance and capable of working, indicating that the moral hazard presented by the public assistance system should not be overrated.

<sup>12</sup> Several points need to be borne in mind regarding estimation of the coverage rate. Firstly, housing assistance is not included in calculation of the minimum cost of living when estimating working poor households. Coverage may therefore be underestimated. Secondly, only the working status of household heads is determined. Regarding interpretation of the coverage rate, the public assistance system in practice provides for means testing and familial support, and so households whose incomes do not exceed the public assistance standard do not automatically qualify for public assistance. Accordingly, the public assistance coverage rate may be higher than estimated here in view of the standards for application of the public assistance system in reality.



out direct comparisons with the findings of Goto (2006) and RENO-RIALS (2006), it is possible that there exist huge numbers of working poor and borderline poor whose total household incomes fall below the public assistance standard and yet are unable to receive public assistance.

From the fact that the recipients of public assistance under the present system consist mainly of older person and non-working households, it would appear that public assistance is transforming into a de facto minimum security pension, and that it is not fulfilling its role as a safety net for working households.

#### **IV. Developments in Public Assistance Reform**

As we have thus seen, public assistance is changing dramatically in nature and is failing to cope properly with the challenges presented by the rising number of atypical workers and the working poor. Against this backdrop, several concrete proposals for reforms are emerging.

##### **1. Research on Public Assistance System and Poverty**

The study of poverty and public assistance has a long history. Until the 1970s in particular, poverty was an important theme of research in economics, sociology, law, social security studies, and other such fields. During the period of high economic growth, however, the number of people in poverty declined, and institutionally the public assistance standard moved from use of an absolute poverty level to a relative poverty level. As the meaning of poverty became relativized, interest in the subject waned. The resurgence of research interest in poverty in this context is summarized by Tachibanaki and Urakawa (2006) and Murozumi (2006). Below, we look at the research issues concerning reform of the public assistance system.

##### **(1) Level of Livelihood Assistance**

As noted earlier, it is argued by some that livelihood assistance should be lowered in order to bring it into line with the minimum wage and the lowering of real benefits under the basic old-age pension with the pension reforms of 2004. However, the level of the final safety net that the public assistance system provides should not be altered without careful consideration. Since its establishment, public assistance has been finely regulated by raising benefits in

accordance with a sliding scale, and no studies have been conducted to confirm whether the present structure of benefits is suitably designed and whether benefits are appropriate taking into consideration changes in consumption patterns during the intervening period. What is required is not only a superficial equilibrium approach, but also statistical confirmation based on structural analysis of the minimum cost of living today.

## **(2) State of Poverty and Dynamic Analysis**

While a person or household may be defined as being in poverty on an income basis, this may not necessarily be the case when assets are taken into consideration. Given the rise in the number of older recipients of public assistance, the question of how assets should be dealt with needs to be given consideration.<sup>13</sup> However, unless there exists an employment assistance system between the unemployment insurance and public assistance systems that imposes only modest asset restrictions, as in Japan, excessive limitations on assets can inhibit self-reliance. There has been little analysis of the assets of poor households,<sup>14</sup> and to what extent ownership and use of assets should be allowed under the public assistance system is an important question.

Also important is dynamic analysis of poverty concerning, for example, how long poverty continues, at which stages of life the risk of poverty increases, how people fall into and escape from poverty, and whether poverty is transmitted in certain types of households. A classic on this theme is the series of studies based on fact-finding surveys by Eguchi (1979, 1980). Dynamic research on poverty, meanwhile, has been led by researchers in the U.S. since the 1980s, and with data sets also being developed in Europe, empirical research is accumulating. The main statistical methods employed are the hazard function model, Markov trend model, and discrete choice model. Research of this kind requires the development of long-term longitudinal analysis concerning poverty. In Japan, there has not been a great deal of research on poverty using

---

<sup>13</sup> Medicaid in the U.S. incorporates arrangements for recovering costs from deceased users' estates. In northern Europe, too, means tests of households receiving public assistance are as strict as in Japan.

<sup>14</sup> A key study is that by Komamura (2006), who estimates that the poverty rate based on the public assistance line would be approximately halved if assets were to be taken into consideration. Ishii and Yamada (2006) analyze the relation between poverty probability and assets.

longitudinal analysis or panel data covering a long period. Harada et al. (2001), Iwata and Hamamoto (2004), Sakaguchi (2006), and Ishii and Yamada (2006) have conducted longitudinal analyses.<sup>15</sup> These studies and OECD (2001) confirm that certain categories of households fall into and escape from poverty on a frequent basis.

### **(3) Geographic Concentration of Poverty**

It remains unclear whether poverty rates are concentrated and entrenched in certain regions. In Europe and North America, research has confirmed the existence of inter-regional differences in poverty rates and poverty's "adhesiveness." Based on an analysis of the National Survey of Family Income and Expenditure from 1984 to 1999, Komamura (2003) confirms that the poverty rate in terms of income at or below the public assistance standard varies widely according to prefecture, and that poverty is becoming entrenched. There are also regions where poor households are growing more concentrated and there is a growing risk of the transmission of poverty from one generation to the next. In many cases, geographical concentration, entrenchment, and externalities have affected the path dependence of past urban and housing policies, and analyses at the regional level are needed.

### **(4) Efficacy of Self-reliance**

An effective way of preventing the borderline poor households from falling into poverty and overcoming the poverty trap faced by households on public assistance is to raise the incentive to work by expanding earned income exemptions or establish a system of negative income tax.<sup>16</sup> The establishment

---

<sup>15</sup> Iwata and Hamamoto (2004) and Sakaguchi (2006) both make use of data from panel surveys by the Institute for Research on Household Economics, though the conclusions that may be drawn from them are limited by the fact that, among other things, their samples consisted of women only. Sakaguchi (2006) is, in addition, the only Japanese analysis to employ the Markov trend model. Ishii and Yamada's paper, on the other hand, uses KHPS panel data for a three-year period to estimate the frequency of falling into poverty by multinomial logit analysis. They find as a result that whereas the poverty rate at a given point in time is 11%, the proportion of people who fell into poverty at least once during the three years was 21%, 40% of whom remained continuously in poverty for three years, confirming that in Japan, too, the risk of poverty is becoming concentrated and mobility into and from poverty is decreasing.

<sup>16</sup> In order to overcome the problem of the dependence of the long-term unemployed on public assistance, Finland temporarily expanded earned income exemptions and measured

of effective self-support programs is also essential. However, the self-support programs in operation around the country are not necessarily as effective as they could be.<sup>17</sup> On this point, important information is provided by the surveys of samples of households on public assistance by Aoki (2003), the Kushiro Public University Research Center for Regional Economics (2006), and Michinaka (2006).

## **2. Developments in Public Assistance Reform**

Several reforms are being considered in order to resolve the problems with public assistance described in IV above. Concerning the debate on reform of the public assistance system, it is important to bear in mind that the various actors bring to the table different motives and objectives depending on their own particular interests. For example, the Ministry of Finance Fiscal System Council frequently draws attention to the disparities between local governments in the proportions of households receiving public assistance, and cautions against creating a moral hazard that would increase the number of recipients of assistance more than necessary. The council also argues that the level of public assistance should be lowered in line with real reductions in the amount of the basic pension. The Ministry of Health, Labour and Welfare, meanwhile, which is struggling to cope with the constrained state of public finances due to population aging, is similarly strongly interested in keeping down the level of benefits and restraining growth in the number of recipients. In the latter half of 2005, the Ministry of Finance, Ministry of Health, Labour and Welfare, Ministry of Internal Affairs and Communications, and local governments held a “Conference of Officials Involved in Public Assistance” to discuss handling of the public assistance system in the context of the so-called “tripartite reforms” to alter the balance of central and local government taxation and finance, leading to the publication of two important reports on the future shape of the public assistance system.

### **(1) Report of the Expert Panel on the Future of the Public Assistance System**

The Report of the Expert Panel on the Future Shape of the Public Assistance System was released in December 2004 by the Ministry of Health, Labour and

---

the effect, deciding as a result to maintain these exemptions.

<sup>17</sup> For a detailed appraisal of self-support programs, see Fukawa (2006). Michinaka (2006) confirms that programs consisting solely of employment support counseling are almost entirely ineffective.

Welfare's panel of the same name. As an assessment of this report can be found in Komamura (2005b), below we consider the report in outline only.

The report begins by noting that the system as presently designed makes it "difficult to use and difficult to be self-supporting," and puts forward several new ideas to make it "easier to use and easier to be self-supporting."

The report argues that various measures are needed to provide diverse, early, and systematic support for self-reliance and finding employment in order to encourage the poor and needy to participate in the community and to re-enter the labor market, and calls for the incorporation of support for self-reliance as a new function of public assistance in the future. By support for self-reliance is here meant broad-ranging support to help clients to find work, live their daily lives, and participate in the community, and it is hoped that local governments will play the leading role in this by providing a variety of self-support programs. Support to help people to escape dependence on public assistance and to apply their own various abilities to playing an active part in society should itself be extremely highly rated. In addition to support for self-reliance and use of capacity to work, the report also touches upon how assets should be used and, arguing that excessive restrictions on asset ownership make it hard to use public assistance, and hard to escape once qualified, proposes easing the limits on asset ownership. The report also suggests balancing Type 1 and Type 2 livelihood assistance, revising Type 1 age categories, and revising the design and level of the amounts of livelihood assistance. Furthermore, it argues against the need for additions for single mothers as the level of consumption of single female-parent households on public assistance is not low compared with ordinary single female-parent households.

## **(2) National Conferences of Governors and Mayors' "Recommendations of the New Safety Net Study Panel: From a 'Protective System' to a 'System that Assists Attempts to Reenter the Workforce'"**

This package of distinctive reform proposals put forward by the National Conferences of Governors and Mayors in October 2006 draws attention to the problems with the present system of comprehensive general assistance. The proposals consist of three main components: (i) creation of a public assistance system that limits the eligibility of active households to a maximum of five years, (ii) creation of a new form of public assistance for older people by dividing the public assistance system into assistance for active households and assistance

for older people, and (iii) employment support for the borderline poor. The first component is based on limiting eligibility to a maximum of five years: if the system is used for only one year, the remaining four years may be used if a household again falls into poverty, and can also be used in units of one month. In order to encourage the self-reliance of working households, it is proposed that the labor, education, and welfare sectors work together as a coordinated whole.

Regarding the second component—a new public assistance system for older people—the report proposes that income recognition for the pension benefit amount be eased and deductions allowed in order not to discourage people from contributing to the pension system. Another new idea is that case workers should not be assigned to older households on public assistance. On the other hand, a tightening of arrangements concerning relatives with a duty of support and means tests is recommended, and it is proposed that, as a rule, assets should be used to pay for the cost of assistance and/or that use be made of a lending system. Regarding the third component concerning the borderline poor at high risk of falling into poverty, the report proposes the establishment of employment support programs and improved pay and other conditions for non-regular employees.

These recommendations would result in major changes to the system of public assistance in that they (i) propose revising the traditional method of comprehensive general assistance and adoption of a categorized approach, (ii) pay attention to labor, education, health, and housing issues, and (iii) clarify the services-in-kind needed to assist self-reliance and locate them within the public assistance system, and they undoubtedly offer an extremely potent option for providing public assistance in a new age. Regarding the themes of research on poverty identified in Section 1 above, however, further empirical analysis is required concerning specific aspects of these recommendations. For example, questions remain regarding why the period of benefits (or total period of benefits) should be limited to five years. As is gradually becoming apparent as a result of dynamic analyses of poverty, households at high risk of poverty are constantly near the poverty line, and may frequently enter and emerge from a state of poverty. In light of this, is it really possible to limit the total period of benefits to a uniform five years? Also required is concrete investigation into assisting the self-reliance of working households on public assistance and the working poor and borderline poor, the effects of employment support programs, expansion

of support obligations and earned income exemptions, and treatment of assets. A further important area for investigation concerns the role of local government in relation to patterns of funding of the public assistance system for working households.<sup>18</sup>

### **3. Balancing the Minimum Wage and Public Assistance Standard**

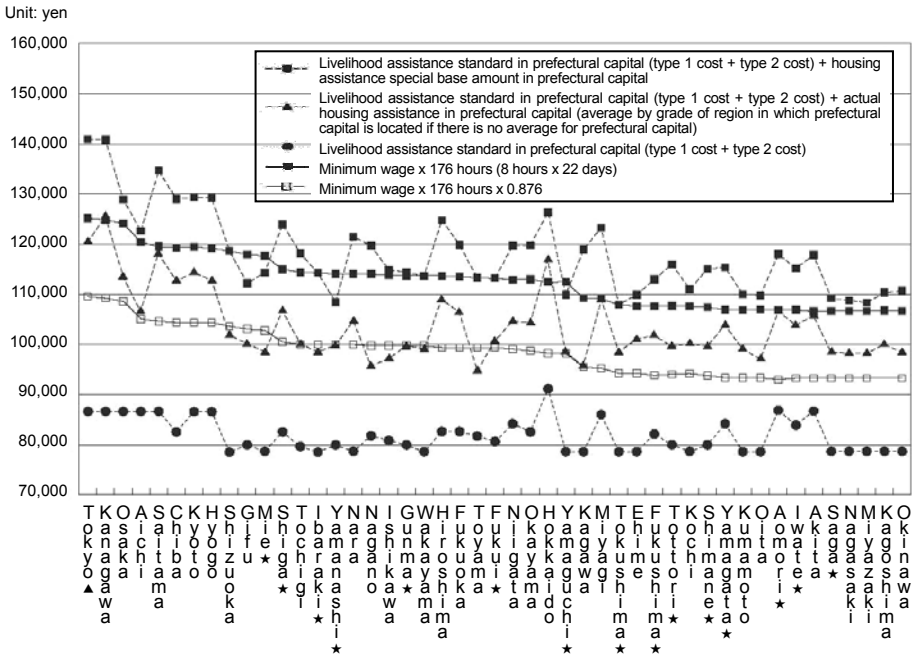
It is thus proposed that the public assistance system, which presently mainly assists older people, should serve as more of a “springboard” in order to assist not only working households on assistance, but also the working poor and borderline poor. To assist the self-reliance of households on assistance that are capable of work and raise the desire to work among working poor and borderline poor households, it is also important to balance the minimum wage and public assistance standard. However, direct comparisons between the minimum wage, which is determined on an individual basis, and the public assistance standard, means tests for which are conducted on a household basis, are not possible. Figure 7 shows a comparison of the amount of livelihood assistance for single-person households and the minimum wage by prefecture. If only Type 1 and Type 2 livelihood assistance for single-person households are compared with the minimum wage, the latter is certainly higher. If housing assistance is included, however, the positions are reversed in some prefectures. The minimum wage and public assistance are also in practice reversed as households on public assistance are also exempt from health insurance and national pension contributions, and pay reduced taxes, public charges, and fees for public services. This reversal creates a poverty trap that impedes efforts by households on public assistance to become self-reliant, leading to the descent into poverty of the working poor and borderline poor households. On this point, the “Report on the Future of the Minimum Wage System” produced by the Labour Policy Council in December 2006 similarly draws attention to the need for consistency with social security policy and consistency with measures concerning public assistance in terms of workers’ living costs, which are one determinant of the minimum wage level.

---

<sup>18</sup> The proportion funded by central government has been revised several times in the past. Regarding the impact on the public assistance system of lowering the central government’s share and raising local government’s, see Komamura (2005b) and Hayashi (2007).

**Figure 7. Comparison of livelihood assistance and minimum wage levels by prefecture**

**Public assistance (livelihood assistance standard (type 1 cost + type 2 cost) + housing assistance (special base amount or actual amount) and minimum wage**



Source: Ministry of Health, Labour and Welfare Labour Policy Council, handouts of *Dai 15-kai Rodo joken bunkakai saiteichingin bukai* [the 15th Working Condition Sub-committee Minimum Wage Panel].

- Notes:
1. The livelihood assistance standard (type 1 cost + type 2 cost) is for single persons aged 18-19.
  2. Average livelihood assistance (▲) was calculated using the average for the prefectural capital in the case of the prefectures not marked by a star ( ), and the average of the grade of region to which the prefectural capital belongs in the case of the asterisked prefectures. The figure for Tokyo, however, is the actual figure for the region as a whole.
  3. Livelihood assistance standards were calculated including additions for winter.
  4. Data are for fiscal 2004.
  5. 0.876 is the rate of disposable income to total income taking into account taxes and social insurance contributions in the case of working 176 hours per month for 606 yen per hour.



## V. Conclusion: Coordination of Social Security Policy/Research and Labor Policy/Research

In this paper, we have reviewed, as two sides of the same coin, the subject of the working poor as a labor and employment issue, and that of the borderline poor as issues of low-income workers, social security and public assistance, in relation to institutional reform.

Such poverty among working households is being tackled in various ways by countries around the world. Due to limitations of space, we cannot here provide an overview of the situation regarding the working poor and borderline poor in other countries. Among EU member states, however, public assistance is viewed as no more than a system of temporary income security for younger people who are capable of work, and some countries implement measures that place the emphasis on providing employment support and support for self-reliance for low-income earners with “earning capacity” through the integration and coordination of social welfare administration and employment and labor administration.<sup>19</sup>

In common with other developed countries, Japan faces the problem of growing numbers of, and poverty among, atypical workers. The problem of livelihood security for low-income workers cannot be resolved solely through the minimum wage system or the public assistance system. Reform needs to be pursued linking together revision of public assistance and revision of the minimum wage focusing on expansion of self-reliance and employment support programs and earned income exemptions for working households on assistance

---

<sup>19</sup> In some countries, such as Sweden, Finland, and Germany, income security policy for working households consists of two layers of public assistance: employment assistance, which supplements employment insurance for a limited period and is subject to a moderate means test, and public assistance for the long-term unemployed, which is subject to a strict means test. Another method, such as that employed in Denmark, is to enhance income security while increasing labor mobility by combining an active labor policy with moderately limited social allowances. In the United Kingdom, finely tailored job support programs integrated with social security benefits are employed, while France has introduced a *contrat d'insertion dans la vie sociale* to encourage the rapid reintegration of the poor into society. In Germany, the Hartz Labor Market Reform Laws of 2003 accelerated integration of social welfare administration and labor administration, concentrated unemployment relief and social assistance into an integrated benefit, and in practice made employment assistance programs (job placements, etc.) for people with earning capacity mandatory.

and the borderline poor. The question of the working poor is an old yet new social issue, and one that requires the coordination of social security policy and employment policy if it is to be effectively tackled.

## References

- Aoki, Osamu, ed. 2003. *Gendai nippon no "mienai" hinkon: Seikatsu hogo jukyu boshi setai no genjitsu* ["Invisible" poverty in contemporary Japan: The reality of single female-parent households receiving public assistance]. Tokyo: Akashi Shoten.
- Eguchi, Eiich. 1979-1980. *Gendai no "Teishotokuso". Jo-chu-ge* [The contemporary "low-income class". 3 vols.]. Tokyo: Miraisha.
- The European Foundation for the Improvement of Living and Working Conditions. 2002. Low-wage workers and the 'working poor'. <http://eurofound.europa.eu/> (accessed April 9, 2007).
- . 2004. Working poor in the European Union. <http://eurofound.europa.eu/> (accessed April 9, 2007).
- Fukawa, Hisashi. 2006. *Seikatsu hogo jiritsu shien puroguramu no katsuyo* [Use of public assistance self-support programs]. Tokyo: Yamabuki Shoten.
- Goga, Kazumichi. 2007. Konnichi no wakingu pua to fuantei shugyo mondai: Kansetsu koyo wo chushin ni [Today's working poor and the problem of unstable employment with a focus on indirect employment]. *Economic Review* (Shizuoka University)11, no. 4.
- Goto, Michio. 2006. Karo wo manugarete mo matteiru "hinkon" [The poverty that threatens even if overwork is avoided]. *Shukan Ekonomisuto* [Economist weekly], July 25.
- Harada, Ken, Hidehiro sugisawa, Erika Kobayashi, and Jersey Liang. 2001. Koreisha no shotoku hendo ni kanrensuru yoin: Judan chosa ni yoru hinkon no dainamikusu kenkyu [Causes of changes in older people's incomes: A study of the dynamics of poverty using longitudinal data]. *Japanese Sociological Review* 52, no. 3.
- Hayashi, Masayoshi. 2007. Kokko hojo to seikatsu hogoritsu [Government subsidization and the public assistance rate]. In *Jiritsutekina Chiho Gyozaiei Seido no Arikata ni kansuru Kenkyu* [Studies of independent local administrative and financial systems], issued by Research Institute for Local Government.
- Ishii, Kayoko, and Atsuhiko Yamada. 2006. Hinkon no dotai bunseki: KHPS ni yoru 3 nenkan no dotai bunseki [Dynamic analysis of poverty: A three-year dynamic analysis using KHPS data]. Keio University Market Quality Research Project (A 21st Century Center of Excellence Project), KUMQRP Discussion Paper Series,

DP2006-037.

- Iwai, Hiroshi, and Masatoshi Murakami. 2007. Nippon no “working poor” no keisoku: Shugyo kozo kihon chosa risanpuringu deta no riyo [Measurement of the working poor in Japan: Using Employment Status Survey microdata]. Chosa to Shiryo [Surveys and sources], no. 103.
- Iwata, Masami, and Chizuka Hamamoto. 2004. Defure fukyoka no “hinkon no keiken” [“Experiences of poverty” during deflationary recession]. In *Joseitachi no heisei fukyo* [Women and the Heisei recession], ed. Yoshio Higuchi and Kiyoshi Ota. Tokyo: Nihon Keizai Shinbunsha.
- Komamura, Kohei. 2003. Teishotoku setai no suikei to seikatsu hogo [Estimates of low-income households and public assistance]. *Mita business review* 46, no. 3.
- . 2005a. Seikatsu hogo kaikaku: Shogaisha no shotoku hoshō [Public assistance reform: Income security of the disabled]. In *Shakai hoshō seido kaikaku: Nippon to shogaikoku no sentaku* [Social security reform: The choices of Japan and other countries], ed. National Institute of Population and Social Security Research. Tokyo: University of Tokyo Press.
- . 2005b. Keizai shakai no henka to shakai hoshō seido no mondai [Changes in society and the economy, and problems with the social security system]. In *Shakai hoshō no aratana seido sekkei* [New design of systems of social security], ed. Kohei Komamura and Yoshiko Kida. Tokyo: Keio University Press.
- . 2006. Iryo, kaigo, nenkin to saitei shotoku hoshō: Shakai hoshō odantekina kaikaku no shiten. [Healthcare, nursing care, pensions, and minimum income security from the perspective of cross-cutting reform of social security]. In *Nenkin wo kangaeru* [Approaches to pensions], ed. Keimei Kaizuka and Ministry of Finance Policy Research Institute. Tokyo: Chuo Keizaisha.
- Kushiro Public University Research Center for Regional Economics. 2006. Seikatsu hogo jukyu boshi setai no jiritsu shien ni kansuru kisoteki kenkyu: Kushiro shi wo jirei ni [Basic research on the self-support of single female-parent households receiving public assistance: A case study of Kushiro City]. <http://www.kushiro-pu.ac.jp/center/research/017.html> (accessed February 21, 2007).
- Michinaka, Ryu. 2006. Seikatsu hogo ni okeru shuro shien no yukosei to ikika katoku: Hihogoshi no shuro shien hosaku to shuro jiritsu no konnaensei ni tsuite [The efficacy of employment support under public assistance and sub-threshold income generation: Employment support measures for assistance recipients and the difficulties of employment independence]. Written for Japanese Society for the Study of Social Welfare National Conference.

- Murakami, Masatoshi. 2008. Wakingu pua no suikei ni tsuite: Setai de toraeru ka, koj-in de toraeru ka [Households or individuals? Estimating the working poor]. *Rodo Tokei Kenkyu Bukaiho* [Proceedings of the labor statistics workshop], no. 3.
- Murozumi, Masako. 2006. *Nippon no hinkon : Kakei to jenda kara no kosatsu* [Poverty in Japan: An inquiry from the perspectives of household economics and gender]. Kyoto: Horitsu Bunkasha.
- OECD. 2001. When money is tight: Poverty dynamics in OECD countries. In OECD Employment Outlook 2001. Paris: OECD.
- RENGO-RIALS. 2006. *Kosei de kenzai na keizai shakai e no michi 2006-2007 nendo keizai josei hokoku* [The path to a fair and sound economy and society: A report on economic conditions, fiscal 2006-07]. Tokyo: Daiichi shorin.
- Sakaguchi, Naofumi. 2007. Teishotoku setai to sono zokusei ni tsuite [Low-income households and their attributes]. *Japanese Journal of Research on Household Economics*, no. 72.
- Tachibanaki, Toshiaki, and Kunio Urakawa. 2006. *Nippon no hinkon kenkyu* [Research on poverty in Japan]. Tokyo: University of Tokyo Press.
- U.S. Department of Labor, Bureau of Labor Statistics. 2002. A Profile of the Working Poor, 2000. <http://www.bls.gov/cps/cpswp2000.htm> (accessed April 8, 2007).
- . 2006. A Profile of the Working Poor, 2004. <http://www.bls.gov/cps/cpswp2004.htm> (accessed April 8, 2007).