

# *Japan* Labor Review

**Volume 5, Number 4, Autumn 2008**

**Special Edition**

## **Disparity, Poverty and Labor**

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NEXT ISSUE (Winter 2009)

The Winter 2009 issue of the Review will be a special edition devoted to **The Gender Gap in the Japanese Labor Market**.

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## Introduction

### **Disparity, Poverty and Labor**

2006 saw *kakusa shakai*, which literally means “society of disparity” but is more specifically used to refer to the widening gap between rich and poor, become a buzzword in Japan as observers drew attention to the widening disparity of income and growth in poverty. The Japanese long considered themselves to be a nation of middle-class people, epitomized by the words *ichioku sochuryu*, which gained currency following the finding of a 1970 opinion poll that over 90% of the respondents considered their lifestyles to be middle class. Sociological surveys as well as opinion polls of this kind painted a picture of a highly equitable society, and it was from around this time that poverty ceased to be considered an issue in Japan; already it was a problem considered consigned to the past, and was largely ignored by surveys.

Although questions had previously been raised several times concerning this social consciousness, it was from around 2000 that, founded on empirical studies in economics, sociology, and other fields, attention turned to the existence of a growing divide. The appearance of translations of works on the working poor in the United Kingdom and United States and television specials based on them also garnered social interest, and observers began to note the increase in poverty taking place against the backdrop of changing working patterns in Japan. In this special issue, we examine the widening disparity in income and increase in poverty, and explore how they relate to labor issues.

The first paper, by Ryoshin Minami, is a historical study of disparity in income. From the beginning of the 20th century to World War II, income distribution in Japan grew substantially more unequal. The primary factor behind this was poverty in rural areas in contrast with the development of the cities, and this growth in disparity gave rise to social unrest. After the war, equality increased from the 1950s to the 1970s. In addition to the effects of democratization policies such as agricultural land reform, there occurred large-scale movement of labor from rural areas into the cities under conditions of high economic growth, and the resulting elimination of the oversupply of rural

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labor is considered to have propelled growing equality. From the 1980s, disparity again began to grow. Although this is connected to the present widening disparity, its causes were entirely different from those before the war. Minami argues that it is due in large part to the worsening of working conditions among the young caused by the intensification of competition engendered by deregulation.

The second paper, by Toshiaki Tachibanaki and Kunio Urakawa, is a statistical analysis of the state of poverty in Japan since the 1990s. After reviewing various methods of measuring poverty, the authors calculate indices of relative poverty based on data from *Shotoku saibunpai chosa* (Income Redistribution Surveys). Based on this, they show that the degree of relative poverty at the household level has been on the increase in Japan since the 1990s, and that this has been due to a large increase in poverty among single-person households of working age as well as among single older-person households. The poverty rate among fatherless households is also found to be exceedingly high. A breakdown by employment status of head of household reveals that the poverty rates among households headed by “persons without employment” and by “workers on contracts of less than one year” are high, and the authors observe that the issues of unemployment and non-regular workers have emerged as new poverty issues in Japan.

The next paper, by Yuki Sekine, summarizes the causes of contemporary poverty and the state of measures to combat poverty from the perspective of law. In this paper, contemporary poverty is ascribed mainly to the increasing instability and loss of employment, the malfunctioning of the public assistance system, the homeless, single mother households, and deep levels of debt. Regarding public assistance, there is considerable regional variation in the assistance rate, and the opposing views of central and local government concerning the reasons for this are summarized. The employment insurance system, public assistance system, measures to assist the self-reliance of the homeless, and the minimum wage system are identified as serving to combat poverty, and the recent state of these institutions is summarized.

The fourth paper is a study by the leading expert on social security policy, Kohei Komamura. Although the concept of the working poor has yet to be clearly defined in Japan, estimates show that the proportion of working households

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that are on or below the minimum income level provided for by the public assistance system but that are not receiving public assistance has increased from 2.80% in 1985 to 5.46% in 1999. It is also evident that the proportion of working poor households in younger age groups has increased rapidly. The proportion of working households aged under 65 on or below the minimum income level provided for by the public assistance system that are on public assistance is less than 4%, indicating that the moral hazard presented by the public assistance system is not of a level that should be considered problematic. Also described are recent developments concerning reform of the public assistance system.

The final paper is an empirical analysis of the inter-generational transmission of poverty by Yoshimichi Sato and Takashi Yoshida. Overcoming the difficulty of estimating the income class of fathers from surveys of individuals, the authors do so by extrapolating from father's employer, employment status, and education to produce income mobility tables showing movement between the individual's and the father's income class. What is observed as a result is the transmission of wealth rather than poverty. An examination of the mechanism behind this transmission reveals that father's income has a strong influence on the individual's education. This is particularly marked among the affluent. In addition, the individual's education has a strong influence on his/her current job, and prestigious occupations requiring a high level of education raise the individual's income. In this way, it is surmised that wealth is transmitted from one generation to another.

In this special issue, we thus examine from a number of angles how the widening disparity and growth in poverty in Japan in recent years relates to labor, and we hope that this contributes to a deepened understanding of some of the issues confronting contemporary Japan.

**Reiko Kosugi**

The Japan Institute for Labour Policy and Training

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# Income Distribution of Japan: Historical Perspective and Its Implications

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## I. Introduction

The rapid rise in income inequality in Japan since the 1980s is attracting strong attention. In what now seems like a world apart, inequality during the preceding periods of high followed by stable growth was low, and Japan was regarded as being the most egalitarian country in the world. During the prewar period and especially during the interwar years, inequality was marked, and this period is drawing interest for its contrast with contemporary Japan.

This author has calculated estimates of the income distribution in prewar Japan, compilation and organization of the materials for which commenced in the 1970s, and the results of estimates and analysis were published in book form in 1996 (Minami 1996).<sup>1</sup> Compilation of data continued, and final estimates were published in 2000 (Minami 2000). This paper reviews this research and compares and contrasts the situation then with that in contemporary Japan.

Section II of this paper reviews the basic sources used to calculate these estimates, and summarizes the estimation methods. The period covered is from the end of the 19th century to the end of the 1930s. Section III consists of an analysis of the estimate findings, and examines how income distribution changed and explores the factors underlying these changes. Section IV describes the gap between the prewar and postwar periods, and changes in the postwar period. Lastly, Section V offers some conclusions and their implications.<sup>2</sup>

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<sup>1</sup> For a summary of this, see Minami (1998).

<sup>2</sup> This paper is a translation of Minami (2007), revised and expanded upon by the author.

## II. Summary of Data Sources and Estimation Methods for the Prewar Period

### 1. Data Sources

The estimates were calculated using data from *Kojin Shotoku-zei Tokei* (Personal Income Tax Statistics) and *Kosuwari-zei Tokei* (Household Tax Statistics).

Personal income tax (Class 3 national income tax) is a tax that was levied on high-income earners with an annual income in excess of ¥1,200 (¥1,000 from 1938). Although paid by only a very small proportion of households (4.1% in 1937), a major advantage of the information on these taxpayers is that it is available on a national basis.

Household tax was a form of local taxation introduced in 1878, the tax base for which was standardized in 1921. A conspicuous feature of this tax is that all households were assessed. Municipalities thus surveyed and estimated all households' incomes through interviews and similar means, and determined the amount payable by each household by multiplying its income by a uniform tax rate.

Household data are recorded in municipalities' council papers, and so we contacted municipal governments throughout Japan in 1974 to determine whether such materials survived. Over the next two decades or so, data were then compiled on 213 municipalities (18 cities, 46 towns, and 149 villages<sup>3</sup>).<sup>4</sup>

However, this source also presents a number of problems. The first is that statistics on the amount of tax paid and income were not recorded for individuals until 1922, and it is only possible to obtain the number of households in each class. Secondly, this tax was not levied in major cities such as Tokyo and Osaka, which are consequently not included in the data collected. In the largest regions for which materials were obtained, such as Yokosuka, Shizuoka, and Kumamoto, the number of households was 40,000 at most.

### 2. Estimation of Income Distribution

Full-scale estimates were performed using the years 1923, 1930, and 1937

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<sup>3</sup> The number of municipalities in 1939 was significantly reduced by mergers after the war.

<sup>4</sup> Compilation of these materials required considerable manpower, time, and funds, and access to them has recently been further complicated by concerns about privacy.

as three benchmarks taking into consideration the limitations of the household data.

All households in Japan were divided into two groups—high-income earners (i.e., persons earning ¥1,500 or more) and non-high-income earners—and the income distribution according to the national personal income tax statistics used as the income distribution for high-income earners. For the income distribution of non-high-income earners, the number of households in each income bracket estimated from the household statistics<sup>5</sup> and extrapolated nationwide was employed. By combining the number of persons by income bracket in these two groups, it was possible to obtain the income distribution of all households in Japan. The Gini coefficients thus obtained for the three benchmark years were, respectively, 0.530, 0.537, and 0.573.

For previous years the Gini coefficients are estimated by linking with the average of the Gini in 39 municipalities calculated from the number of taxpayers by class based on the total amount of tax levied (combining taxes on both income and assets). The results are 0.432, 0.473 and 0.526 in 1895, 1905 and 1915 respectively.

### III. Prewar Changes and Causes

#### 1. Long-term Changes

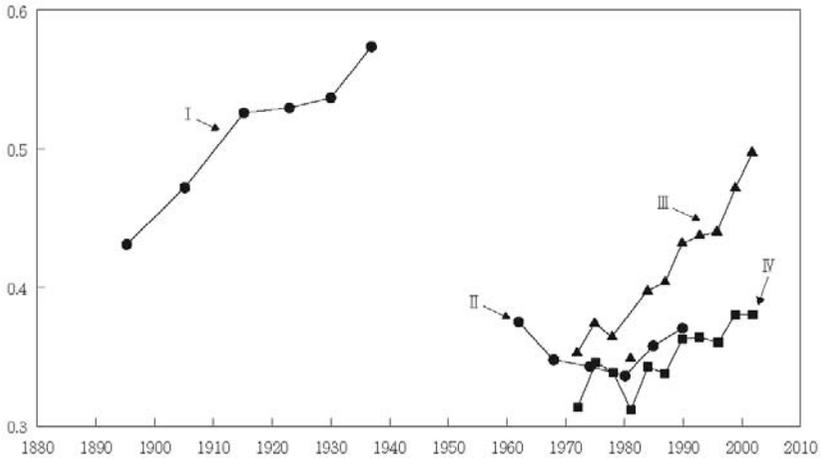
Figure 1 depicts long-term trends in inequality in Japan by concatenating these estimates for the prewar period (series I) with postwar series. For the postwar period, estimates by Mizoguchi and Terasaki (series II) and Tachibanaki (series III and IV) were used. (Although the latter two series are calculated from the same statistics, series III uses incomes before redistribution and series IV uses incomes after redistribution.) Three important points may be drawn from this.

Firstly, there is a clear rise in the Gini coefficient for around 40 years from the end of the 19th century to the end of the 1930s, indicating that there was a long-term rise in income inequality in the prewar period. Secondly, the Gini coefficient gradually declined from the 1960s to the 1970s, before beginning

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<sup>5</sup> 141 municipalities were used for the estimation of income distribution (section C1 of Table 1). Data were available for all three benchmark years on 82 of these, and these were used to estimate the Gini coefficients for the benchmark years (section 2). This is because income distributions vary when different municipalities are sampled.

**Figure 1. Long-term changes in the Gini coefficient**



Notes and Sources: I. Estimated by Minami (2000), 44, table 5.

II. Estimated by Mizoguchi and Terasaki (1995), 61, table 1 based on the National Livelihood Survey.

III. Estimated by Tachibanaki (2006), 8, table 1-1 based on incomes before redistribution according to the Income Redistribution Survey.

IV. Estimated by Tachibanaki (2006), 8, table 1-1 based on incomes after redistribution according to the Income Redistribution Survey.

to rise sharply again from the 1980s. And thirdly, the Gini coefficient drops considerably after World War II from 0.573 (series I) in 1937 to 0.313 (series II) in 1956, evidencing that inequality was far greater before the war than after.

## 2. Inequality between the Wars: Regional Disparity

Growth in inequality in a country can arise from (i) a widening income gap between urban and rural areas, (ii) a widening income gap within urban areas, and (iii) a widening income gap within rural areas. Below, we analyze the interwar period, for which there is a comparative abundance of data.

Sections A and B of Table 1 show the Gini coefficients for urban areas (cities and towns) and rural areas (villages) calculated based on household data, and section C shows the coefficients for the two categories combined. Each has two sections. Section 1 shows the results for all municipalities in the three benchmark years, and section 2 shows the results for municipalities for which data exist for all three years. The latter, despite the small sample size, is

**Table 1. Income distributions and related indices by category of municipality, 1923-37**

Region	Year	Gini coefficient	Change in coefficient (1923-37)	Industrialization rate (%)	Number of taxpaying households	Number of municipalities	
A. Cities and towns	1	1923	0.569		67.8	102,083	38
		1930	0.582	0.037	72.9	178,827	45
		1937	0.606		74.6	262,066	44
	2	1923	0.578		70.7	42,707	20
		1930	0.603	0.060	72.3	49,959	20
		1937	0.638		75.2	61,016	20
B. Villages	1	1923	0.534		29.7	53,633	86
		1930	0.544	0.001	30.1	67,342	106
		1937	0.535		29.6	66,758	97
	2	1923	0.584		31.9	38,882	62
		1930	0.602	0.008	30.6	40,565	62
		1937	0.592		31.4	41,768	62
C. Municipalities	1	1923	0.544		41.4	155,716	124
		1930	0.555	0.013	42.9	246,169	151
		1937	0.557		43.7	328,824	141
	2	1923	0.585		49.9	81,589	82
		1930	0.607	0.039	51.9	90,524	82
		1937	0.624		54.4	102,784	82

*Sources:* Gini coefficients, average incomes, and numbers of taxpaying households are according to the household data for each year, and industrialization rates are based on the 1920, 1930, and 1940 National Censuses.

*Notes:* 1. Section 1 gives the simple arithmetic averages of the results for all municipalities obtained from the data in each year, and section 2 gives the results obtained by pooling the taxpayers in municipalities for which data are available for all three benchmark years.

2. The industrialization rate is the percentage of persons who are employed in non-primary industry among all employed persons. Figures for 1923 and 1937 are the results for 1930 and 1940.

appropriate for analysis of changes over time.

In 1923, the Gini coefficient is higher for rural areas than urban areas; thereafter, however, the coefficient for urban areas rises considerably while it is practically the same as that for rural areas. The scale of the increase during this period is 0.060 in urban areas and 0.008 in rural areas. As a consequence, the coefficient for urban areas overtakes that for rural areas in 1937. The

industrialization rates (defined as the proportion of persons employed in non-primary industry among all employed persons) of urban and rural areas shown in the same table also differ substantially. While the rate rises markedly in urban areas, it remains almost unchanged in rural areas, resulting in a large gap between the two (75% compared with 31%) in 1937. In other words, while industrialization advanced rapidly in urban areas during the period, rural areas experienced no change, and the likelihood is that it is this that gave rise to the urban-rural gap that characterizes the pattern of change in income distribution.<sup>6</sup>

From this analysis, it can be seen that the key factors behind the rise in inequality in Japan as a whole were the widening income gap between urban and rural areas, and growing inequality within urban areas. As one measure of the income gap between rural and urban areas, let us first consider the ratio of farming households' per capita income to that of non-farming households. As the bottom row of section 1 in Table 2 shows, this declines consistently between 1910 and 1935. The relative decline of farming household incomes accelerated, and underlying this was the gap in labor productivity between the agricultural and non-agricultural sectors. Technological advances and capital accumulation progressed more rapidly in non-agriculture, as a consequence of which labor productivity, too, rose rapidly. The ratio of productivity in primary industry to that in non-primary industry shown in the last row of section 4 consistently falls during this period.

Concerning the stagnation of agricultural productivity, and by extension farming household earnings, it is impossible to ignore the role played by the existence of surplus labor in rural areas. Lewis-type surplus labor (unlimited labor supply), where marginal labor productivity does not reach the conventional minimum standard of living and wages are pegged to the minimum living standard, accounted for a little under 60% of agricultural labor in prewar Japan according to calculations by this author and others (Minami and Ono 1977, table 1). In the face of this large excess of labor, income increases were inhibited. The real average income of farming households shown in section 1 rose as a result of the economic boom following World War I, but fell sharply in the 1920s, and was lower in 1935 than in 1910. The real wages of agricultural day laborers shown in section 2 exhibit a similar pattern,

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<sup>6</sup> For a strict factor analysis based on a decomposition of the logarithmic distribution, see Minami (1996), 42-43.

**Table 2. Income and wage gaps between agriculture and industry in the interwar period and causes thereof**

	1910	1915	1920	1925	1930	1935
1. Per capita real incomes (yen/year)						
Farming	602	655	700	653	571	593
Non-farming	1,024	1,124	1,317	1,352	1,489	1,593
Farming/non-farming	0.59	0.58	0.53	0.48	0.38	0.37
2. Real wages (yen/day)						
Agricultural day laborers (male)	0.93	0.95	1.17	1.21	1.10	0.89
Non-agricultural laborers (male)	1.06	1.00	1.41	1.77	1.64	1.34
Agricultural/non-agricultural	0.88	0.95	0.83	0.68	0.67	0.66
3. Real wages (yen/year)						
Agricultural annual laborers (male and female)	126	122	145	167	153	131
Manufacturing workers (male and female)	214	229	336	400	439	436
Agricultural/manufacturing	0.59	0.53	0.43	0.42	0.35	0.30
4. Real labor productivity (yen/person)						
Primary industry	161	182	197	203	210	225
Non-primary industry	517	571	678	729	777	862
Primary/non-primary	0.31	0.32	0.29	0.28	0.27	0.26

*Source:* Minami (2007), 36, table 2.

*Note:* The figures shown in sections 1, 2, and 3 are adjusted for changes in the consumer price index (1934-36 = 100). Section 4 shows GDP (1934-36 prices) divided by the number of workers. Seven-year average.

and the real wages of agricultural annual laborers in section 3 were only slightly higher in 1935 than in 1910.

### 3. Growing Inequality between the Wars: The Income Gap in Urban Areas

Two factors may be identified as contributing to growing inequality in urban areas. The first is the decline in labor's relative share, i.e., the decline in labor income's share of non-primary industry in GDP (Minami 1994, figure 9-5; Minami 1996, appended table 4). This declined rapidly in the first half of the 1910s, rose sharply in the second half of the decade, and then remained largely constant in the 1920s before declining considerably in the second half of the 1920s. The decline in labor's relative share, which slumped from 62.2% in 1910 to 49.7% in 1937, was due to wage increases' failure to keep pace with the rapid rise in labor productivity during the period.

The second factor is the widening wage gap within industry. There are two

types of worker to be found on the labor market—skilled and unskilled—and below we use blacksmith wages as an index of the wages of the former (Okawa et al. 1967, 245) and the manufacturing laborers' wages as an index of the latter. The ratio of the two was 0.93 in 1920 (seven-year average), but this shrank substantially in the late 1920s to 0.56 in 1935. Other wage disparities exhibit a similar trend, and it is widely recognized that a gap in wages between manufactures of different sizes that was non-existent in 1909 and 1914, for example, had become clearly evident in 1932 (Minami 1994, 238).

The decline in labor's relative share and widening wage gaps between different classes of workers in the latter half of the 1920s are both related to the existence of surplus labor. Surplus labor continued to supply low-wage unskilled labor to urban industry,<sup>7</sup> inhibiting wage growth in urban industry and leading to a decline (or preventing an increase) in its share. Also in the cities, the wage gap between skilled and unskilled labor widened. In short, growing inequality in urban areas was closely linked to the existence of the surplus labor that characterized the Japanese labor market.

#### **IV. Postwar Changes and Causes**

##### **1. Gap between the Prewar and Postwar Periods**

As already observed, there was an enormous gap in the level of inequality between the prewar and postwar periods. Calculating the Gini coefficients by industry based on the *Shugyo Kozo Kihon Chosa* (Employment Status Survey) for 1956, we find the coefficient to be 0.316 for primary industry and 0.335 for non-primary industry (Minami 1996, table 7-1). By contrast, the coefficients calculated based on the household data for the town of Shirakawa-cho in Nishi-shirakawa-gun, Fukushima Prefecture, for the period 1936-39 are respectively 0.453 and 0.666 (Minami 1996, table 4-1). While it can be seen that income equality has grown in both sectors, the improvement is more conspicuous in non-primary industry. In other words, the gap between the prewar and postwar periods affected primarily the non-agricultural sector, which in turn indicates that growing equality in urban areas is of greater

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<sup>7</sup> According to section 2 of Table 2, the wage gap between agricultural day laborers and non-agricultural laborers was extremely stable. This indicates that the two belonged to the same labor market.

significance.

Growing equality in urban areas was due in large part to two factors: (i) the air raids on major cities and hyperinflation of the closing stages of World War II, and (ii) the decline of the affluent class as a result of economic democratization in the aftermath of the war (Minami 1996, chap. 7). While as much as 78.8% of privately-owned buildings, which make up the bulk of personal assets, were destroyed or damaged by the war, losses were concentrated in and around Tokyo and Osaka, and the owners of such properties naturally belonged to the high-income class. Hyperinflation in 1946-48 resulted in huge profits for black marketeers, who traditionally belonged to the non-high-income class, while the traditional high-income earners found their deposits closed, limiting scope for investment activity and accelerating their decline.

The main instruments of economic democratization were the dissolution of the *zaibatsu* and expulsion of their directors. This contributed to the waning of the *zaibatsu* families and limitation of increases in company directors' bonuses, equalizing the distribution of incomes. The factor that had a definitive impact in terms of increasing equality, however, was the levying of personal asset taxes: *zaisan-zei* (tax on assets) in 1946-51, and *fuyu-zei* (tax on the rich) in 1950-52. Of particular importance was the former, which broadly encompassed high-income earners (13% of taxpayers).

Major changes also took place in rural areas. Firstly, agrarian land reform in 1946 resulted in the confiscation of all agricultural land in the hands of absentee landowners and the purchase of agricultural land in excess of one hectare (four hectares in Hokkaido) owned by resident landowners, destroying the prewar tenant farming system and producing greater social and economic equality within rural areas. And secondly, a policy of price maintenance kept the price of agricultural produce high, dramatically shrinking the income gap between urban and rural areas.

However, increased postwar equality cannot be ascribed entirely to postwar policies, as some increased equality had been set in train during the war. In 1939-40, dividends were regulated, company directors' bonuses reduced, and the landowner-tenant relationship was already exhibiting signs of change. Under the National Mobilization Law (1938), tenant rents were frozen at 1939 levels, in addition to which rents for approximately 330,000 hectares of agricultural land were lowered by gubernatorial order until 1943. Nevertheless, these developments by no means diminish the significance of the effects of

postwar policies.

## **2. Transition from Rising Equality to Rising Inequality**

Series II in Figure 1 shows a clear increase in equality from the 1950s to the 1970s. Significantly, these decades include the high-growth period of the 1950s and 1960s, indicating that high growth and rising equality went hand in hand. Rapid urban industrialization prompted rural labor to move en masse to the cities, causing the rural labor force to decline dramatically and raising productivity. Around 1960, the surplus labor that had characterized Japan's modernization disappeared; the turning point was passed (Minami 1973, chap. 12; Minami 1994, 228-30). In the cities, moreover, the decline in the unemployment rate and shrinkage of the income gap between enterprises of different sizes accelerated growing equality. Thus by around 1970, Japanese society came to be regarded as being "all middle class," and it gained a reputation around the world as an egalitarian society. The Gini coefficient in 1972 (series IV) was 0.314.

According to series IV, however, inequality began to rise again from 1980, causing the Gini coefficient to reach 0.381 in 1999. The rise per year is an astonishing 0.0045, which exceeds even the 0.0031 rise per year recorded in the prewar period. Tachibanaki and a number of other scholars have propounded the existence of this remarkable phenomenon and its causes.<sup>8</sup> Despite the counterargument that the rise in inequality has been due to factors including population aging and that the rise is not so clear if the effects of these factors are removed from the equation, this view, together with that of the new social phenomenon of increasing irregular employment of primarily young people, is now the accepted one.

NEETs (young people not in education, employment, or training) and "freeters" (young people who are not permanent employees) are growing rapidly in number and, it is argued, sinking to the bottom of society, leading to increased inequality (Hashimoto 2006, 124-29; Tachibanaki 2006, 138-43). The advent of the "divided society" may thus be put down to fierce inter-firm competition resulting from deregulation, and is a global phenomenon that has occurred along similar lines in the United States, United Kingdom, and numerous other countries.

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<sup>8</sup> See, for example, Tachibanaki (1998, 2006) and Otake (2005).

## V. Conclusions and Their Implications

The principal conclusions that may be drawn from the preceding analysis are as follows: prewar Japan was unequal and rapidly becoming increasingly so; equality increased enormously as a result of postwar reforms (though this process had already begun to some extent during the war years); equality increased under conditions of high and then stable growth in the initial period after the war; and inequality began to rise again at a pace to rival the prewar period from the 1980s. Below, we examine the implications of these conclusions.

Firstly, the rises in inequality before the war and after differed in substance. The prewar growth in inequality is explained by the existence of surplus labor in agriculture and some urban industry, and the unlimited supply of labor from these sectors held down wage increases in urban industry. In the postwar period, the rise in equality was due to surplus labor being soaked up and eliminated by high economic growth. It has already been noted, however, that the cause of the contemporary rise in inequality lies elsewhere. Despite the resemblance to prewar inequality, rising inequality in its postwar guise has to be explained employing a different theoretical framework.

Secondly, the movements in income distribution in Japan are of international significance. The rise in inequality before the war and rise in equality during the period of high growth after the war are evocative of Kuznets' "inverse U hypothesis." While Kuznets did not fully explain the reasons behind the curve and numerous subsequent studies have drawn critical conclusions concerning it (Minami 1996, 1-3),<sup>9</sup> the Japanese experience described above nevertheless provides a fairly good fit with the hypothesis, and it is possible that the explanation offered in this paper may be directly applicable to the situation in developing countries that have succeeded in

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<sup>9</sup> These studies fall into two types. Those in the first type analyze historical changes in several countries, from which they draw positive conclusions about the Kuznets hypothesis. The second type are international comparisons at a given point in time, and these are largely dismissive of the hypothesis in their conclusions. Their precise conclusions vary, however, depending on the years and types of data chosen. Grouping the Gini coefficients of 81 countries between 1998 and 2002 into deciles according to per capita GNP using World Bank statistics, the author found that there was a clear peak at the fifth decile, supporting the Kuznets hypothesis (Minami 2005, figure 13-2).

industrializing. This is that such countries experience a rise in productivity, but the existence of surplus labor means that wages cannot keep up with this rise and the distribution of income deteriorates. As the process of industrialization reaches maturity, however, the surplus labor disappears and the income distribution improves.<sup>10</sup>

However, how should the new phenomenon described above—i.e., the rise once again of inequality observed in many developed countries, including Japan—be interpreted and theorized? Opinion is divided on whether this is entirely incompatible with the Kuznets hypothesis, or whether the hypothesis may be generalized by adding a reversal in the trend of rising equality to turn the “inverse U” shape into an “N” shape. If inequality continues to grow in a number of countries, the argument in favor of such a refinement of the hypothesis is likely to strengthen.

Thirdly, there is the question of the entrenchment or magnification of intergenerational inequality. The existence of a cycle whereby highly-educated high-income earners invest heavily in their children’s education, who in turn become highly educated and earn high incomes (Kariya 2001; Kikuchi 2003; Minami, Makino, and Luo 2008, chap. 10), means that educational background accelerates social stratification and magnifies growth in inequality.

On this point, a quantitative study of the poor in prewar Tokyo by Yazawa (2004, 332-33, 349) offers an intriguing perspective. Yazawa argues that the poor pruned their food expenses, putting spending on education first with the aim of achieving a long-term (spanning two households) improvement in their economic position through their children’s education. However, the fact that the proportion of spending on education increases as income falls is observable also in rural communities in present-day China (Minami, Makino, and Luo, 2008, chaps. 4 and 10). Education is thus a form of forced expenditure (regardless of education being compulsory, families still have to pay for sundry expenses instead of school fees), and the proportion of this spending is greater when income is lower. Although hard to prove, a similar situation may have pertained to the poor in prewar Japan.<sup>11</sup> Whether or not this is so, discussion

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<sup>10</sup> Contemporary China is an exemplar of this (Minami 2005; Minami, Makino, and Luo 2008, chap. 10).

<sup>11</sup> Even if school fees are not charged, families still have to spend on education in order to buy stationery and other supplies if their children are to remain in compulsory education.

of changes in income distribution must also tackle the subjects of social stratification and education.<sup>12</sup>

Fourthly, there is the impact on the economy of income distribution. It has been noted elsewhere that rising inequality in the prewar period (particularly the wage lag in relation to increases in productivity) has an advantageous effect on economic growth due to the generation of increases in the savings and investment rates (Minami 1996, 160-63). If this is so, however, there arises the question of how to explain the parallel high growth and rise in income equality after the war.

It has also been boldly proposed that inequality in prewar society raised social vitality—in other words, people's motivation—and so contributed to higher growth (Yazawa 2004, 573-75). However, it is quite probable that extreme disparities dampen people's desire to improve their social and economic positions, thus exerting a negative influence on economic growth (Hashimoto 2006, chap. 7). This is why growing inequality will be the biggest issue that confronts Japan in the future. How then can the widening disparity and rise in the growth rate in prewar Japan be explained? One interpretation is that, as suggested above, wages' relative decline spurred saving and investment, and another employs the opposite logic that new business opportunities expanded under conditions of rapid economic growth, acting as a stimulus on people. Whichever the case, this question awaits further research.

Fifthly, there is the social and political impact of income distribution. The impoverishment of the peasant population that was one of the factors contributing to rising prewar inequality is thought to have simultaneously engendered envy of and animosity toward the cities, generating despair in the party politics that allowed this situation to arise and a yearning for totalitarianism and a controlled economy (Minami 1996, 140-45; Minami and Jiang 1999, 53-57). The repeated coups d'état by young officers (most of whom were themselves from rural communities) arose out of and won public sympathy under these conditions. The prewar descent into militarism and its tragic consequences were thus not unrelated to the growing inequality during this period. After the war, however, a more equal income distribution generated social stability and a certain advancement of democracy that, it is thought, had

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<sup>12</sup> Regarding social stratification theory, see Hashimoto (2006).

a positive impact on economic growth.<sup>13</sup>

Question marks remain, however.<sup>14</sup> One possible viewpoint is that it is not increasing inequality, or relative impoverishment, that gave rise to public discontent, but rather changes in real income itself, and it is certainly the case that real incomes dropped considerably in the latter half of the 1920s. According to the former position, rising inequality in contemporary Japan therefore exerts some kind of negative influence on society and politics, while according to the latter, Japan's well-being is assured provided that real incomes at the bottom of contemporary society do not decline. Exploring this question will be an important avenue of research on the subject of income distribution.

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<sup>13</sup> Regarding the relationship between income distribution and democracy, see Minami and Kim (1999).

<sup>14</sup> Regarding rising inequality and its consequences in countries including Japan, see the papers in Minami, Kim, and Falkus (1999) (particularly the introduction by Minami and Kim [1999]).

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# Trends in Poverty among Low-income Workers in Japan since the Nineties

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## I. Introduction

After the rapid economic growth in Japan during the 1950s and 1960s, the energy policy in response to the two oil crises and technological innovation, Japan's economy has grown to a scale that is sufficiently large to produce the world's second largest GDP. Its residents' living standard is very high compared with those of people who live in most other countries.

Over the past decade or so, however, a number of factors, including the falling birthrate and population aging, growing market globalization, and the effects of the Heisei recession, have combined to wreak ongoing major changes in the economic and social environment of Japan, where it was once held that "everyone is middle class." Since the mid-1990s, marked increases in the number of households receiving public assistance and households without savings have been confirmed, and many households, especially those on low incomes, are experiencing growing livelihood insecurity. This situation has prompted a strong interest in the subject of poverty in Japan.<sup>1</sup>

An overview of poverty in Japan from a historical perspective shows poverty in the past and poverty today to be extremely different in character. The most important difference is that poverty is today less serious than in the past, for, while long ago occasional famines could lead to starvation, there are now few people who live in such extreme poverty that they are almost starving to death.

Nonetheless, people evaluate their lives by comparing with those of others, and, if they feel that their standard of living is much worse, they will consider themselves to be poor and many other people in the society, too, will reach a similar conclusion. As the severity of poverty needs to be evaluated in comparison to others, research into poverty is a worthwhile pursuit in any age.<sup>2</sup>

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<sup>1</sup> Analyses of the state of poverty in Japan since the 1990s include Abe (2006), Iwata (2004, 2005), Komamura (2003), and Wada and Kimura (1998).

<sup>2</sup> Citing Schulz in *Die Bewegung der Produktion* (1843, 65) Marx emphasizes in

In other words, this kind of poverty, too, cannot be ignored in a mature society such as Japan's. In addition, due to growing homelessness and indebtedness, the number of people leading a hand-to-mouth existence is following an upward trend even in the modern economic powerhouse that Japan now is.<sup>3</sup>

According to the Ministry of Health, Labour and Welfare's *Shakai fukushi gyosei gyomu hokoku* [Social Welfare Services Report], the aforementioned number of households receiving public assistance exceeded the one million mark in 2005, and had reached 1,075,820 in 2006. As most households receiving assistance are taken up by elderly households (especially elderly single-person households) or fatherless households, most interest in the issue of poverty is directed toward these groups. However, an increasing number of households headed by adults of working age, and not just fatherless households, are falling below the public assistance standard (Tachibanaki and Urakawa 2006). Although the spread of poverty among people of working age is thought to be closely related to the prolonged slump of the 1990s and changes in firms' governance and the employment environment, relatively few studies in Japan have as yet examined the expansion of the working poor.

In this paper, therefore, we first summarize the various approaches to the issue of "poverty," and then consider the situation regarding the "poverty" of workers in Japan since the 1990s based mainly on estimates calculated using micro data from the *Shotoku saibunpai chosa* [Income Redistribution Survey].

## II. Definitions and Methods of Estimating "Poverty"

### 1. "Absolute Poverty" and "Relative Poverty"

To measure poverty, we must first decide what circumstances experienced by members of society should be regarded as "poverty." This is a task referred

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*Ökonomisch-philosophische Manuskripte* (1844) the problem of poverty caused by increased disparity relative to others, and raises strong doubts about reducing the issue of workers' poverty to just the realm of physical wants.

<sup>3</sup> According to *Hoomuresu no jittai ni kansuru zenkoku chosa* [National Survey of the State of the Homeless] conducted jointly by the Ministry of Health, Labour and Welfare and the Ministry of Land, Infrastructure, Transport and Tourism, the homeless population of Japan had reached 25,296 in 2003. Although this figure has since declined to 18,564 according to the latest survey in 2007, studies reveal widespread homelessness in regional hub cities as well as major cities. A large proportion of the homeless are day laborers (especially middle- and old-aged unskilled workers) in long-term unemployment.

to as the recognition of poverty, with poverty normally defined based on a set standard, known as the “poverty line” established on the basis of specific criteria. Under this definition, individuals (or households) falling below the poverty line are judged to be in poverty.

The key question here concerns exactly what should be regarded as poverty, and there are basically two approaches to this question: “absolute poverty” and “relative poverty.” The concept of absolute poverty focuses on an absolute standard defined as an income below which a household is unable to eat or lead the absolute level of subsistence. A well-known survey of poverty that employs this approach is Rowntree’s survey of poverty in York in England (1899).

Focusing on the minimum cost of living necessary for a human to survive, Rowntree defined the state of being unable to obtain the necessary calories for subsistence as “primary poverty.” According to this definition, people who cannot spend the minimum cost for bare physical subsistence<sup>4</sup> are considered to be in poverty. Rowntree found that approximately 15% of the working class and 10% of the total population lived in “primary poverty.” This finding that one in seven of the working class of the United Kingdom, which at the time occupied a central position in economic development, experienced such deprivation that they were unable to maintain a healthy physical existence caused tremendous shock and generated awareness of poverty as a social concern.

An interesting aspect of Rowntree’s survey is its consideration of secondary as well as primary poverty. Unlike primary poverty, which considers only the cost of food necessary for subsistence, secondary poverty also takes into account other minimum expenditures necessary for life. Most countries now include minimum expenditures on things such as clothing and housing as well as the cost of food in defining poverty, so Rowntree’s study of poverty was highly significant in that it marked the starting point of this approach.

A well-known Japanese work that introduced the state of poverty in the West in the 19th and early 20th centuries to a Japanese audience was Hajime Kawakami’s *Binbo Monogatari* [Tales of Poverty] (1916). Writing that “By poverty in these tales, I mean the inability to obtain even the necessary materials to maintain the *sound development of mind and body*,”<sup>5</sup> Kawakami argued that it was necessary to include clothing, accommodation, and fuel

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<sup>4</sup> Yamamori (2005), 38.

<sup>5</sup> Kawakami (1916), 42.

costs and other sundry expenses in the minimum cost of living, as well as simply expenditures necessary to maintain subsistence. Although his focus was on the concept of absolute poverty, he was more interested in secondary than primary poverty according to Rowntree's definition above.

Next, we described the concept of "relative poverty." In simple terms, this is poverty relative to society as a whole, and is a definition that is informed by a recognition of the extent to which poverty is socially accepted in comparison to others. In developed countries, where the tragedy of starvation is at least not a serious social problem, poverty is commonly measured using this relative concept. In other words, people who do not enjoy a standard of living considered sufficient to participate unashamedly in various social activities are regarded as being in poverty. For example, a threshold such as 60% or 50% or less of median disposable income, as employed in EU and OECD statistics, is used for this standard, and a recent OECD report that indicated that the relative poverty rate in Japan had risen from 13.7% in 1994 to 15.3% in 2000—the highest among developed countries after the United States at 17.1% (Förster and d'Ercole 2005)—generated shock waves in Japan when it was published.<sup>6</sup>

Whether 60%, 50%, or some other figure, the well-suited level of this threshold will vary depending on a country's stage of economic development, and should also be determined taking into consideration its specific cultural characteristics. Nevertheless, defining poverty according to a certain percentage of median income is a commonly used method of measuring poverty, and so is valuable as means of ensuring the reliability of international comparisons.

Another important concept is that of "relative deprivation," which was developed by Peter Townsend based on the concept of relative poverty. Townsend regarded poverty as the condition of being unable to participate in social activities that have become customary in the society to which one belongs, or the state of being deprived of the social resources required in society, and measured deprivation by a variety of measures (Townsend 1979).

Townsend's approach to poverty is characterized by its use of multidimensional variables as well as simply income variables in order to measure poverty, and his approach has exerted a major impact on various measures of poverty in

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<sup>6</sup> A recent study on poverty indicates that if the poverty rate in 2000 is calculated keeping the relative poverty line at its level in the mid-1980s, the poverty rate declines in other OECD countries, but rises in Japan (Abe 2006, 112).

Europe today. This point is considered further in Section V.

## **2. Measurement of Poverty Based on the Public Assistance Standard**

In most countries today, a certain (albeit varying) degree of public assistance is provided to people in poverty or on extremely low incomes. This may be regarded as the product of a social consensus on the idea that it is necessary to secure a national minimum for all, and the base amounts set for assistance benefits may also be interpreted as a form of poverty line.

Under Japan's public assistance system, the base amounts used as standards for calculating benefits were determined by a method called the Gap Reduction Method from 1965 to 1983, while since 1984 they have been determined by the Standard Equilibrium Method. This method is used to calculate the minimum cost of living, and is characterized by its incorporation of elements of both the aforementioned concepts of "absolute poverty" and "relative poverty." To briefly summarize, the cost of living is calculated based on the nutritional requirements required in each age group to live. This cost of living is then adjusted on a sliding scale according to a given revision rate in order to reduce the gap in the consumption level between ordinary households and households receiving public assistance. The base amounts for the public assistance standard in fiscal 2005 (Region Grade 1-1) are shown in Table 1.

Article 1 of the Public Assistance Act states that "the purpose of public assistance is for the State to guarantee a minimum standard of living ... for all citizens who are living in poverty by providing the necessary benefit according to the level of poverty," based on the principles prescribed in Article 25 of the Constitution of Japan. Therefore, the minimum cost of living established by the State may be said to contain a strong "absolute" element in the sense that it "secures a national minimum for all citizens." It is thus normative in the sense that it says that "society will not allow citizens" to fall below this level." However, the standard of living (level of consumption) of ordinary households is taken into consideration in calculating minimum cost of living, so the system also incorporates a "relative" element, creating a contradiction of sorts that blurs the role and position of public assistance in Japan.

Though a difficult task, further detailed investigation of the suitability or otherwise of the public assistance standard as a minimum level of income security is needed, and it is hoped that there will emerge an institutional design in which the base amounts can be shared by society as a whole as a form of universal

**Table 1. Public assistance standard base amounts  
(FY2005: Region grade 1-1, monthly amounts)**

Type 1

(Unit: yen)

Age category (years of age)	Base amount
0-2	20,900
3-5	26,350
6-11	34,070
12-19	42,080
20-40	40,270
41-59	38,180
60-69	36,100
70 or over	32,340

Notes: 1. The under-20-year-old category in Type 1 was simplified and regrouped from eight into four age groups in 2005.

2. From 2005, the sum of Type 1 individual expenses is multiplied by 0.98 to yield the Type 1 expense for households consisting of four members. In the case of households with five or more members, this sum is multiplied by 0.96.

Type 2

(Unit: yen)

	Number of members of household				Amount added per member in excess of 4
	1	2	3	4	
Base amount	43,430	48,070	53,290	55,160	440

Source: Health and Welfare Statistics Association (2005), *Trends in National Welfare*.

standard below which people are not allowed to fall, rather than being interpreted simply as variables for manipulation.

### III. Rising Relative Poverty Rate

#### 1. Yearly Movements in the Poverty Level

Having thus discussed the concepts of absolute and relative poverty and the characteristics of the public assistance standard in Japan, we proceed in this section to examine poverty since the 1990s. We do so primarily from the point of view of relative poverty using micro data from the Income Redistribution

Survey.<sup>7</sup> Our choice of using the concept of relative poverty as our standard is due to the following reasons. Firstly, while the focus of absolute poverty is on bare subsistence, it is surprisingly difficult to clearly define the level of this in an economically developed country such as Japan. Secondly, despite the even greater need to conduct a comprehensive analysis that encompasses people such as the homeless who are excluded from customary residential life if absolute poverty is to be observed, such people are not included in the data used here. In this survey, therefore, we have opted to trace poverty relatively using “income” as our benchmark. As we shall describe in detail later on, it is important to emphasize also that the poverty line determined in accordance with the relative concept is set at an extremely low level in present-day Japan.

Table 2 shows trends in poverty since the 1990s among households in Japan based on disposable income<sup>8</sup> expressed by two indices: the poverty rate and the poverty gap rate. The poverty line is set at 50% of the median value of equivalent disposable income ( $e = 0.5$ ) adjusted for differences in household size.<sup>9</sup>

Looking at Case 1 in Table 2, it is apparent that the poverty rate expressing the proportion of households at or below the poverty line has increased yearly since the mid-1990s, rising from 15.2% in 1995 to 16.2% in 1998 and 17.0% in 2001. From 1995 to 2001, there is a somewhat startling increase in the relative poverty rate, notwithstanding a dip in the income level of the middle class that brings the poverty line down by around 100,000 yen.<sup>10</sup> If we look at the estimates

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<sup>7</sup> Data from the Income redistribution survey were cleaned to remove contradictory data. In this paper, households with negative disposable income were excluded from the analysis. These were defined as those cases whose tax and social contributions were completely out of balance with their income level before deduction of tax and social insurance contributions, which was regarded as due to understatement of income or overstatement of contributions. As a result, around 0.2-0.5% of the sample was excluded in each year, and the samples consisted of 8,796 households in 1993, 8,132 households in 1996, 7,936 households in 1999, and 7,621 households in 2002.

<sup>8</sup> Expressed as follows: [disposable income] = [initial income] + [public and service pensions] + [other social security benefits] - [direct taxes] - [social insurance contributions]. [Other social security benefits] includes assistance under the Public Assistance Act, health insurance disability/maternity allowances and childbirth expenses, employment insurance and industrial accident benefits, and child support.

<sup>9</sup> Equivalent disposable income is expressed by  $W$  (equivalent disposable income) =  $D / S^e$ , where  $D$  is disposable income,  $S$  is household size, and  $e$  is the equivalence scale. For the analysis in this paper, we use  $e = 0.5$ , as commonly used in OECD and other reports.

<sup>10</sup> Abe (2006), who estimated the poverty rate on an individual basis (proportion of all

**Table 2. Yearly trends in poverty index based on equivalent disposable income I**

[e=0.5]	Median (10,000 yen)	Case 1: Annually variable poverty line			Case 2: Poverty line fixed at 1995 level		
		Poverty line (10,000 yen)	Poverty rate (%)	Poverty gap rate (%)	Poverty line (10,000 yen)	Poverty rate (%)	Poverty gap rate (%)
All households (1992)	270.1	135.1	<b>15.2</b>	5.2	139.2	<b>16.1</b>	5.5
All households (1995)	284.2	142.0	<b>15.2</b>	5.3	142.0	<b>15.2</b>	5.3
All households (1998)	280.5	140.3	<b>16.2</b>	5.9	145.9	<b>17.5</b>	6.3
All households (2001)	262.1	131.1	<b>17.0</b>	5.9	144.4	<b>20.2</b>	7.1
Difference in poverty rates test		Case.1: 95-98(+0.90 <sup>+</sup> ), 95-01(+1.68 <sup>**</sup> ), 98-01(+0.78)			Case.2: 95-98(+2.31 <sup>**</sup> ), 95-01(+5.03 <sup>**</sup> ), 98-01(+2.72 <sup>**</sup> )		

- Notes: 1. Calculated from *The Income Redistribution Survey* (1993, 1996, 1999, 2002).
2. In Case 1, the poverty line is estimated to be 50% of the median of equivalent disposable income.
3. In Case 2, the poverty line is established using as the standard 50% of the median value of equivalent disposable income in 1995, taking into account the rate of increase in consumer prices. Used for these calculations is the *Annual Report on the Consumer Price Index 2003* (Ministry of Internal Affairs and Communications Statistics Bureau 2004).
4. \*\*, \* and + indicate that the difference in the poverty rates in each year is statistically significant at the 1% level, 5% level and 10% level, respectively.

shown in Case 2, for which the 1995 poverty line was applied to other years as well (after adjusting for the price level in each year), we find that there was a serious situation, with over 20% of all households falling below the poverty line in 2001.<sup>11</sup>

individuals who are in a state of poverty) rather than a household basis (proportion of all households that are in poverty), similarly found that the poverty rate in society as a whole has been rising yearly since the 1980s. However, estimating the poverty rate for individuals produces a slightly higher poverty rate in 1998 (14.85%) than 2001 (14.80%), which may be ascribed to changes in household structure, including a rise in single-person households. However, both sets of estimates confirm that overall poverty is following an upward trend.

<sup>11</sup> The 1995 poverty line of 1,420,000 yen was used for both 1998 and 2001, and data from the 2003 edition of the *Shohisha bukka shisu nenpo* [Annual Report on the Consumer Price Index] produced by the Ministry of Internal Affairs and Communications Statistics Bureau was used to adjust for the rate of increase in the consumer

**Table 3. Differences in poverty line according to household size**

Poverty line	Household size (number of members)					
	1	2	3	4	5	6
1992	135.1	191.1	234.0	270.2	302.1	330.9
1995	142.0	201.0	246.1	284.2	317.7	348.1
1998	140.3	198.4	243.0	280.6	313.7	343.7
2001	131.1	185.4	227.1	262.2	293.1	321.1

Notes: 1. The poverty line is expressed in units of 10,000 yen. Households in poverty are defined as households whose household disposable income does not exceed the above amounts.

2. Calculated based on an equivalence scale of  $e = 0.5$ .

Table 3 shows the level of the poverty line according to household size when considered in terms of ordinary disposable income. Taking 2001 as an example, the poverty line is 1,310,000 for single-person households, 1,850,000 for two-person households, and 2,270,000 for three-person households. As is evident from the table, the poverty line is set at quite a low level even when poverty is defined based on the concept of relative poverty. Notwithstanding the lowness of the poverty line, one in six households is on or below the poverty line in present-day Japanese society.

## 2. Verification by the TIP Curve

The expansion of poverty in the late 1990s can be represented graphically by the three indices of poverty (TIP) curve applying the Lorentz curve described by Jenkins and Lambert (1997).

The TIP curve is created by plotting the cumulative rate of households  $p(k)$  ( $0 \leq p(k) \leq 1$ ) to households  $i = 1, 2, \dots, k, \dots, n$  in order of low to high income on the horizontal axis, and the cumulative value of the poverty gap per household on the vertical axis, and can be expressed by Formula (1) below.

$$TIP(g; k/n) = \sum_{i=1}^k g_i / n \quad \text{for } k \leq n \quad [g_i = \max\{z - x_i, 0\}] \quad (1)$$

The value on the horizontal axis when the TIP curve is exactly horizontal is the poverty rate (head-count ratio), and the value on the vertical axis when it is

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price index from 1995 to 1998 and 2001. The poverty lines in 1998 and 2001 were as a result calculated to be, respectively, 1,459,000 yen and 1,444,000 yen.

horizontal coincides with the poverty gap ratio.<sup>12</sup> The inequality of income distribution of people in poverty is also given by the degree of concavity of the TIP curve.

It is thus possible to ascertain visually the frequency, intensity, and inequality of poverty by analyzing the shape of the TIP curve.

Figure 1 shows the TIP curves for 1995, 1998, and 2001 in the case that the poverty line is set at 50% of the median of equivalent disposable income, as in the case of the estimated results in Table 2. From this it is clearly evident that the frequency of poverty (poverty rate) is trending upward.

Turning to Figure 2, which shows the TIP curve when the poverty lines in 1998 and 2001 are based on the poverty line in 1995 adjusted according to the subsequent level of consumer prices, it can be seen that poverty grows in every respect—whether in terms of frequency, intensity, or inequality—from the mid-1990s.

### 3. Trends in Poverty Index by Employment Status of Head of Household

To investigate the types of household which tends to go into poverty, it is important to consider the occupation of the head of household. One would expect factors such as the head's having already retired or being in self-employment, employment as a white-collar worker, or being without employment despite being of working age to be closely correlated with the probability of experiencing poverty. Changes in the household structure according to the various statuses of their heads may be affecting the rise in the poverty rate in the economy as a whole. Focusing on the employment status of the head of household, therefore, our calculations of the poverty rate according to employment status of head of household and the rates of contribution to the poverty rate  $\left[ \left( n^k P(x^k, z) / nP(x, z) \right) \cdot 100 \right]$  in 1995 and 2001 are shown in Table 4.

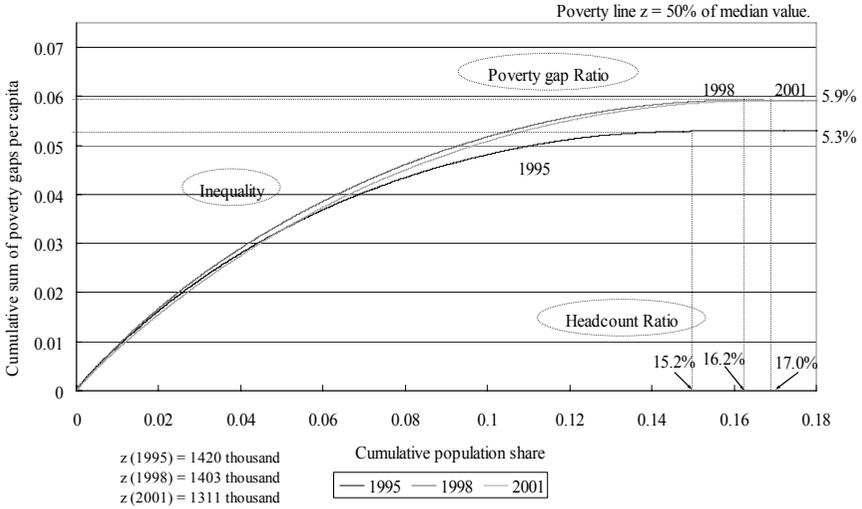
From Table 4, it can be seen that in both 1995 and 2001, high contributions to the rise in the poverty rate were made by those without employment (old),

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<sup>12</sup> The poverty gap rate is expressed by  $PG = \int_0^z \left( \frac{z-x}{z} \right) f(x) dx$ , and is used as a measure of the severity of poverty. [ $x$ : income,  $f(x)$ : probability density function of  $x$ ,  $z$ : poverty line]

**Figure 1. TIP curve (95, 98, 01)**

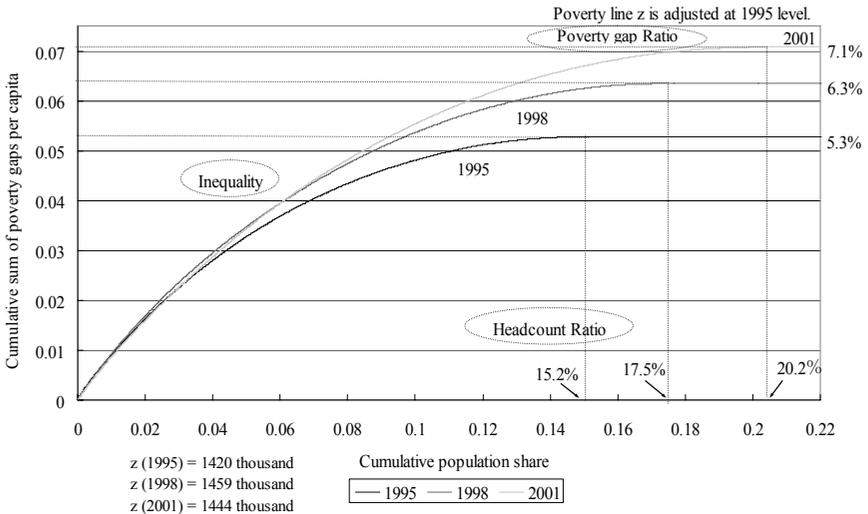
Equivalent disposable income [Case. 1]



Source: Calculated from *The Income Redistribution Survey*.

**Figure 2. TIP curve (95, 98, 01)**

Equivalent disposable income [Case. 2]



Source: Calculated from *The Income Redistribution Survey*.

Table 4. Poverty rates and contribution rates by employment status of head of household (1995-2001)

	Percentage of total (%)		Percentage of households in poverty (%)		Poverty rate (%)		Contribution to poverty rate (%)		Change in contribution rate
	1995	2001	1995	2001	1995	2001	1995	2001	
Poverty rate for all households					15.24	16.88 (+1.64**)			
<i>Employment status of head of household</i>									
Company/organization executives		4.8	1.3	1.5	4.2	5.2	1.3	1.5	+0.2
Regular employee (firm size: 1-29 employees)	12.46	11.92	11.1	8.9	13.62	12.61	11.1	8.9	-2.2
Regular employee (firm size: 30-99 employees)	9.6	8.76	6.5	5.3	10.37	10.24	6.5	5.3	-1.2
Regular employee (firm size: 100-999 employees)	13.81	12.87	6.6	4.1	7.3	5.33	6.6	4.1	-2.5
Regular employee (firm size: 1,000 or more employees)	11.83	9.46	1.7	2.0	2.18	3.63	1.7	2.0	+0.4
Civil servants	7.12	7.6	1.0	0.9	2.07	2.08	1.0	0.9	0.0
Employee on contract of less than one year	1.71	3.16	3.2	5.7	28.78	30.42	3.2	5.7	+2.5
Self-employed	13.33	13.27	21.2	18.8	24.26	23.86	21.2	18.8	-2.4
Home piece-rate worker and other	10.98	7.29	11.8	8.0	16.35	18.44	11.8	8.0	-3.8
Without employment (young, early middle-age, late middle-age)	3.23	5.37	8.1	16.5	38.02	51.6	8.1	16.5	+8.4
Without employment (old)	11.24	15.48	27.4	28.2	37.2	30.58	27.4	28.2	+0.7

Source: Calculated by the authors from *The Income Redistribution Survey* (1996, 2002). Households headed by someone of unknown employment status were excluded from the sample.

1995 poverty line = 142.0

2001 poverty line = 131.1

Notes: 1. "Old" refers to household heads aged 65 or over (men) and 60 or over (women).

2. \*\* indicates that the difference between the poverty rates for 1995 and 2001 is statistically significant at the 1% level.

those without employment (young, early middle-age, late middle-age), the self-employed, and home piece-rate workers. These are followed by regular employees of enterprises with fewer than 30 employees, and employees on contracts of less than one year. As one might have expected, older people on low incomes, people without employment, workers in unstable employment, and the self-employed have an enormous impact on poverty.

When the change in the contribution rates in 2001 compared with 1995 are taken into account, the largest positive change is 8.4% for households whose heads are without employment (young, early middle-age, late middle-age), followed by 2.5% for households headed by employees on contracts of less than one year. Although heads of working age without employment are not necessarily unemployed (i.e., persons who did not work at least one hour of income-generating work per week but who are able to work, desire to work, and are job hunting), it is estimated that there were a considerable number of unemployed if the “latent” unemployed, i.e., those who want to work but have given up trying to find a job due to the recession, are also included. (Tachibanaki 2002). This period also coincides with the time that the unemployment and business closure rates jumped due to the increasing severity of the economic downturn. Accordingly, the increase in unemployment in the latter half of the 1990s is likely to have had a major impact on the overall increase in poverty in Japan. According to the Ministry of Internal Affairs and Communications’ annual *Rodoryoku chosa* [Labor Force Survey], the number of unemployed increased by approximately 1.3 million between 1995 to 2001, and the unemployment rate rose 1.8%.<sup>13</sup>

There are various contentions concerning the impact of the growth in non-regular workers<sup>14</sup> on income disparity and poverty. It is argued by some people that the increase has stemmed growth in unemployment and so may in fact have served to reduce poverty. However, the extremely low level at which the minimum wage is set in Japan compared with in other countries<sup>15</sup> and the

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<sup>13</sup> For a detailed analysis of the increase in unemployment in Japan in the late 1990s, see Abe (2005, chap. 2).

<sup>14</sup> According to the Ministry of Health, Labour and Welfare’s *Rodo keizai hakusho* [White Paper on the Labour Economy] (2004), the proportion of non-regular personnel and employees among all employed persons (excluding directors) rose from 20.9% in 1995 to 27.2% in 2001.

<sup>15</sup> See Tachibanaki and Urakawa (2006). For analyses of the minimum wage in Japan, see Abe (2001, 2004). For an overview of changes in the minimum wage system in

extremely high poverty rate and rising contribution rate among households headed by employees on contracts of less than one year are shown in the estimated results. It can be thought that a simple expansion of non-regular labor does not intrinsically lead to reduction in poverty.

#### **4. Poverty of Single-person Households of Working Age**

Tachibanaki and Urakawa (2006) note that the type of household most affected by the rise in unemployment and rise in unstable employment has been single-person households of working age, and we review this point in this paper too.

Table 5 shows trends in the poverty and contribution rates by employment status of household head among single-person households. Unlike in Table 4, the single-person households shown here exclude households headed by someone aged under 25 in order to eliminate as far as possible households headed by students.

The main observations that can be made from Table 5 are as follows. Firstly, the breakdown by employment status of head of household shows that the proportion whose heads are without employment or are employees on contracts of less than one year is higher than among all households. In 2001, the proportion of heads without employment was 18.4%, and the proportion of employees on contracts of less than one year was 6.9%.

Secondly, the change in the contribution rate between 1995 and 2001 is greater for “without employment” households (+19.1%) and “employees on contracts of less than one year” households (+5.6%) than for households as a whole.<sup>16</sup>

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Japan and foreign research on the minimum wage, see the Japan Institute for Labour Policy and Training (2005).

<sup>16</sup> Among single-person households of working age, there is a particularly marked increase between 1995 and 2001 in cases of heads aged 55-64 who are without employment. In 2001, approximately 67% of single-person households without employment (whose heads were aged 25-64) had household heads aged 55-64. According to Abe (2005), underlying this situation is, among other things, the rise in involuntary redundancies among older people due to the deteriorating economic situation in the late 1990s. Considering that the relative poverty rate among the above households is actually rising, there appears to have been a major rise in the level of poverty among single-person households headed by middle- and old-aged people. The correlation between low income and non-ownership of financial assets is also extremely high (see Suzuki [2005]).

**Table 5. Trends in poverty rates and contribution rates by employment status of head of household among single-person households of working age (1995-2001)**

	(Poverty line = 50% of median of equivalent disposable income)								
	Percentage of total (%)		Percentage of households in poverty (%)		Poverty rate (%)		Contribution to poverty rate (%)		Change in contribution rate
	1995	2001	1995	2001	1995	2001	1995	2001	
Poverty rate of single-person households									
<i>Employment status of head of household</i>									
Company/organization executives									
Regular employee (firm size: 1-29 employees)	2.4	1.8	1.0	1.3	6.7	14.3	1.0	1.3	+0.3
Regular employee (firm size: 30-99 employees)	19.0	16.2	18.0	7.8	15.0	9.7	18.0	7.8	-10.2
Regular employee (firm size: 100-999 employees)	14.4	10.6	11.0	5.2	12.1	9.9	11.0	5.2	-5.8
Regular employee (firm size: 1,000 or more employees)	20.1	14.0	10.0	4.6	7.9	6.5	10.1	4.5	-5.6
Civil servants	10.9	12.5	0.0	2.0	0.0	3.1	0.0	1.9	+1.9
Employee on contract of less than one year	8.4	9.9	0.0	1.3	0.0	2.6	0.0	1.3	+1.3
Self-employed	4.4	6.9	8.0	13.7	28.6	39.6	8.0	13.6	+5.6
Home piece-rate worker and other	8.5	5.9	18.0	13.7	33.3	46.7	17.9	13.7	-4.2
Without employment	2.7	3.8	7.0	4.5	41.1	24.1	7.0	4.6	-2.4
	9.3	18.4	27.0	46.1	45.8	50.4	27.0	46.1	+19.1
Poverty rate of single-person households (if breakdown by employment status of head of household in 1995 is unchanged)					15.80	20.10 (+4.30*)			
					15.80	16.54 (+0.74)			

Source: Calculated by the authors from *The Income Redistribution Survey* (1996, 2002). Households headed by someone of unknown employment status were excluded from the sample.

Note: Single-person households excluding old single-person households and households whose head of household is aged under 25 were used for the analysis (1995: N = 633, 2001: N = 766)

As is also apparent from the high contribution rate of households whose heads are without employment, there is an extremely strong correlation between poverty and whether or not heads of households of working age have work. Normally, a person can receive unemployment benefit in the event of unemployment provided that he/she is enrolled in employment insurance and meets several conditions. Employment insurance is an exceedingly important safety net against unemployment. As Tachibanaki (2002) observes, however, Japan's unemployment safety net is as restricted as that of the U.S., and some 60% of the unemployed presently do not receive unemployment benefits.<sup>17</sup> A great many people thus fall between the cracks of the system. Moreover, even if a person is able to receive unemployment benefit, there are cases where benefits cease due to the length of unemployment. In other words, the increase in people falling between the cracks of the employment insurance system and those who cannot find work even after their eligibility for unemployment benefit expires is also probably a factor behind the increase in the poverty level in Japan.

The poverty rate in 2001 if the breakdown by employment status of head of household is fixed at the level in 1995 is 16.5%, which is approximately 3.5% lower than the actual poverty rate of 20.1%. From 1995 to 2001, the proportion among single-person households headed by people such as directors, regular workers, and government employees, which typically have lower poverty rates, fell from 75.2% to 65%, and the proportion among households headed by non-regular employees, persons without employment, and home piece-rate workers, which have higher poverty rates, rose from 16.4% to 29.1%. The impact of these changes on the rise in the level of poverty in Japan was considerable.

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<sup>17</sup> According to the Ministry of Internal Affairs and Communications' Labor Force Survey, the average number of unemployed in 2001 was approximately 3.4 million, but the number of recipients of unemployment benefit in the same year was approximately 1.1 million. (See Health and Welfare Statistics Association [2002, 199-207]).

In order to enroll in the present employment insurance system, employed persons must meet two conditions: i) they must be continuously employed, and ii) they must work normal working hours of at least 20 hours per week. In 2001, the annual requirement for part-time and dispatched workers (requiring that they earn at least 900,000 yen a year) was abolished, but many part-time and contract workers remain excluded. Government employees are also not covered.

#### **IV. Characteristics of Poor Households: Type of Household, Age Group, Industry, and Region**

Having examined the characteristics of households that fall below the relative poverty line (poor households) focusing on the employment status of the head of household, there is a strong possibility that the age group of the head of household, household type, region of residence, and other such attributes are also closely related to poverty. In order to examine in greater detail what attributes characterize poor households in comparison with ordinary households, therefore, we performed a probit analysis of poverty factors by controlling variables concerning household attributes. The data used are micro data from the Ministry of Health, Labour and Welfare's Income redistribution survey (1996-2002), as in the preceding section, and the descriptive statistics of the dummy variables used in the analysis are shown in Table 6.

##### **1. Characteristics of Poor Households**

Table 7 shows the results of a probit analysis of the characteristics exhibited by households on or below the relative poverty line. For the explained variable we use a discrete variable, which equals 1 if a household is at or below the relative poverty line and 0 if not. As in the preceding section, the poverty line is set at 50% of the median value of equivalent disposable income ( $e = 0.5$ ). The explanatory variables are dummy variables that express households' various attributes, including type of household, age group of head of household, employment status of head of household, and area of residence of household. The reference group for each group of explanatory variables is shown in angle brackets on the left side of the table. If we take household type as an example, the marginal effect of "single female parent household" expresses the extent of the change in the probability of falling into poverty compared with "nuclear family" when other control variables are unchanged.

According to the results of estimates shown in Table 7, the "Household type" that were positively significant at the 1% significance level in both 1995 and 2001 were "single female parent household," "older single-person household," and "single-person household (excluding older person households). The probability of these households falling into poverty is evidently extremely high, even after controlling for other factors, and the marginal effects of the variables "single female parent household" and "older single-person household"

**Table 6. Descriptive statistics of variables used (1995, 2001)**

Dummy variables	1995		2001	
	Mean	Standard deviation	Mean	Standard deviation
<i>Household type</i>				
Nuclear family household	0.591	0.491	0.547	0.498
Single-person household (excluding older person households)	0.094	0.292	0.127	0.333
Older two-or-more-person household	0.088	0.284	0.095	0.293
Older single-person household	0.067	0.250	0.082	0.274
Single female parent household	0.013	0.112	0.015	0.122
Three-generation household	0.131	0.337	0.113	0.317
Other household	0.098	0.297	0.109	0.312
<i>Age group of head of household</i>				
Under 30	0.071	0.256	0.075	0.264
30-49	0.367	0.482	0.283	0.450
50-59	0.220	0.414	0.224	0.417
60-69	0.201	0.401	0.208	0.406
70 or over	0.140	0.347	0.210	0.407
<i>Employment status of head of household</i>				
Company/organization executives	0.047	0.211	0.048	0.214
Regular employee (firm size: 1-29 employees)	0.125	0.330	0.119	0.324
Regular employee (firm size: 30-99 employees)	0.096	0.295	0.088	0.283
Regular employee (firm size: 100-999 employees)	0.138	0.345	0.129	0.335
Regular employee (firm size: 1,000 or more employees)	0.118	0.323	0.095	0.293
Civil servants	0.071	0.257	0.076	0.265
Employee on contract of less than one year	0.017	0.130	0.032	0.175
Self-employed	0.133	0.340	0.132	0.339
Home piece-rate worker and other	0.110	0.313	0.073	0.260
Without employment (working age)	0.040	0.195	0.077	0.266
Without employment (older person)	0.105	0.306	0.132	0.338
<i>Size of municipality of residence</i>				
Large city	0.187	0.390	0.205	0.404
City of 50,000 or more population	0.546	0.498	0.495	0.500
City of less than 50,000 population	0.268	0.443	0.300	0.458
<i>Regional block</i>				
Hokkaido	0.042	0.201	0.050	0.218
Tohoku	0.080	0.272	0.078	0.269
Kanto I	0.244	0.429	0.240	0.427
Kanto II	0.065	0.246	0.088	0.283
Hokuriku	0.047	0.211	0.044	0.206
Tokai	0.136	0.343	0.123	0.328
Kinki I	0.124	0.330	0.108	0.311
Kinki II	0.026	0.160	0.031	0.174
Chugoku	0.064	0.245	0.069	0.254
Shikoku	0.030	0.170	0.034	0.181
Kita-Kyushu	0.071	0.257	0.076	0.266
Minami-Kyushu	0.071	0.257	0.058	0.234
Sample size	8125		7580	

**Table 7. Probit analysis of causes of poverty (1995, 2001)**

Explained variable: Household at or below relative poverty line = 1

Explanatory variables	1995		2001	
	Marginal effect	Standard error	Marginal effect	Standard error
<b>Household type</b>				
<Nuclear family household>				
Single-person household (excluding older person households)	0.067 **	0.017	0.114 **	0.018
Older two-or-more-person household	0.047 *	0.021	0.108 **	0.027
Older single-person household	0.265 **	0.037	0.350 **	0.039
Single female parent household	0.415 **	0.053	0.472 **	0.050
Three-generation household	-0.024 *	0.011	0.009	0.016
Other household	0.058 **	0.015	0.104 **	0.018
<b>Age group of head of household</b>				
<30-49>				
Under 30	0.088 **	0.020	0.064 **	0.021
50-59	-0.016	0.010	-0.013	0.012
60 or over	-0.008	0.011	-0.050 **	0.012
<b>Employment status of head of household</b>				
<Regular employee (firm size: 30-99 employees)>				
Company/organization executives	-0.053 **	0.016	-0.047 *	0.019
Regular employee (firm size: 1-29 employees)	0.023	0.017	0.015	0.019
Regular employee (firm size: 100-999 employees)	-0.023	0.014	-0.057 **	0.014
Regular employee (firm size: 1,000 or more employees)	-0.086 **	0.010	-0.073 **	0.014
Civil servants	-0.094 **	0.009	-0.100 **	0.011
Employee on contract of less than one year	0.152 **	0.043	0.192 **	0.040
Self-employed	0.155 **	0.023	0.176 **	0.027
Home piece-rate worker and other	0.078 **	0.022	0.124 **	0.029
Without employment (working age)	0.266 **	0.037	0.327 **	0.035
Without employment (older person)	0.122 **	0.031	0.094 **	0.031
<b>Size of municipality of residence</b>				
<City of 50,000 or more population>				
Large city	-0.002	0.010	-0.019 +	0.010
City of less than 50,000 population	0.008	0.009	0.010	0.010
<b>Regional block</b>				
<Tokai>				
Hokkaido	0.013	0.021	-0.010	0.020
Tohoku	0.023	0.018	0.026	0.020
Kanto I	-0.018	0.012	-0.010	0.014
Kanto II	0.017	0.018	0.004	0.018
Hokuriku	-0.017	0.018	-0.016	0.020
Kinki I	-0.005	0.014	0.034 +	0.019
Kinki II	-0.005	0.024	0.039 +	0.029
Chugoku	-0.003	0.017	-0.037	0.016
Shikoku	0.028	0.025	0.049 *	0.028
Kita-Kyushu	0.042 *	0.019	0.056 **	0.022
Minami-Kyushu	0.120 **	0.023	0.113 **	0.027
Sample size	8125		7580	
Pseudo R	0.182		0.193	
Log likelihood	-2834.4		-2767.2	

Note: The reference groups are shown in angle brackets <>. Explanatory variables are all dummy variables. \*\*, \* and + are significant at the 1% level, 5% level, and 10% level, respectively.

in particular are high.

In the “age group of head of household” category, the probability of younger households headed by someone aged under 30 falling into poverty is significantly higher than in the case of the reference group (30-49 years old). A breakdown by age of the unemployment rate between 1995 and 2001 using data from the Ministry of Internal Affairs and Communications’ Labor force survey reveals sharp rises in unemployment in younger age groups: from 8.2% to 12.2% among 15-19 year olds, 5.7% to 9.0% among 20-24 year olds, and 4.3% to 6.7% among 25-29 year olds. It would thus appear that the increasing instability of employment conditions experienced by younger people caused an increase in the poverty level among younger households from the mid-1990s.

As younger households can sometimes avoid poverty by obtaining economic assistance from their own parents, one might argue that the expansion of poverty should not be taken too seriously. However, it is quite conceivable that many younger households do not have any recourse to their parents, too, being in poverty. How the annual incomes of the parent households of these younger poor households are distributed is a question of exceeding importance that must be investigated.

Looking next at the “employment status of head of household” dummy variable group, several interesting facts emerge. Firstly, when “regular employee (firm size: 30-99 employees)” is adopted as the reference group, the dummy variables “company/organization executives,” “regular employee (firm size: more than 1,000 employees)” and “civil servants” are negatively significant in both 1995 and 2001. It can thus be seen that households headed by company/organization executives or employees of large firms are less likely to fall into poverty. As according to data for 2001 only 3.6% of households headed by employees of firms with 1,000 or more employees have an income that does not exceed the relative poverty line, compared with 16.9% overall, the chances of a household whose head works for a leading firm falling into poverty may be said to be low. Among households headed by employees of firms fewer than 30 employees, on the other hand, 12.6% are at or below the relative poverty line. There is thus a disparity in the proportion of households in poverty depending on the head’s firm size.

“Employee on contract of less than one year,” “self-employed,” “home piece-rate worker and other,” “without employment (working age),” and “without employment (old),” on the other hand, were found to be significantly positive

at the 1% significance level. Of particular note is the finding that the marginal effect of “self-employed” comes highest after “without employment (working age)” and “employee on contract of less than one year.” Genda (2002) observes that the incomes of the self-employed are falling in comparison with those of employees, and a similar trend is confirmed in this estimated result too.

In the “regional block” group,<sup>18</sup> too, large differences are observed between 1995 and 2001 when “Tokai” is adopted as the reference group. In 1995, only “Kita-Kyushu” and “Minami-Kyushu” were significantly positive. In 2001, however, these variables were joined by the “Kinki I,” “Kinki II,” and “Shikoku” dummy variables in being significantly positive. Most striking in both years is the high marginal effect of the “Minami-Kyushu” variable. Even after controlling for various attributes, the probability of falling into poverty differs significantly between the Tokai area, which is enjoying buoyant economic growth, and the Minami-Kyushu area, which contains areas of high unemployment such as Okinawa Prefecture.

## V. Issues in Measuring Poverty

Thus far, we have analyzed the present state of poverty in Japan and its causes. While the estimates in the preceding section were based mainly on an analysis of poverty in terms of “income” employing the concept of relative poverty, one must naturally beware of using just one-dimensional variables such as income as measures of poverty. As argued by Townsend in his advocating of the concept of “relative deprivation,” people can experience dissatisfaction and misfortune concerning, for example, their health, living environment, and interpersonal relations, even though they may enjoy a sufficient income. Conversely, it is important to note that people on low incomes may perhaps not be in poverty if they have assets at their disposable (Yamada 2000). Sen (1982), meanwhile, criticizes the interpretation of poverty in terms of income and property only, and argues that attention should be paid to differences in competence when people use daily essentials. There thus exist numerous points

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<sup>18</sup> The four regional blocks are made up of the following prefectures.

Kanto I: Saitama, Chiba, Tokyo, Kanagawa

Kanto II: Ibaraki, Tochigi, Gunma, Yamanashi, Nagano

Kinki I: Kyoto, Osaka, Hyogo

Kinki II: Shiga, Nara, Wakayama

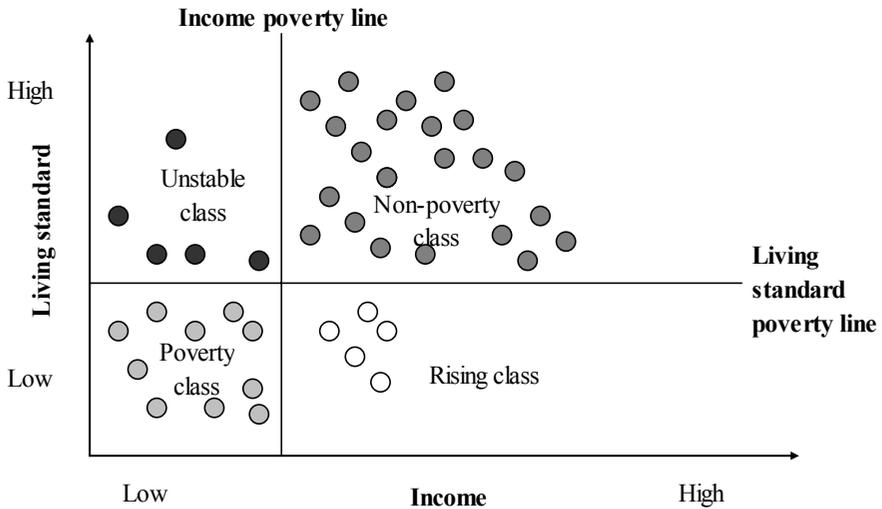
of contention regarding what indices should be focused upon in defining poverty.

A noticeable development in recent years, particularly in Europe and North America, had been the more active use of indices calculated on the basis of concepts linked to “quality of life,” such as “relative deprivation” and “social exclusion,” as criteria for measuring poverty. In the U.K., for example, attempts have been made in studies such as Gordon (2006) to define poverty taking into account various deprivation indices based on the Poverty and Social Exclusion Survey conducted in 1999. Gordon (2006) regards those who enjoy a high standard of living, despite having a low income, as not being in poverty, and sets out to calculate the proportion of people in poverty taking into consideration both income and standard of living.

Figure 3 is a simple schematic of the definition of poverty along the two axes of income and standard of living. The horizontal axis represents level of income, and the vertical axis the level of standard of living. Poverty lines are established according to certain criteria on both axes, and those who fall below the poverty lines on both axes are defined as being in poverty. The standard of living is measured according to the monetary amount of consumption over a given period or the aforementioned deprivation index. Even if only cross-sectional data at a given point in time are available, this approach makes it possible to ascertain in greater detail the state of poverty in society provided that information is available on both incomes and standard of living.

The Income Redistribution Survey used by the authors for the analysis in this paper is characterized by including a range of data on taxes and social security benefits, such as receipt of public assistance, medical benefits in kind, and public pension benefits, and covering a wider range of income classes than other large-scale surveys (Matsuura 2002). While this survey may be regarded as one of the most reliable sets of government statistics for analysis of income distribution and poverty in Japan, it unfortunately provides hardly any information on assets and quality of life. As the Income redistribution survey already consists of an enormous number of questions, adding further questions is admittedly difficult. If questions on the above items were to be added, however, it is likely that more detailed, wide-ranging insights would be provided for identifying the actual state of poverty in Japan and the poverty reduction effect of government redistribution policies.

**Figure 3. Definition of poverty by Gordon (2006)**



Source: Based on Gordon (2006).

## VI. Conclusion

We began this paper by summarizing the various approaches to poverty, including the concepts of absolute and relative poverty, after which we examined trends in the relative poverty rate in Japan since the 1990s using micro data.

To sum up, since the mid-1990s marked increases in poverty among single-person households of working age as well as older single-person households appear to have caused an upward trend in poverty as a whole in Japan. Furthermore, the poverty rate among single female parent households is extremely high, though they do not yet account for a very large proportion of households in poverty.

In addition to enhancing the safety net for people who have retired, therefore, the safety net for those in the working generation also needs to be strengthened if rising poverty is to be reduced. As the poverty rate is particularly high among households headed by people without employment and by employees on contracts of less than one year, measures to cut poverty among such households are especially important.

Regarding firstly the reduction of poverty among those without employment,

the unemployment safety net needs to be strengthened for all workers. One possible means of doing this is by requiring all workers to enroll in employment insurance, irrespective of differences in occupation, form of employment, and working conditions.

In many developed countries, unemployment benefits packaged with self-support program is provided subject to a moderate means test for young people in poverty arising from youth unemployment (Komamura 2005, 189). Institutions need to be designed to provide a universal safety net that does not exclude the poor across a wide range of age groups, including people of working age as well as the young. A serious problem at present is that “social insurance and public assistance do not function in a coordination manner regarding the livelihood security of the unemployed,”<sup>19</sup> and redistribution policy for households in poverty headed by people of working age is almost entirely ineffective at reducing poverty (Tachibanaki and Urakawa 2006, chap. 4).

Regarding employees on contracts of less than one year, one option is to bring their wages closer to the wage level of permanent employees. As is apparent from Table 4, the probability of falling into poverty differs considerably between regular employees, at around 10%, and employees on contracts of less than one year, which in 2001 exceeded 30%. The low wage level of employees on contracts of less than one year thus gives rise to major disparity of this kind.<sup>20</sup>

Raising the wage level of non-permanent employees faces not only opposition from firms, but also reluctance from people who are already permanent employees, and little progress has so far been made. As the number of non-permanent employees has increased, however, calls to reduce the wage gap between full-timers and part-timers and to abolish barriers to movement between the two are growing.<sup>21</sup> Reforms of benefit to both sides, such as reduction of the long working hours of permanent employees to raise the wages of non-permanent employees and increase employment, need to be adopted

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<sup>19</sup> See Kumazawa (2003, 195). Drawing on a variety of sources, including *Social Assistance in OECD Countries* (1996, vol. 1) by United Kingdom Department of Social Security, Uzuhashi (1999) observes that the number of people receiving public assistance is quite low by international standards, representing only 0.7% of the total Japanese population.

<sup>20</sup> Mitani (2003) observes that the wage gap between full-time and part-time workers and between permanent employees and temporary employees is widening.

<sup>21</sup> For an analysis of the effects of work sharing schemes in Japan, see Saito and Tachibanaki (2002).

to reduce poverty.

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# The Rise of Poverty in Japan: The Emergence of the Working Poor

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## I. Introduction

Japan has no official “poverty line,” and subsequently no official statistics on poverty. In practice, the public assistance’s “minimum standard of living” (below which subsistence benefits can be claimed) is used to calculate the poverty rate,<sup>1</sup> or the OECD index, which is defined as 50% of the population’s median income. No comprehensive survey has yet been conducted by the government on the current state of poverty in Japan. In its annual report for 2006, the Ministry in charge of economic and fiscal policy, incidentally questioned the OECD’s estimations on Japan’s poverty rate; the OECD had assessed Japan’s relative poverty rate in 2000 to be 15.3%, the fifth highest ratio amongst OECD countries.<sup>2</sup> Regarding absolute poverty, the Ministry’s report stated that “from the viewpoint of absolute poverty, it is difficult to state that Japan is currently facing a severe issue.”<sup>3</sup>

However, studies by several economists reveal a worrying increase in the very low-income population; this is accompanied by the fact that current safety nets such as social security and public assistance have large gaps in their personal scope. Also, according to several economists<sup>4</sup> relief by public assistance for example does not surpass 16% to 20% of the estimations on families in need. This means that there are a significant number of families with low incomes and who do not receive relief from the State, although they are in need of assistance.

Poverty is not only a matter of income. The famous economist, Amartya Sen, has defined it as a “capacity deprivation”. Indeed, poverty often involves,

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<sup>1</sup> Seiichi Kanazawa, “Kozo Kaikaku no moto de no Seikatsu Hokai to Saitei Seikeihi: Saichin, Seikatsu Hogo, Nenkin Undo no Zenshin no Tame ni,” *Chingin to Shakai Hoshō* 1421 (2006): 4.

<sup>2</sup> Cabinet Office, Government of Japan, *Keizai Zaisei Hokoku* (2006), 265-66.

<sup>3</sup> As a critic to this position, see Makoto Yuasa, “Kakusa de ha Naku Hinkon no Giron wo” (1), *Chingin to Shakai Hoshō* 1428 (2006): 4.

<sup>4</sup> Kohei Komamura, “Seifuthi Netto no Saikochiku: Teishotokusha Setai no Jokyo,” *Shukan Shakai Hoshō* 2208 (2002): 24ff.

in addition to a lack of income, being excluded from a range of social services, and “personal freedom” to realise oneself.<sup>5</sup> The economist Atsumi Ninomiya argues that structural reforms under Prime Minister Koizumi’s neo-liberal policies have resulted in a combination of two disparities. The first is a “dominance disparity” of capital over the workforce, and the second results from discrimination within workers or within the population itself, such as between permanent, regular employees and irregular temporary workers, or between standard citizens and the socially vulnerable. According to Ninomiya, this double-structure has resulted not only in increased income disparity, but also in a violation of the freedom and equality of people.<sup>6</sup> Such a society is depriving low-income earners from their rights to a minimum standard of living, education, and work, as well as depositing layers of various poverty issues at the bottom of society. Moreover, inequalities are a cradle to poverty.

## **II. The Elements of Today’s Poverty**

### **1. Employment Instability and Unemployment**

Needless to say, unemployment is a direct cause of poverty, and people who are currently unemployed or searching for a job are generally more likely to become poor. According to Komamura (cited above), the risk of becoming part of a low-income household is higher for unemployed persons in their late thirties to late fifties.<sup>7</sup> The unemployment rate itself peaked in 2002 at 5.4%, and then slowly decreased to 3.9% in July 2008. However, employment has also largely shifted to “irregular” forms of employment since the 1990s onwards, replacing the permanent workforce with a more instable and lower-waged one.

Youth unemployment (15 to 24 years old) increased sharply from 5.1% in 1993 to 9.5% in 2004, while permanent job openings have decreased; overall, the employment situation has become more instable and severe. In addition, as long as workers remain in these instable work contracts, their social security benefits based on the employment relationship and commitment of employers’ contributions are either restricted or do not apply, and as such their wages are likely to be lower.

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<sup>5</sup> Atsumi Ninomiya, “Shinjiyu Shugiteki Kakusa Shakaika no Kozo to Sono Kokufuku Shiten,” *Chingin to Shakai hoshō* 1427 (2006): 19ff.

<sup>6</sup> Ibid.

<sup>7</sup> Komamura, “Seifuthi Netto no Saikochiku: Teishotokusha Setai no Jokyo,” 26.

The elderly and people with disabilities have always experienced limited employment opportunities. The employment rate of physically disabled persons is half that of people without any disabilities, and households headed by elderly people make up for 50% of the population receiving public assistance. In particular, elderly people living alone are at risk of social isolation. Also, as their revenues are comparatively lower, they have a higher risk of being exposed to various troubles in their daily life; this is one aspect of the poverty of elderly people.<sup>8</sup> The role of the public pension as a way to secure a minimum standard of living in one's old age, as compared to public assistance, needs careful consideration.

## 2. The Dysfunctions of the Public Assistance System

The functional failures of the public assistance system as a safety net are a direct cause to the increasing poverty rate. Estimations on the ratio of households with a lower income than the minimum living standard (a condition to receive public assistance) and which are actually receiving benefits are around 20%, as mentioned above. This shows that public assistance is not fulfilling its purpose, which is to guarantee a minimum standard of living to every citizen in need.

With regard to structural reforms, budget allocations for public assistance have also become an issue. Since 2004 and Koizumi's local public finance reform (the so-called *Sanmi-ittai* reform), which resulted in a large cut in local tax allocation grants (tax transfers from the central government to local entities), the financial burden of local governments over social security was scheduled to increase substantially. However, this was met with very strong opposition, leading to negotiations that resulted in a compromise.<sup>9</sup> The Ministry of Health, Labour and Welfare (hereinafter MHLW) proposed a reduction in national budgetary contributions to national medical insurance (managed by municipalities) and public assistance, as well as child benefits under public assistance. Following a series of sessions between representatives of national and local authorities, apart from the child benefits part, the reduction was roughly retracted.

This dialogue in fact revealed the differences in perceptions between the

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<sup>8</sup> Katsuyoshi Kawai, and Michio Kanno, "Minato-ku ni okeru Hitori Gurashi Koreisha no Seikatsu to Shakaiteki Koritsu Mondai," *Chingin to Shakai Hoshō* 1432 (2006): 4ff.

<sup>9</sup> This is explained in detail in Kimiko Takeda, "Seikatsu Hogo to Jiritsu Shien wo Meguru Zaisei Mondai," *Chingin to Shakai Hoshō* 1431 (2006): 4ff.

government at the central level on the one hand, and local governments on the other, on the reasons why the volume of public assistance allowances varies between entities. While the MHLW argued that higher staffing resulted in a higher level of allocations, local governments considered the reverse relation to be true; that is, higher allocations were enhanced by insufficient staffing, which was incapable of adequately coping with an increased demand. In addition, local governments emphasized the economic and social causes of the rise in public assistance demand, such as unemployment and aging, and relationships within the community, insisting that the margin of discretion in public assistance is actually very narrow. The MHLW suspected that the difference in benefits granted showed insufficient efforts on the part of local administrations to control them.<sup>10</sup>

The national budget contribution to public assistance is based on Article 10 al. 4 of the Law on Local Finance,<sup>11</sup> which stipulates that “the financing of public assistance” is the competence of local authorities, with a partial contribution from the national budget. Article 75 of the Law on Public Assistance<sup>12</sup> further states that “the costs for public assistance benefits paid by prefectures and municipalities, and the administration costs of shelters for rehabilitation are financed by 3/4 of the national budget.” Decisions on whether to engage these costs are, however, the competence of prefectures and municipalities; this means that according to the MHLW, even if they decide to widen the scope of allocations, their impact on local finance remains limited.

This proportion of 3/4 of the budget is the result of a 1985 reform, prior to which 80% of social security costs were supported by the national budget. The reform reduced that percentage, and although in some instances this ratio was later re-established, once the reduction had been made it opened the way to further reductions, making it a matter of political will.<sup>13</sup> However, when we see the low percentage of low-income households receiving public assistance, such a claim from the MHLW sounds rather strange.

As for the characteristics of households receiving public assistance, a very high percentage is single-person households (73%), and many of these households are headed by inactive elderly persons or people with disabilities (46% are

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<sup>10</sup> *Ibid.*, 8.

<sup>11</sup> Law No. 109 of 1948.

<sup>12</sup> Law No. 144 of 1950.

<sup>13</sup> Takeda, “Seikatsu Hogo to Jiritsu Shien wo Meguru Zaisei Mondai,” 11.

elderly households, 40% are households with disabilities or illness). Households with no such “disadvantages” receiving public assistance do not exceed 5.9%. The main reasons for benefits claimed are illness and injuries. Until very recently, Article 4 al.1 of the Law on Public Assistance, which requires the “full use of one’s capacity to work” as a prerequisite condition to applying for public assistance, constituted a severe obstacle to benefits allowance by persons of working age (15 to 64 years old) with no disability. This was the consequence of a misinterpretation of the law, and resulted in a notice issued by the MHLW (#0731001 of the Social Welfare and War Victims’ Bureau of the MHLW, as of July 31, 2002), indicating that “... the fact that the applicant has the capacity to work does not in itself preclude meeting the requirements under the law...”<sup>14</sup>

### 3. The So-called “Homeless”<sup>15</sup>

“The term homeless refers to people living and performing their daily activities in parks, dry riverbeds, streets, stations and the like, for no other reason” (Article 2 of the “Law for Special Measures Concerning Support for the Independence of the homeless”, Law No. 105 as of August 7, 2002). The homeless constitute a rare form of “visible” poverty in Japan.

Many of the homeless are people who, as a result of the economic recession that followed the collapse of the inflated bubble economy in the early nineties, have experienced unemployment, business failures, multiple debts, and other such work-related hardships, and have ended up living on the streets. The homeless usually meet all requirements of the law on public assistance in terms of low income, and situation of needs; yet still, paradoxically very few of them have received benefits. This was a consequence of the “use of capacity to work” requirement and the “permanent residence” requirement, which were conventionally used to exclude them from the application of the law. Until the very end of the 1990s, local authorities had neither budget nor financial assistance from the central government to construct a policy to help the homeless, and therefore measures directed towards them were temporary and casual.<sup>16</sup> Until

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<sup>14</sup> Masaoki Hibino, “Homeless Shisaku to Koteki Fujo Jissen no Kadai: Kyotaku Hogo,” in Homeless Shisaku to Shakai Hoken no Gendaiteki Kadai, *Shakai Hoshō Ho* 21 (2006): 34ff.

<sup>15</sup> On the issue of the homeless in general, see Homeless Shisaku to Shakai Hoken no Gendaiteki Kadai, *Shakai Hoshō Ho* 21 (2006).

<sup>16</sup> Hirohito Fujita, “Homeless Shisaku no Genjo to Kadai: Chiho Jichitai ni okeru Jiritsu

2000, there existed only measures taken on a voluntary basis by local administrations, such as extra-legal assistance, providing meals, temporary shelters, baths, assistance to safely pass the winter, and so on.

In February 1999, a “homeless liaison conference” composed of local authorities was created at the state level. In July of the same year, a working group composed of experts and concerned entities, “The Working Group for Measures to Assist the Self-support of the Homeless,” was established, and issued its report in March of the following year.

Based on this report, the “Law for Special Measures Concerning Support for the Independence of the Homeless” was adopted on August 7, 2002. In 2003, based on Article 14 of the Law, the government conducted the first National Survey on the Situation of the Homeless, which counted 25,000 homeless persons throughout Japan. However, NGOs and civic associations assisting the homeless estimated their real number to be about three to four times higher. The 2002 law provides that “people with a willingness for self-support and who are constrained to a homeless situation” will be entitled, under the responsibility of the State, to support to find stable employment, counselling and skill development to secure work opportunities, housing, medical care, and general support for their daily life, with the objective of freeing themselves from assistance and attaining independence.

The Law establishes an “obligation of effort (*doryoku gimu*)” to the State.<sup>17</sup> Based on the survey, the State drew up a Basic Plan of Action for Assistance to the Homeless in July, 2003. I will now discuss the basic ideas of the action plan.

The MHLW is currently considering revision of the 2002 Law on Special Measures for the Homeless and of its basic action plan. To that end, it conducted a second national survey on the homeless situation in Japan in January 2007. The methods used for this survey were, as for the first time, visual counting, as well as interviews with about 2000 homeless on their backgrounds and daily life.

According to this second survey, the number of homeless in Japan is 18,564 persons, which is 6,732 (26.6%) less than the first survey. Former occupations of the homeless included construction work (about 50%), with 12% in the production industry, while direct causes for becoming homeless were “less

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Shien Jigyō no Tenkai,” *Shakai Hoshō Ho* 21 (2006): 38.

<sup>17</sup> Hibino, “Homeless Shisaku to Koteki Fujō Jissen no Kadai: Kyotaku hogo,” 41.

work opportunities” (31.4%), bankruptcy and unemployment (26.6%), and injury, disease or old age (21%). Approximately 70.4% homeless are still working, of which 75.5% are rag collectors making around 40,000 yen a month. The Ministry explains their reduction by an improvement in the employment situation due to the economic recovery, and as a consequence of self-support assistance.

#### 4. Single-parent Households

Within single-mother households, roughly 9.4% are receiving public assistance, reflecting the economic vulnerability of such families. According to the Survey on National Consumption conducted by the MHLW, there are around one million single-mother households in Japan. The Survey on Single-mother Households by the same ministry shows that 83% of single mothers are working. Japan’s wage gap between genders and types of employment is still significant; the average wage of a woman is around 65.7% that of a man’s, and a part-timer’s wage is 51.5% that of a permanent employee. Roughly 70% of part time workers (in Japan, “part-timers” is commonly used to designate a form of irregular workers, usually women, who are not always “real” part-time workers, but rather temporary workers. Here I am referring to “real” part-time workers) are women, and 40% of women are working part-time. Most single mothers have become so by divorce (74.4%).<sup>18</sup> Their types of employment also reflect their vulnerability. Only 24.4% have permanent contracts, 40.9% work under instable “part-timers” contracts (usually fixed-term, temporary contracts). Their average monthly income, even including childcare benefits, is around 2.3 million yen a year (in Osaka), one third of the average one-child household at 7 million yen.<sup>19</sup> Around 80% of single mothers feel that their daily life is a hardship, and they have strong child-rearing related stress.

The majority of single-mother households are generally in a difficult situation, although only 10% receive public assistance in Osaka, and even less nationally. In fact, adding to the stigma of public assistance, social pressure towards single mothers is very strong. Welfare offices are inclined to evaluate their capacity to work rigorously, compared to households with an elderly person or a person

<sup>18</sup> Hiroshi Ujihisa, “Boshi Katei no Hinkon to Seikatsu Hogo: Jido Sodanjo kara Mita Boshikatei no Seikatsu to Kuno,” *Chingin to Shakai Hoshō* 1409-1410 (2006): 39ff.

<sup>19</sup> *Ibid.*, 40.

with disability, subjecting single mothers to strict work guidance. This strong social stigma is an important cause of the very low take-up of public assistance. In addition, in 2003 the social welfare policy directed towards single-mother households shifted from providing economic assistance to employment assistance, subsequently reducing the special childcare benefit reserved for single parents that is crucial to the household's income. A survey conducted in 2004 on 181 households in Kushiro (a portal city in Hokkaido), revealed a pattern of marriage at a young age, ending in divorce within six or seven years, leaving the single mother with a relatively low level of education and little or no work experience. When claiming public assistance, these young mothers are subjected to stringent employment assistance, despite the shortage of work opportunities. Employment assistance will be further discussed below.

## **5. Multiple Debts**

There are businesses seeking to exploit the weaknesses of people already in difficulty. Sometimes called "poverty businesses," they provide consumer money loans targeting people with financial difficulties.<sup>20</sup> For those people, it is almost impossible to obtain low interest bank loans, and so consumer lenders, though imposing very high interest rates, are their only way for immediate cash. However, these businesses operate extremely tough collection means when terms are not respected, pushing the debtors to flee and become homeless. Professionals dealing with these situations, such as lawyers, need to be careful not to overlook that these businesses specifically target people already in financial difficulties, and to avoid viewing it as a mere consequence of weak will on the part of the debtor.

## **III. Policies Aimed at Combating Poverty**

### **1. Unemployment Benefits**

Unemployment benefits as social security insurance act as the first immediate safety net in the occurrence of job loss. As it is a social security system, there are certain requirements to fulfil in order to benefit from the allowances. For example, six months of previous employment is required; therefore, this system does not apply to newly graduated recruits. It also does not apply to workers

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<sup>20</sup> Yuasa, "Kakusa de ha Naku Hinkon no Giron wo", 20.

with less than 20 working hours a week.

Similar to most countries, the period of unemployment benefits is fixed by law according to certain conditions (currently ranging from 90 to 330 days). If the person has not found new employment within this period, there is no other system to ensure a minimum income, prior to public assistance. Long-term unemployment is therefore not covered under the current system, whereas public assistance, as mentioned above, is restricted to people of working age. Some other countries either apply longer unemployment benefit periods, or provide a transitory system of income security financed by the State.<sup>21</sup> Japan is starting to experience longer-term unemployment and therefore might need to adapt its current income security systems. A system of minimum income combined with job search and job training services have been proposed by some experts.<sup>22</sup> The case of a long-term unemployed person, who has been denied his rights to public assistance after the expiry of his unemployment benefits, has been brought to Court.

The Hayashi case is an example where the condition of the “full use of one’s capacity to work” has been questioned. Plaintiff Hayashi had been a construction worker for more than ten years when, in his fifties, he started to have health problems and difficulties finding work. He applied for public assistance but was only admitted one day of medical assistance, while income and housing assistance were refused because of his “capacity to work.” The first instance municipal Court, in a judgement of October 30, 1996, stated that whether the condition of Article 4 (full use by the claimant of his “capacity to work”) was fulfilled should be judged with regard to concrete factual elements. In this case it should be considered whether the claimant could actually find work in his current situation, and concluded that in this case Hayashi, with regard to his state of health, was not capable to carry on the heavy duties required in construction sites that he had been doing before; therefore, the municipality’s decision of refusal to allocate public assistance was illegal and as such had to be cancelled.

The Appeal Court adopted the same position on the way Article 4 had to be interpreted with regard to concrete elements and job availabilities in the region

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<sup>21</sup> Yoshimi Kikuchi, “Saitei Seikatsu Hoshō no Arikata to Koteki Fujo no Yakuwari: Shutoshite Shotoku Hoshō no Sokumen kara,” *Shukan Shakai Hoshō* 2195 (2002): 2.

<sup>22</sup> Ibid.

in question for the person concerned. However, it took another conclusion that considering the economic situation in Nagoya at that time and the job availabilities there, the possibility for Hayashi to have found employment could not be denied. In its decision of August 8, 1997, the Appeal Court ruled against the Municipal Court's decision. The case then reached the Supreme Court but was dropped as a result of Hayashi's death. On the matter of private compensation for damages, the Supreme Court sustained the Court of Appeal's decision and dismissed the appeal.

In spite of Hayashi's loss, this is an important decision as it clarifies that the "homeless", who in spite of real and actual job searching, cannot find employment and are thus entitled, as any other citizen, to claim and receive public assistance allowances; it has also influenced the administration of subsequent public assistance.<sup>23</sup> Following this decision, the Ministry of Health, Labour and Welfare, made clear that the lack of a fixed domicile or the capacity to work are not valid reasons to reject a person's application for public assistance, and that the situation of such persons should be judged in a concrete manner. I will further elaborate below on the system of public assistance, together with measures to assist the "homeless" in their job seeking efforts.

## **2. The Public Assistance System**

The aim of the public assistance system is to guarantee a "healthy and cultural" minimum standard of living to citizens in need on the one hand, and to assist them in seeking an independent living. What exactly is an "independent" living has been subject to a great deal of discussion; however, overall the concept relies on self-reliance through work, mental, and social independence. The Japanese system's weakness lies in the fact that it has been placing too much emphasis on the first objective of securing a minimum standard of living, whereas the second aspect has been somewhat neglected. The current system strictly restricts the scope of people actually meeting the stated requirements, while work incentives such as work income exemption are not sufficient. This has the effect of letting the recipients fall deep into the assistance trap.<sup>24</sup>

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<sup>23</sup> Hiroki Bito, "Homeless Saiban to Koteki Fujo no Kadai," in Homeless Shisaku to Shakai Hoken no Gendaiteki Kadai, *Shakai Hoshō Ho* 21 (2006): 19.

<sup>24</sup> Toshihiro Ihori, "Tokushu: Zaisei Kaikaku no Torikumi no Riron to Hyōka," *Financial Review* (February 2001): 2; Koichi Koyama, "Obei Shokoku ni okeru Shakai Hoshō Seido Kaikaku no Saikento," *Financial Review* (February 2001): 40.

The capacity to work condition, as explained above, has had, as a consequence, claimants under the age of 65 very often being rejected by welfare offices, excluding single mothers, the long-term unemployed and the “homeless” from receiving allowances, or limiting the assistance provided to very short periods while at the same time imposing stringent controls on job searching. The Hayashi case referred to above has initiated some changes in this operation, including instructing welfare workers to avoid rejecting the demands of applicants without a concrete examination of their efforts towards seeking employment.<sup>25</sup>

In addition, the MHLW has been considering the future of the public assistance system through an experts working group since August 2003; a report was issued in December 2004 giving recommendations for the revision of the system. The report suggests that in order to respond to social and economic changes and changes in family structures it is necessary to reconsider the ways the minimum standard of living is fixed and the system is managed, along with how support for independence is conceived and conducted. To that end, the MHLW has requested public assistance institutions to draw up and introduce an “independence support program.” The fiscal measures to allow local entities to develop and expand their efforts for the application of the public assistance system and the independence support programs, are put under their own direct competence and general budget, which is pointed out as being in fact insufficient.<sup>26</sup> Takeda points out that in the future, the independence support projects should be specifically enshrined in the law on public assistance, and where local governments are to possess sufficient discretion over its management, State financial aid should also be secured in order to avoid under-provision. In effect, we can observe that in reality, local entities already tend to have a certain reluctance to engage resources in self-reliance assistance. Takeda warns that there is a tendency to regard the strengthening of independence through work policy as a cost saving, pushing recipients out of the allowances without ensuring that they have really found their way to genuine independence, which has the effect of burying the issues of poverty and eventually increasing future social costs.<sup>27</sup>

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<sup>25</sup> Hiroki Bito, Kiyoshi Matsuzaki, and Jun Yoshinaga, *Korega Seikatsu Hogo da: Fukushi Saizensen kara no Kensho* (Kyoto: Takasuga Shuppan, 2006), 101.

<sup>26</sup> Takeda, “Seikatsu Hogo to Jiritsu Shien wo Meguru Zaisei Mondai,” 18.

<sup>27</sup> *Ibid.*, 17.

Two interesting examples illustrate the importance of assistance for self-support in public assistance systems. Tokyo is the first example: it has seen rapid population aging and a sharp increase of households with elderly members, an increase of working age unemployed and “homeless” persons, alcohol and drug addicts, and multiple debtors. As a combined effect, this has resulted in the doubling of the protected population to 170,000 (14‰ of the population; particularly in the Shinjuku district, which has reached a level of protection of 22.8‰). In July 2004, a proposal “to improve the public assistance system” was submitted to the central government based on strengthening the assistance towards self-reliance.<sup>28</sup> Since 2005, Tokyo has replaced previous monetary compensation with a project for the promotion of the recipients’ independence. Specifically, the project supports financially the efforts of the recipients themselves for ensuring their self-reliance. This includes employment assistance, living and participating in community life, health enhancement, etc. Assistance for employment and community life is classified as a “basic project”; there is another category called “other projects considered necessary,” and in each category the costs for which financial assistance is provided are detailed. The main feature of this project is that it does not only focus on employment assistance, but on a range of other factors that need to be addressed to attain a true and lasting independent life.

The second example is another survey conducted amongst single mothers that reveals the need to provide assistance that goes beyond mere job access counselling.<sup>29</sup> In the coastal city of Kushiro in Hokkaido, as mentioned above, there is a pattern of generating young unskilled single mothers. The survey shows a series of severe challenges faced by these mothers in every day life that need to be addressed before conceiving any sort of employment assistance. The survey shows that in this city, around 40% of single mother recipients are already working, while they are faced with difficulties such as childcare (lack of public childcare services), health problems, low level of education, and little or no job experience; this confines them to part-time, low-paid manual work that makes them become “working poor” and public assistance recipients. For

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<sup>28</sup> Yoshikazu, Tanaka, “NPO wo Katsuyo Shita Kihonteki Seikatsu Shukan Kakuritsu no Tame no Shien: Shinjuku-ku Fukushi Jimusho ni okeru ‘Hihogosha Jiritsu Sokushin Jigyo’ he no Torikumi,” *Chingin to Shakai Hoshō* 1425 (2006): 4ff.

<sup>29</sup> Kiriyo Nakazono, “Seikatsu Hogo Jukyu Boshi Setai to ‘jiritsu’ Shien: Kushiro-shi (chosa) wo Jirei to Shite,” *Chingin to Shakai Hoshō* 1426 (2006): 11.

the mothers who married at a very young age with no work experience, there is often a need for guidance in health management and in managing social relationships. The participation in such guidance classes given by non-profit organizations on home-care work, cooking, office computing and so on, have sometimes triggered their inherent work motivation, acquiring qualifications, and finally finding employment in the best of cases. This may provide good examples for future assistance projects.<sup>30</sup>

### 3. The Self-support Assistance to the “Homeless”

The above-mentioned August 2002 Law on Special Measures to Assist Self-support of the Homeless announced for the first time the State’s obligation to assist the rehabilitation of the homeless through securing stable employment, training, housing, and medical care. A second law was then adopted in 2004, strengthening the rehabilitation assistance objective. The Shinjuku district in Tokyo had been providing such assistance even before the adoption of the 2002 Law, and since 2006 has been providing area counselling through welfare offices within the framework of an action plan to promote the rehabilitation of the homeless.<sup>31</sup>

The national budget contributes to 50% of the financing of these rehabilitation projects; 11 prefectures have already drawn up such action plans depending on the number of homeless living in their territory, 9 are considering it and the remaining 27 have no such plans, or have not answered to the survey.<sup>32</sup>

The 2002 Law has roughly the following content: Article 1 states the objective of the Law, as referred to above, and that in addressing the issue of the homeless, the local community will provide its understanding and cooperation. Article 2 states a definition of the homeless, also as referred above. Article 3 explains the meaning of “independent life”, as conceived in this Law, as securing stable employment opportunities, and seeking stable employment through training, housing; as a means to attain these objectives are providing shelters as temporary housing, the provision of goods necessary for every day life, public assistance allowances, and the protection of the human rights of the homeless

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<sup>30</sup> Ibid., 33.

<sup>31</sup> Tanaka, “NPO wo Katsuyo Shita Kihonteki Seikatsu Shukan Kakuritsu no Tame no Shien: Shinjuku-ku Fukushi Jimusho ni okeru ‘Hihogosha Jiritsu Sokushin Jigyo’ he no Torikumi,” 6.

<sup>32</sup> Hibino, “Homeless Shisaku to Koteki Fujo Jissen no Kadai: Kyotaku Hogo,” 31.

through awareness-raising campaigns.

Articles 4 to 7 outline the duties and obligations of the homeless, the State, local entities and citizens, in seeking to realise the independence of the homeless.

Article 8 details the State's obligation to establish a basic outline of its future policy on the homeless (completed by July 2003), while Article 9 states the duties of the local entities to devise an action plan for the homeless according to the current local situation.

Article 10 indicates the State's "duty to effort" to secure fiscal measures to assist local entities and private initiatives in their actions for their rehabilitation, conducted in districts with a high density of homeless persons. Article 11 states that entities which manage public spaces, such as parks, cooperate in the application of rehabilitation action plans and ensure the adequate use of these public spaces. Article 12 and 13 emphasize the importance of private initiatives in this field, and promotes their full use as well as cooperation between the State and local entities. Finally, Article 14 requires the government to conduct a comprehensive national survey on the reality of the homeless, which was done in January and February of 2003. Every prefecture in the country conducted its own survey, counting and interviewing the homeless according to a standard format. The result was 25,296 homeless were counted throughout the country in 581 local districts.

Before the 2002 Law was adopted, eight centers for the rehabilitation of the homeless had been created under the 2000 fiscal year budget, each with a capacity of 1,300 people. The first center opened in Osaka in October, and the second one in Tokyo in November. By May 2005, seven more centers had been set up all over the country, as well as twelve shelters serving as temporary housing facilities.

At the 47th Social Security Law Conference in May 2005, Prof. Hirohito Fujita of the Aichi Prefectural University introduced the rehabilitation programs conducted by the city of Nagoya, which has the third highest number of homeless after Tokyo and Osaka. Since October 2002, two shelters and two rehabilitation centers have been built, which also provide training. Professor Fujita pointed out that although those persons with seemingly the highest motivation and capacity to work were selected for training, the results were not necessarily satisfactory for around 30% of the trainees. The city of Nagoya also conducts follow-up services after a job has been secured (such as routine counselling for community life), which has proved efficient in maintaining the

recipient's self-supported life.<sup>33</sup> The homeless have often experienced long term unemployment and have been living in the streets for a relatively long time, and therefore tend to be of an older age (57.5 years old on average, according to a MHLW survey of April 2007; a 1.6 year increase compared to the 2003 survey). They often have health problems or are physically weakened, which makes the continuity of their work a challenge in itself. The follow-up counselling has revealed that this depends heavily on the wage, working conditions, and the degree of willingness on the person's part not to return to being a homeless person anymore.

Fujita emphasized that securing employment was not enough as a way to realize self-support, and that it is crucial to adopt a vision of how community life is carried out and through follow-up services, help the person maintain his or her will for self-reliance. Such an observation is also made by Akira Tanaka,<sup>34</sup> who points out that such services are not only efficient as after-care to recipients after they have left the centers, but also as a way to reach out to the in-home recipients, who tend to be isolated in the community. The Takatsuki shelter managed by Tanaka is an institution as stated in Article 38 al. 2 of the law on public assistance, whose purpose is to provide assistance to people with severe physical or mental disabilities that make every day life difficult. The center currently shelters 200 men and women in their 30s to 90s. Tanaka says that the homeless are in the scope of the shelter as people with a social disability.<sup>35</sup> He further presented two types of action that the shelter provides in order to integrate the users, including the former homeless, into community life.

- (i) Residence training for independent life, which is a new programme created by the State in 2004 that provides training for independent life within the institution along with practical training in residences built in the institution, as a transitory step before really starting a life outside the institution. The training period is six months and targets three to five people at a time. The Takatsuki shelter has rebuilt staff residences within the institution to training residences, and has trained four people there. The training covers daily

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<sup>33</sup> Fujita, "Homeless Shisaku no Genjo to Kadai: Chiho Jichitai ni okeru Jiritsu Shien Jigyo no Tenkai," 47-50.

<sup>34</sup> Akira Tanaka, "Kyugo Shisetsu ni okeru Jiritsu Shien Jigyo no Jissen to Kadai: Homelesu Mondai to Kyugo Shisetsu," in Homelesu Shisaku to Shakai Hoken no Gendaiteki Kadai, *Shakai Hosho Ho* 21 (2006): 51.

<sup>35</sup> *Ibid.*, 53.

tasks as well as adaptability to social life, and three out of the four trainees have moved out to living in the community after completing the six months training period. According to Tanaka, this training period of six months is, too short for the trainees, who have before then experienced extreme situations of physical and mental exhaustion before reaching the level of receiving public assistance.

- (ii) The second program provides “ambulatory care” to former users after they have left the shelter. Either the user comes to the shelter, or the staff visit them provide assistance in their every day life, allowing for continuous care while encouraging them to leave the institution for an independent life, and at the same time making beneficial use of the institution’s capacity. Tanaka values this service as being efficient, and in combination with (i), providing a secure way for users to move on from living in an institution to life in the community.<sup>36</sup> Tanaka estimates that many of the homeless are in urgent need of care, and that the services currently provided by the public assistance system is the most appropriate response, providing them with the right institutional services and enhancing their reintegration into society.<sup>37</sup>

#### **4. The Minimum Wage**

The minimum wage needs to function as a basic supporting safety net to low-wage workers. Discussions about the minimum wage often refer to the level of the minimum standard of living guaranteed by public assistance. In some countries like France, the minimum income guaranteed as public assistance is determined directly with relation to the minimum wage. In Japan, it has often been questioned that performing the legal working hours at the minimum wage provides an income that is lower than the minimum standard of living. In fact, in Japan there is no direct relation between the minimum wage and the minimum standard of living, the level of which is determined by household and according to the family structure, as well as the region. We cannot deny, however, that the minimum wage in Japan, which is revised every year on a prefectural basis, is in fact very low. This raises considerations about the capacity to pay of very small businesses compared to the living needs of workers, and therefore suggests that the role of the minimum wage as a safety net is being

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<sup>36</sup> *Ibid.*, 57.

<sup>37</sup> *Ibid.*, 60.

overlooked. This factor along with the increase of irregular types of employment are undoubtedly contributing to the emergence and increase of the “working poor.” The Law on Minimum Wage was officially amended in 2007 in response to the lack of efficiency of the legal minimum wage as a safety net. The amendments have taken effect on July 1, 2008, and have added a specific reference to the minimum standard of living in the law (Article 9, al. 3 of the Law on Minimum Wage), stating that the fixing of the minimum wage has to be “coherent” with the minimum standard of living (the meaning of this reference is rather vague). The amendment has also increased the fine on contravening employers, from 20,000 yen to 500,000 yen (300,000 yen in the case of minimum wage by industry). Whether the amendments will impact on the future levels of minimum wages, and to what extent, remains to be seen.<sup>38</sup>

#### IV. Conclusion

Poverty in Japan is often said to be “invisible”. Unlike in many European cities, there are no beggars in the streets, passers-by look clean and happy, and there are no obviously poorer neighbourhoods in the cities (except for the famous homeless areas). The “homeless” are the rare visible poor; however, they tend to confine themselves to certain areas and parks. This might be the reason why poverty, though steadily increasing since the late nineties, has so far attracted only little attention. This is starting to change, as statistics and estimations by economists are showing that not only is poverty increasing and affecting “normal” citizens, including the young, by way of unemployment, but also that existing safety nets may in fact not provide the protection that one should expect from a modern and economically developed country like Japan. There were also shocking news of families who starved as they could not receive public assistance. The number of households receiving public assistance has reached one million in 2004, representing 1.3 million people, while the ratio of needy low-income households who actually receive that protection is in reality no more than 20% even in the highest estimations.

Youth unemployment is on the rise and employment is becoming more

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<sup>38</sup> For an interesting study of the minimum wage system in Japan and its impact on the work motivation of low-skilled workers, see Yukiko Abe, and Keiko Tamada, “On the Regional Differences in Minimum Wages and Welfare Benefits in Japan,” *The Japanese Journal of Labour Studies* 49, no. 6: 31ff.

unstable, as is precarious employment. Social security is also facing various challenges, particularly as the demographic structure and the aging of the population are placing stresses on social security finance. The latent elements of poverty are all present.

Under these circumstances, however, the government appears reluctant to recognize poverty as being a serious issue in Japan, even willing to minimize its importance. As referred to in the introduction, the government has not established an official poverty line to measure its importance, and has not conducted a comprehensive survey or study on the subject. So far, it has limited itself to addressing specifically the issue of the homeless.

The government's reluctance is also seen in the way it governs the public assistance system. For example, overly restricting the recipients of benefits would have the effect of not only fulfilling the objective of controlling its budget, but to minimize the very existence and problems of the socially vulnerable. Additionally, placing too much emphasis on the necessity to work, or imposing overly severe job search requirements by placing the primary responsibility of the state of need on the negligence or faults of the needy leads to obstructing the search for factors of poverty in the social and economical structure.

The measures put in place to assist public assistance recipients and the homeless to reach social and economic independence are as such efficient and appropriate policy measures. However, they do not go beyond a paternalistic approach that is simply aimed at putting those currently unable to live "independently" back on the right track. This enables us to then overlook the underlying causes of poverty that may lie elsewhere.

In its current statements, the State gives the impression that it underestimates the issue of poverty and fails to fully acknowledge it. It is now not only desirable but also its duty for the State to acknowledge the issue of poverty upfront, seek to assess its gravity and its social and economical factors, and consider necessary policies to address it.

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

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## 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>

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<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

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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

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<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/>).

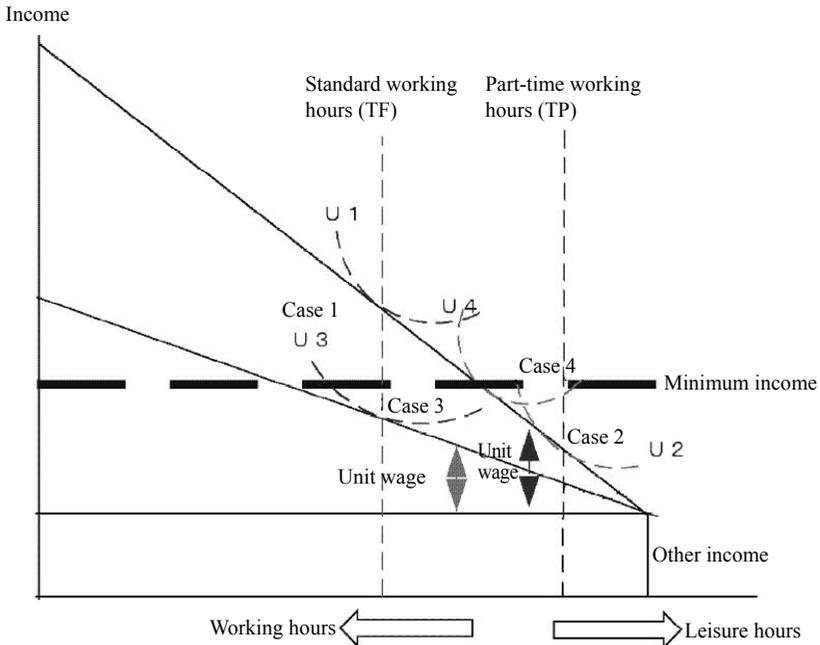
than simple international comparisons are possible, which makes it difficult to draw out clear implications concerning specific problems with income security and public assistance systems as they stand at present. In order to analyze the efficacy of income security systems from a policy point of view, 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.

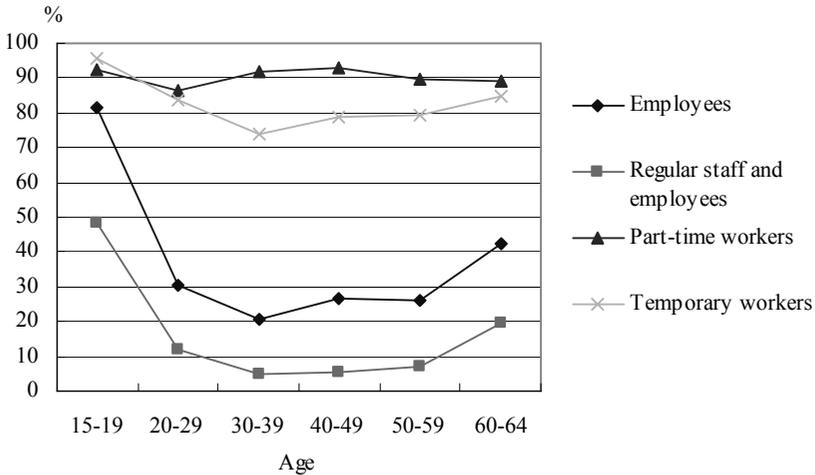
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reversed when factors such as housing assistance, exemption from payment of health insurance and national pension contributions, and the reductions in various taxes, public charges, and fees for use of public services enjoyed by recipients of public 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**

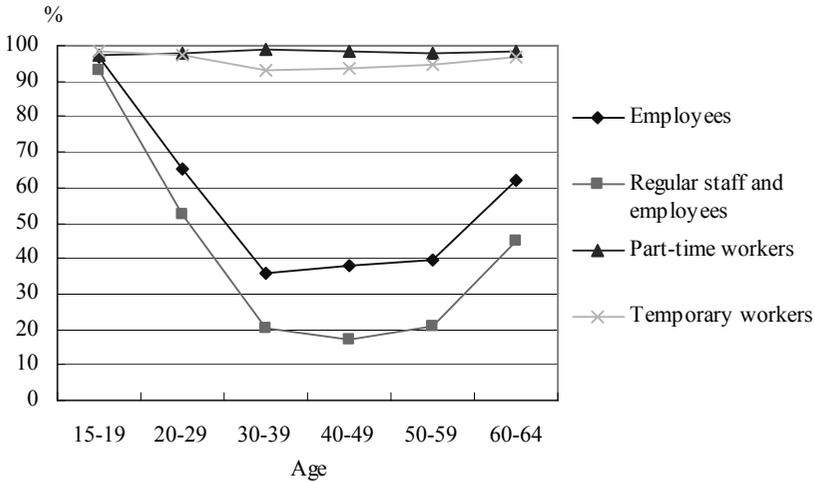


Source: Compiled from RENGO-RIALS (2006).

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

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<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.

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

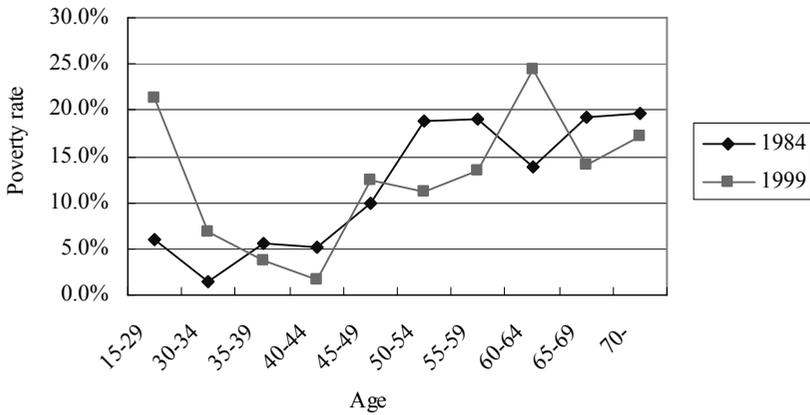
The results of counting households having a recognized income of less than the minimum cost of living are shown in Table 3. Here, the years 1985 and 1999 are shown in order to enable a long-term comparison to be made.

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.

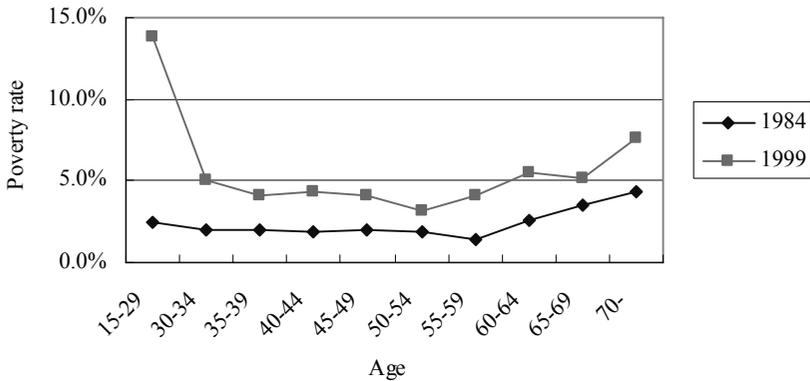
**Table 3. Estimates of working poor and borderline poor households**

	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**

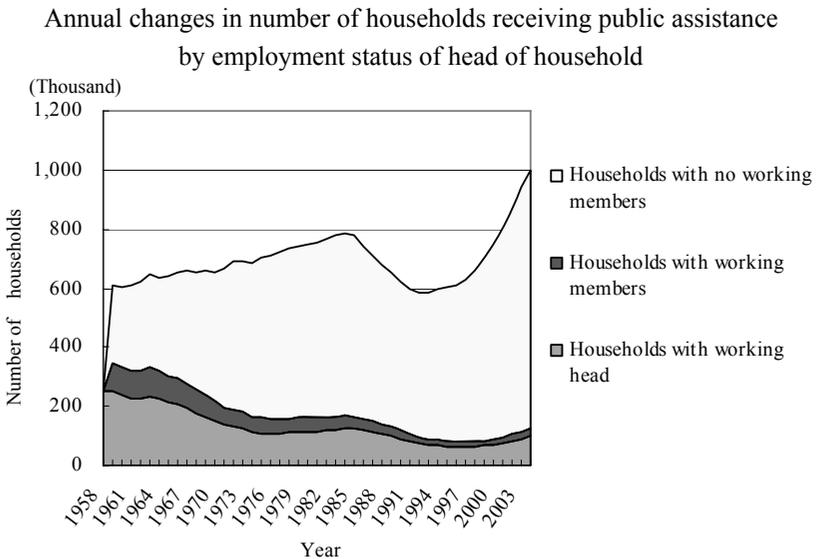
#### **1. Current State of the Public Assistance System**

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

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<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

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<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

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<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

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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**

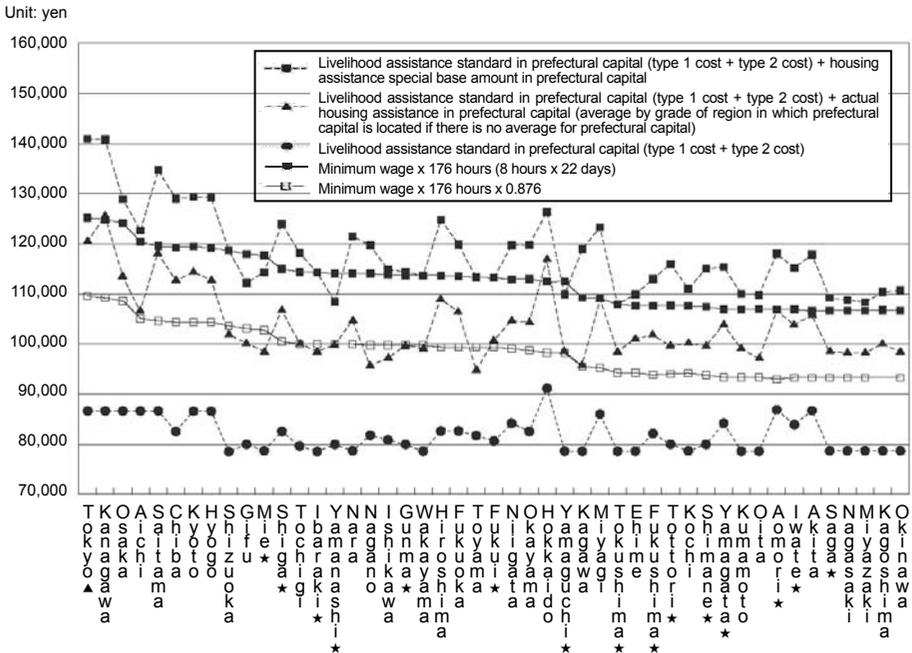
It is thus proposed that the public assistance system, which presently mainly assists older people, should serve as more of a “springboard” in order to assist not only working households on assistance, but also the working poor and borderline poor. To assist the self-reliance of households on assistance 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.

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<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

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<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.

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# An Empirical Study of Intergenerational Transmission of Poverty from the Perspective of Income Mobility\*

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## I. Toward a Sociological Study of the Intergenerational Transmission of Poverty

“A person born into a deprived family is unable to obtain a proper education due to poverty, and consequently cannot find a good job and so earns a low income. This is how poverty is transmitted.” In contemporary Japan, where growing disparities in society are generating significant interest in the mass media, this is exactly the kind of statement that the media tends to seize upon. However, a variety of difficulties hinder any empirical analysis of such an intergenerational transmission of poverty. Firstly, as we shall see later, it is almost impossible to measure the income of the individual’s family of origin. And secondly, an excessive focus on the intergenerational transmission of poverty means that intergenerational transmission in other classes may end up being overlooked. Unless an accurate picture of intergenerational mobility in all income classes in Japan can be obtained, the transmission of poverty cannot be properly understood.

With these difficulties in mind, therefore, our approach in this paper is as follows. Firstly, we present a method of estimating father’s income to serve as the income of the individual’s family of origin, and then proceed to estimate income by this method using actual data. Secondly, intergenerational mobility between estimated father’s income class and individual’s income class is analyzed to determine whether or not intergenerational transmission of poverty occurs. Finally, the mechanism that gives rise to intergenerational income (im)

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mobility is explained by means of status attainment process analysis. Though a topic of both academic and social importance, this issue has yet to be thoroughly researched, and this paper aims to make a sociological contribution to the field.

The composition of this paper is as follows. In Section II, we review the literature in the field; in Section III, we present a method of estimating father's income; in Section IV, we analyze intergenerational income mobility using actual estimates of father's income and identify the mechanism that gives rise to mobility or immobility; and in Section V, we sum up the findings obtained and examine their implications.

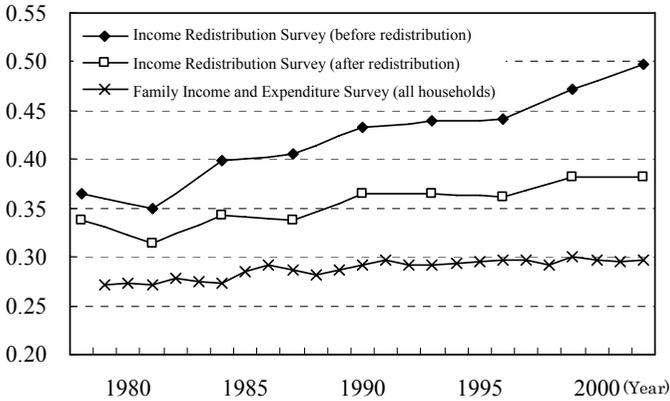
## **II. Review of the Literature**

### **1. Debate on Disparity in Income and Analysis of Intragenerational Income Mobility**

The debate on disparity in income set in train by Tachibanaki (1998) has drawn in various commentators as it has unfolded. Observing that the Gini coefficient has been following an upward trend in recent years, Tachibanaki argued that the disparity in income in Japan is widening. In response, Otake (2005) argued that the growth in elderly households, among which there has traditionally existed greater disparity in income, due to population aging is fueling the rise in the Gini coefficient for Japanese society as a whole, and that disparity in income is not substantially widening. The position of the Cabinet Office of the Government of Japan (2006) is similarly that the widening disparity is the result of both (i) a demographic element in the form of the rising number of elderly households, and (ii) changing family forms (such as declining household size). Thus, as the rise in the Gini coefficient in Figure 1 shows, although the apparent disparity is widening, it is not certain that the real disparity is widening once age and household composition are taken into account. However, there has also been observed a widening disparity among the young, whose employment situation straight out of school have worsened (Otake 2006; Ota 2006). As a consequence, there are concerns that the disparity will widen further in the future due to the difficulty of moving into positions of regular employment and forming households.

However, the focus of such discourse has always been on the size of the disparity in cross-sectional terms, and little research has addressed the issue from the point of view of whether or not this disparity is persistent. While

**Figure 1. Changes in Gini coefficients**



Sources: Compiled by Yoshida from *Shotoku Saibunpai Chosa Hokoku* [Report on the Income Redistribution Survey] and *Kokumin Seikatsu Hakusho* (White Paper on National Life).

examining any widening disparity is naturally of importance, equally important is analysis of whether the disparity is growing more persistent. This is because an entrenched disparity (associated with immobility between income classes) is more serious socially than a fluid disparity (associated with mobility between income classes). Two types of reproduction of disparity in income need to be considered here: immobility in income class within generations, and immobility of income class between generations. The former signifies a strengthening tendency for a person's income not to change over time. Even if disparity in income widens to a certain extent, intragenerational income mobility does not decline provided that movements from low to high incomes, and vice versa, occur frequently, and such a society may in fact be recognized for its dynamism. Considerable research has been conducted on this type of reproduction of disparity. Employing the proportion of stayers from the previous year in each income quintile as a measure of mobility based on data from a longitudinal survey conducted by the Institute for Research on Household Economics, Ota and Sakaguchi (2004), for example, argue that the trend from 1993-94 to 2001-02 indicates that mobility is decreasing. Using the same data, Iwata and Hamamoto (2004) measure poverty based on whether household income is on or below the poverty line, and divide experiences of poverty over a period of nine years into several types. They then analyze the impact of household

attributes on the type of poverty experienced.

While these studies of intragenerational income mobility have addressed an important topic, they have not analyzed the aforementioned increase in immobility between generations. Whether or not poverty is reproduced between generations (i.e., from parent to child) is a question of similar importance. This is because even if disparity increases somewhat, society will still have a certain degree of dynamism provided that people have the opportunity to become high-income earners irrespective of income class of origin. If the disparity is large and the intergenerational disparity becomes entrenched, however, this may well become a major social problem. Herein lies the importance of analyzing the intergenerational mobility of income class.

## 2. Sociological Studies of Social Mobility

Intergenerational occupational mobility and class mobility have been the subject of numerous sociological studies. In the United States, two well-known studies are Blau and Duncan's (1967) analysis of status attainment process, already hailed as a classic, and Featherman and Hauser's (1978) social mobility analysis. In the United Kingdom, significant studies include those by Goldthorpe (1980) and Erikson and Goldthorpe (1992). In Japan, meanwhile, there is the famous Social Stratification and Social Mobility Survey (popularly known as the "SSM Survey"), which has been conducted every 10 years since 1955.<sup>1</sup> This asks respondents about their parents' class (occupational and educational) and their own class (career from first job to current job, education, and income), enabling an analysis of intergenerational class mobility. Using this SSM Survey data, Sato (2000) has observed that intergenerational mobility in the upper white-collar class has been declining in recent years. Although this assertion has been subject to various criticisms (for example, Seiyama 2000), from the point of view of the present paper Sato's study is concerned primarily with mobility in occupational class, and exhibits little interest in intergenerational mobility of income and, in particular, the transmission of poverty. This is a charge that may be leveled at research on social mobility as a whole, however, and not just Sato. The focus of research on social mobility has traditionally

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<sup>1</sup> Data from the 2005 survey are now in the process of being organized and analyzed. One series that used data from the previous survey in 1995 is the six-volume *Nihon no Kaisei Shisutemu* (Stratification System in Japan), (Tokyo: University of Tokyo Press, 2000).

been on intergenerational mobility between occupational and social classes. Furthermore, as we shall see in Section III, measuring parent's income is a difficult task. For this reason, there has been practically no empirical research on intergenerational income mobility in the social mobility study.

### **III. Method of Estimation of Parental Income**

#### **1. Obstacles to Measuring Parental Income**

As noted in Section II, intergenerational income mobility, and the transmission of poverty in particular, is a topic of both academic and social importance. Verifying this empirically, however, is extraordinarily difficult. This is because it is almost impossible to measure parental income directly.

Let us say we attempted to trace people born in deprived homes, which would be a form of longitudinal survey. Such people would have to complete at least 15 years of compulsory education before they could finish school and enter employment, however, and it is highly likely with a survey spanning such a long period that the respondents would be lost track of. It is therefore almost impossible to conduct a longitudinal survey of this kind. What then of a survey that traces backwards from the present into the past? Such a survey would question respondents about their present incomes and their parents' incomes when they themselves were children. While some may hesitate, most respondents would probably give their own incomes, but they are highly unlikely to know their parents' incomes when they were children. They may be able to recall their general circumstances based on visible assets and property and patterns of behavior, such as what kind of house they lived in, how it was furnished, what they ate, how often they ate out, and the clothes that their parents bought them. But parents are most unlikely to deliberately tell their children how much they earn. Thus even though respondents may know their present income, they would not know their parents'. Even this approach, therefore, would not enable an empirical analysis of transmission of poverty.

Using the case study approach, it is possible to carefully question small numbers of the poor to reconstruct in detail their circumstances when they were small and to investigate whether poverty is transmitted. However, this does not show us to what extent such a transmission of poverty occurs in Japanese society as a whole. It also tells us nothing about the probability of a person born into a wealthy home falling into poverty, or of a person born in a deprived

home earning a high income, which means that the transmission of poverty cannot be suitably located within the context of intergenerational income mobility in Japanese society.

As we have seen, the intergenerational transmission of poverty is a phenomenon that is far more easily asserted than actually demonstrated. Firm proof requires data on parental income and the individual's income. Assuming a relationship between the two—in other words, the existence of transmission of poverty—it is also necessary to explain its existence. Pursuing these tasks necessitates data on not only the parent's income and individual's income, but also the parent's class and the individual's educational background and career. The SSM and JGSS Surveys described below contain data on these variables, but do not include data on parental income.

So what is to be done? How can intergenerational income mobility be empirically ascertained and the extent of transmission of poverty in Japanese society measured? In this paper, we adopt the method of estimating incomes from survey data traced from the present into the past to estimate parental income and examine the relationship between individual income and parental income. As estimated income is used instead of actual parental income, a precise analysis is not possible. Nevertheless, this does yield valuable information about the transmission of poverty.

## **2. Estimation of Father's Income Using Survey Data**

Atkinson (1981) proposes three methods of obtaining suitable intergenerational income data: (i) longitudinal surveys, (ii) retrospective surveys, and (iii) follow-up surveys. Arguing that we must wait until the 21st century for longitudinal surveys to produce suitable data and that the reliability of retrospective survey data on incomes is hampered by the presence of “don't knows” among the responses and the problem of accounting for inflation, however, Atkinson himself pairs incomes intergenerationally by tracing data from a survey of poverty in York by Rowntree and Lavers (1951).

The longitudinal survey approach abandoned by Atkinson had produced almost 30 years of data in the U.S. by the 1990s. Two well-known surveys of this type are the Panel Study of Income Dynamics and the National Longitudinal Surveys. Drawing on long-term longitudinal surveys of this kind, intergenerational income mobility has generated strong research interest, and the resulting studies have found that, contrary to the widely-held view of America as a land of equal

opportunity, intergenerational income mobility is in fact quite low (Solon 1992). In Japan, however, longitudinal surveys have yet to produce sufficient data for similar research, and there have been virtually no empirical studies of intergenerational income mobility.

Even in countries such as Sweden and France that, like Japan, lack sufficient longitudinal survey data, however, there has been growth in research on income mobility. These studies have employed repeated cross-sectional surveys as a pseudo panel to create pseudo parent-child pairs. Then estimating income functions makes it possible to determine father's income indirectly (Björklund and Jäntti 1997). In this paper, we use this method to estimate father's income.

The data used are SSM Survey data and cumulative data for 2000-03 from the Japanese General Social Survey (commonly abbreviated as the "JGSS Survey").<sup>2</sup> For information on the individual (i.e., the child generation), JGSS Survey data are used. Although information on father's education and occupation can be obtained from the JGSS Survey, information on father's income is not available. To obtain information on fathers, on the other hand, the SSM Survey is used to create cohorts of pseudo fathers of the same generation as fathers. Both the SSM Survey and JGSS Survey are similarly-designed national representative surveys and classify occupations in almost the same way, making them suitable for employing a pseudo panel approach.

In specific terms, father's income is estimated by the following procedure. Firstly, we limit the scope of our analysis to those respondents aged 30-49 at the time of each JGSS survey. The JGSS Survey asks respondents about their fathers' occupation and education when they were 15 years old. Respondents aged 30-49 at the time of the 2000-03 survey were aged 15 in 1966-88. We therefore pool SSM Survey data from 1965, 1975, 1985, and 1995 (on males

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<sup>2</sup> The Japanese General Social Surveys (JGSS) are designed and carried out at the Institute of Regional Studies at Osaka University of Commerce in collaboration with the Institute of Social Science at the University of Tokyo under the direction of Ichiro Tanioka, Michio Nitta, Hiroki Sato and Noriko Iwai with Project Manager, Minae Osawa. The project is financially assisted by Gakujutsu Frontier Grant from the Japanese Ministry of Education, Culture, Sports, Science and Technology for the 1999-2003 academic years, and the datasets are compiled and distributed by SSJ Data Archive, Information Center for Social Science Research on Japan, Institute of Social Science, the University of Tokyo. Use of the SSM data has been approved by the 2005 SSM Research Committee.

aged under 60 only), which we then use to estimate the income function by regression analysis. The dependent variable is the natural log of the median value for the income class obtained for each survey year, which is adjusted based on the consumer price index (2005 = 100). In order to eliminate outliers after removing respondents with zero income, the top 2.5% and bottom 2.5% of the distribution in each survey year are excluded. The explanatory variables are survey year, age, education, employment status, occupation, and firm size. The regression equation is therefore as follows, where  $Y$  is the aforementioned income.

$$\ln Y = \beta_0 + \beta_1 \text{ survey year} + \beta_2 \text{ age} + \beta_3 \text{ education} + \beta_4 \text{ employment status} + \beta_5 \text{ occupation} + \beta_6 \text{ firm size} + \varepsilon$$

The results of this regression analysis are shown in Table 1. Next, estimated father's income is calculated by determining the exponential function by substituting father's attributes according to the JGSS Survey into the estimating equation.<sup>3</sup> As the JGSS Survey does not ask respondents about father's age (or year of birth), it is not possible to determine the father's age when the respondent was 15. In this paper, therefore, father's age when the respondent was 15 was assumed to be 40-49. Where values on father's attributes were missing, they were excluded from the analysis.

The estimates of father's income are strongly affected by survey year and respondent's age. A  $z$  score eliminating these effects was therefore used for the analysis. In addition, as respondent's income is also affected by age, a  $z$  score similarly eliminating the effect of age was used. These  $z$  scores express the position of income relative to income in the same age group, and do not signify the actual amount of income.

In Section IV, we use the estimates of father's income thus obtained to analyze intergenerational income mobility, and in particular the transmission of poverty. However, one must beware of the difficulties associated with learning about the poor through social surveys. There are two major reasons for this. Firstly, while researchers conducting social surveys typically visit respondents at their homes or workplaces, it is difficult to visit people, such as the homeless, who have no fixed home or workplace. And secondly, there is a strong tendency

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<sup>3</sup> In practice, survey year effect was also weighted and substituted into the equation as well father's attributes.

**Table 1. Results of estimation of income function**

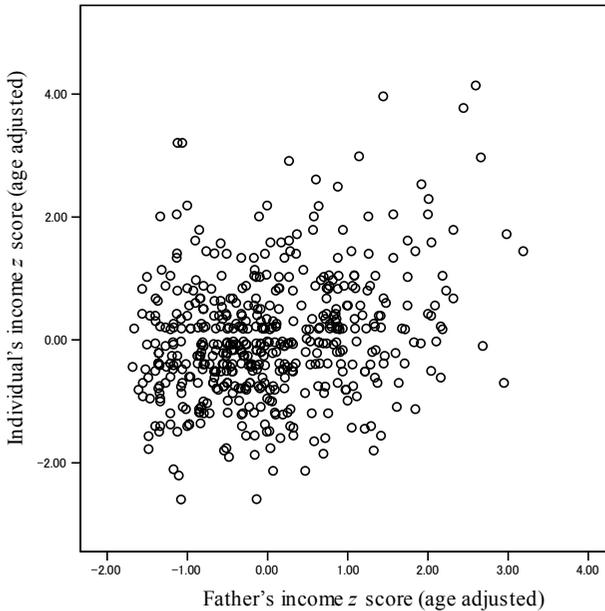
Survey year dummies (base category: 1965)	
1975	0.655**
1985	0.721**
1995	0.897**
Age dummies (base category: 20-29 years old)	
30-39	0.339**
40-49	0.470**
50-59	0.430**
Education dummies (base category: junior high school)	
High school	0.149**
University (including junior college)	0.172**
Employment status (base category: employed)	
Executive	0.248**
Self-employed	0.113**
8 occupational categories (base category: agriculture)	
Professional	0.442**
Manager	0.659**
Clerical	0.415**
Sales	0.336**
Skilled	0.275**
Semi-skilled	0.321**
Unskilled	0.195**
Firm size (base category: small (up to 29 employees))	
Medium (up to 299 employees)	-0.005
Large or government/public office (300 or more employees)	0.137**
Constant	13.582**
Adjusted $R^2$	0.537
$N$	7185

\*\* $p < 0.01$

for people in poverty to refuse to take part in surveys.<sup>4</sup> These points must therefore be borne in mind when interpreting the results of the analysis in the following section.

<sup>4</sup> However, there is a strong tendency for the rich as well as the poor to refuse to take part in surveys.

**Figure 2. Scatter diagram of father's income and individual's income**



#### **IV. Analysis of Intergenerational Income Mobility**

##### **1. State of Intergenerational Income Mobility**

In estimating father's income in Section III, the scope of analysis was limited to 30-49 year olds. It was found from the preliminary analysis, however, that the effect of father's income on respondent's income was more pronounced among 40-49 year olds. In the case of female respondents, moreover, many, such as housewives, had zero income. In this paper, therefore, we limit our analysis to males aged 40-49 in the cumulative JGSS Survey data for 2000-03. Despite the importance of poverty among women as a social issue, this topic was not addressed in the present paper due to the data constraints. Due also to the shortness of the survey period, which lasted only from 2000 to 2003, it was not possible to verify whether intergenerational income mobility is decreasing. We opted, rather, to examine whether movement between income classes is "immobile."

We look first at the relationship between father's income and the individual's income. A scatter diagram of the two is shown in Figure 2, from which it can

**Table 2. Table of intergenerational income mobility**

		Individual's income				
		Lower	Lower middle	Upper middle	Upper	Total
Father's income	Lower	41	38	26	26	131
		2.1	1.1	-1.7	-1.5	
	Lower middle	31	40	26	19	116
		0.6	2.5	-0.8	-2.3	
	Upper middle	31	30	35	28	124
		0.1	-0.4	0.8	-0.6	
	Upper	22	22	42	52	138
		-2.8	-3	1.6	4.2	
	Total	125	130	129	125	509

Upper row: Frequency.

Lower row: Adjusted residual.

be seen that individual's income tends to be higher when father's income is higher ( $r = 0.265$ ).<sup>5</sup> Correlation coefficient  $r$  is also called "income elasticity," which is the commonest measure of intergenerational (im)mobility; an elasticity of 1 signifies perfect immobility, and an elasticity of 0 indicates perfect mobility.

If income is thus treated as a continuous variable, however, the manner of income mobility between generations cannot be clearly understood. The quartiles of parental income and individual's income are therefore employed to create an intergenerational income mobility table. For convenience, we refer below to the upper 25% as "upper," the next 25% as "upper middle," the next 25% as "lower middle," and the bottom 25% as "lower." The results are as shown in Table 2, which gives the frequencies and adjusted residuals. Though not shown in the table, indices such as the Gamma coefficient indicate a positive correlation between parental and individual's income. Looking at the adjusted residuals, there can be observed large positive residuals in the (lower, lower), (lower middle, lower middle), and (upper, upper) cells. Focusing on the large residual in the (lower, lower) cell, it appears that poverty is transmitted. However,

<sup>5</sup> The sample size in Figure 2 and Table 2 (509) is greater than that in the analyses shown in Table 3 onward (488). This is due to the greater number of omissions from the sample due to missing values. Narrowing the sample down to 488 and recalculating Figure 2 and Table 2 would not, however, alter the argument in the text.

the residual in the (upper, upper) cell is approximately twice as large as that in the (lower, lower) cell, and there are large negative residuals in the (upper, lower) and (upper, lower middle) cells, which would indicate that what is occurring is more of a “transmission of wealth” than a “transmission of poverty.”<sup>6</sup>

Let us look at this from another angle by comparing the odds ratios. The ratio of the odds of someone from the lower class remaining in the lower class to the odds of someone from another class entering the lower class is 1.59. By contrast, the ratio of the odds of someone from the upper class remaining in the upper class to the odds of someone from another class entering the upper class works out to be 2.47. (The odds ratios for the lower middle and upper middle classes are, respectively, 1.77 and 1.22.) The difference between the odds ratios indicates that the possibility of someone from the upper class remaining in the upper class is greater than the possibility of someone from the lower class remaining in the lower class. This, too, suggests that there occurs a transmission of wealth.

## 2. Analysis of Mechanism of Transmission of Wealth

What, then, gives rise to this transmission of wealth? Does there occur a direct

<sup>6</sup> A similar analysis was performed using SSM Survey data from 1955 to 2005, and similar results were also obtained. Although differences in age groups rule out direct comparisons, it can be seen from the table below that children of fathers in the lower class tend to remain in the lower class, and likewise that children of fathers in the upper class tend to belong to the upper class. (The Gamma coefficient is 0.233, and is statistically significant at the 1% level.) The adjusted residual for the (upper, upper) cell is in addition considerably greater than that for the (lower, lower) cell.

Intergenerational mobility table (individuals aged 25-54)

<i>Father's income</i>	<i>Individual's income</i>			
	I	II	III	IV
I (Lower)	28.7 <b>2.6</b>	26.9 0.3	28.7 0.5	15.7 <b>-3.4</b>
II (Lower middle)	27.8 <b>2.3</b>	26.1 0.0	23.5 -1.6	22.6 -0.6
III (Upper middle)	19.9 -1.0	25.9 -0.1	30.3 1.1	23.9 -0.1
IV (Upper)	12.8 <b>-3.9</b>	25.2 -0.3	27.5 0.0	34.4 <b>4.1</b>

Source: 1995-2005 SSM Surveys (individual's income from the 2005 survey).

Note: The upper row gives the percentages and the lower row the adjusted residuals (figures in bold indicate absolute values of 1.96 or over). The frequencies for each quartile are omitted. However, the frequencies for father's income and individual's income are divided approximately equally into four.

**Table 3. Ordinal logit regression analysis employing individual's income as dependent variable**

	Model 1	Model 2	Model 3
Father's income (base category: lower)			
Lower middle	-0.005	-0.116	-0.155
Upper middle	0.303	0.059	-0.009
Upper	1.069**	0.546*	0.323
Individual's education		0.214**	0.109*
Individual's current job			0.069**
Pseudo $R^2$	0.022	0.041	0.082
$N$	488	488	488

*Note:* Cut-points are omitted.

\*\* $p < 0.01$ , \* $p < 0.05$

transfer of property in the wealthy class? Or does having a parent who earns a high income enable an individual to acquire a higher education and, as a result, enter an occupation that provides a higher income? In order to explain the mechanism behind the transmission of wealth, we perform an analysis employing a status attainment process approach.

We begin with an analysis using individual's income as the dependent variable. As individual's income (quartile) lies on an ordinal scale, an ordinal logit regression analysis was performed. The explanatory variables are father's income, individual's education (years of schooling), and individual's current job (prestige score). (While first job is another important explanatory variable, the absence of data on first job in the 2003 JGSS Survey means that it cannot be used here.) The results of analysis are summarized in Table 3.

Model 1 uses only father's income as the explanatory variable, Model 2 additionally uses individual's education, and Model 3 adds individual's current job to Model 2. For parental income, which is used as the explanatory variable in Model 1, lower is employed as the base category. As is apparent from the table, only the coefficient for individuals from upper backgrounds is positively significant. This means that there is no difference between people from lower middle and upper middle backgrounds on the one hand, and those from lower backgrounds on the other, and only people from upper backgrounds are more likely to become high-income earners than people from other classes. This result is unchanged by the additional input of individual's education in Model

**Table 4. Regression analysis using individual's education as dependent variable**

Father's income (base category: lower)	
Lower middle	0.595 *
Upper middle	1.239 **
Upper	2.623 **
Constant	12.466 **
Adjusted $R^2$	0.190
$N$	488

\*\* $p < 0.01$ , \* $p < 0.05$

2. However, the size of the coefficient is halved, and the significance is also weakened. When individual's current job is added in Model 3, the coefficient for individuals from upper backgrounds ceases to be significant. This suggests that the direct effect of father's income on the individual's income is absorbed by the intervening variables of education and current job.

In order to confirm this, regression analyses were performed using individual's education and individual's current job as the dependent variables. The results of the former are shown in Table 4. The explanatory variable is father's income. Normally, father's job and father's education would be used for the status attainment process model; as these variables are used to estimate father's income, however, they cannot be used here as explanatory variables.

As can be seen in Table 4, the regression coefficients for each class of origin are significant and increase in size from lower middle to upper. This means that as father's income increases, so too does individual's education. This agrees with the repeated observation made by researchers of social mobility that class of origin strongly affects educational attainment.

The results of a regression analysis using individual's current job as the dependent variable are summarized in Table 5. With Model 1, which uses only father's income as the explanatory variable, current job prestige increases with income class. Of particular note is that the upper coefficient is over twice as large as the upper middle coefficient. If we look at Model 2, however, which adds individual's education as an explanatory variable, the size of the upper coefficient is more than halved, and significance is also weakened. Moreover, the coefficient for upper middle, which was significant with Model 1, ceases to

**Table 5. Regression analysis employing individual's current job as dependent variable**

	Model 1	Model 2
Father's income (base category: lower)		
Lower middle	0.653	-0.426
Upper middle	3.357 **	1.112
Upper	7.778 **	3.023 *
Individual's education		1.813 **
Constant	44.228 **	21.632 **
Adjusted $R^2$	0.084	0.206
$N$	488	488

\*\* $p < 0.01$ , \* $p < 0.05$

be significant. The education coefficient, however, is significantly positive. This indicates that father's income affects individual's current job not directly, but rather through education, and only in the upper class is a direct influence observed.

From the above analysis, the mechanism that gives rise to the "transmission of wealth" becomes apparent. Firstly, father's income has a strong effect on individual's education. In particular, the coefficient for individuals from upper backgrounds is more than twice that of upper middle. Next, individual's education has a strong impact on individual's current job. This means that individuals whose fathers' incomes belong to the upper class are employed in high-prestige current jobs as a result of having received a higher education. Furthermore, father's income directly affects current job. Then, as observed in Model 3 in Table 3, a higher educational background and higher prestige current job increase the individual's income. As the pseudo  $R^2$  in this model is low, factors other than education and current job may have a considerable impact on income. Given the findings of past status attainment process studies, however, this finding may not be far from the truth. Unlike previous research, however, the use of father's income and individual's income as category variables has enabled differences between income classes to be more clearly determined, and has also made it possible to identify the existence of a "transmission of wealth" phenomenon.

## V. Conclusion

While the analysis in Section IV showed that a phenomenon that may be termed intergenerational transmission of poverty does certainly occur, a more important phenomenon is that of the “transmission of wealth.” Although “decreasing class mobility” is frequently remarked upon by the media, this does not mean that intergenerational income mobility is low in all classes. The findings of this paper indicate that there is limited mobility to and from the wealthy class and, moreover, that rather being visible in the form of the direct transfers of income, this immobility is mediated through education and current job.

This is significant both academically and in terms of policy. Academically speaking, focusing only on the intergenerational transmission of poverty results in the overall pattern of intergenerational income mobility being overlooked. As noted in Section I, ascertaining the overall pattern reveals what was formerly overlooked, i.e., that there is more of a “transmission of wealth” than a “transmission of poverty.”

In terms of policy, the “transmission of wealth” raises a problem. While a variety of conceivable measures can be adopted to tackle transmission of poverty, and any closing of the wealthy class as a result of direct transfers of income (intergenerational transmission of wealth) can be alleviated through taxation, reduced mobility into the wealthy class due to factors that are basically a matter of personal choice, such as education and occupation, are not amenable to mitigation through policy.<sup>7</sup> In this sense, Japanese society may have entered a difficult class situation.

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<sup>7</sup> One possible measure regarding education is the expansion of scholarships for children from deprived backgrounds. However, expert opinion remains divided on whether this would weaken the impact on education attainment of income class of origin.

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# Dispute Resolution Systems in the Workplace: A Study Relating to Their Establishment and Support

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## I. Introduction

In recent years there has been a marked increase in the number of labor disputes, particularly disputes involving individual cases, an increase reflected in a corresponding increase both in the numbers having resort to the One-stop Worker Consultation Corners in Prefectural Labor Bureaus and also in cases brought before the civil courts. A variety of factors are responsible: the lengthening and the deepening of the recession following the bursting of the asset bubble; increasing labor market competition, both at home and from abroad; the increasing diversity of forms of employment and the changes in the traditional Japanese employment system characterized by long-term employment and *nenko* (seniority-constrained) pay and promotion systems. But one aspect is certainly that the functioning of in-house grievance processing systems has declined and more complaints are being brought out into the open.

This situation prompted The Japan Institute for Labour Policy and Training (JILPT) to mount its project for “Research into the institutionalization of, and support for, workplace dispute resolution systems,” spread over two years, 2006 and 2007. The project has conducted interviews and questionnaire research with both labor and employer representatives in Japan, undertaken field work overseas (in US, Britain, France and Germany) including interviewing experts in the identification of and training in dispute-resolution skills. It has also sought to define the systems of dispute resolution that employers and labor should seek to establish and the policies by which such systems can be promoted and diffused. This paper provides a summary of the project’s conclusions.<sup>1, 2</sup>

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<sup>1</sup> The project is responsible for the following publications in Japanese: An interim report in 2007, No. 86 in the series *Rodo seisaku kenkyu hokokusho (Reports of research on labor policy)*, and the final report of 2008 in the same series, No. 98, both bearing the title *Kigyonai rodo funso shori shisutemu no seibishien ni kansuru chosa kenkyu (Research and study on the establishment of, and support for workplace dispute resolution systems)*. The authors of these reports were, Ryuichi Yamakawa (Professor, Law School, Keio University), Yoko Hashimoto (Professor, Faculty of

The paper, following the structure of the final report, begins with an overview of the prevailing systems of dispute resolution in Japan, including public systems, and uses the results of interviews and questionnaires to show the present state of dispute resolution within enterprises. (Sections II-IV)

Given the importance both of efficiently functioning dispute resolution systems and of the quality of the people who actual engage in resolution activity, the next sections deal with the mechanisms whereby disputes arise and are resolved, the skills necessary for their resolution, and the content and the methods of training for such skills. (Sections V-VI)

Finally, we consider dispute resolution systems in the essential context of human resource management practices and end with recommendations arising from this research concerning how to design dispute resolution systems and what public support might be given. (Sections VII-VIII).

## **II. Overview of Dispute Resolution in Japan**

There has recently been a very rapid increase in the number of labor disputes reaching the civil courts, the majority brought by, or on behalf of, individual workers. The increase roughly tracks the lengthening and deepening of the recession following the bursting of the bubble economy, and is presumably a consequence of the labor force reductions, changes in work conditions and personnel policies and organizational changes which the recession prompted. There is a possibility that the recovery will see a relaxation of these trends, but it seems clear that, with the increase in market competition both at home and abroad, and the changes in corporate governance towards an emphasis on shareholders' profit, corporations are continuing to make changes in work

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Law, Gakushuin University), Hideaki Irie (Guest researcher at the Waseda University, Center for Negotiation and Dispute Resolution Research), Masayuki Kitaura (Deputy Secretary General, Japan Productivity Centre for Socio-Economic Development), Kaoko Okuda (Associate Professor, Faculty of Public Policy, Kyoto Prefectural University), Tetsushi Okumura (Professor, Graduate School of Economics, Nagoya City University), Mitsuo Omoteda (Associate Professor, Faculty of Law, Kyoto Gakuen University), Kazuo Taguchi (Associate Professor, Faculty of Management, Takachio University), Naoki Tsuchiya (Associate Professor, Faculty of Economics, Musashi University), and from JILPT, Masato Gunji, Hirokuni Ikezoe, Akio Kihara, Shino Naito, Kasumi Nomura, Makoto Suzuki, and Ken Yamazaki.

<sup>2</sup> "Dispute" for the purposes of this study, meaning individual rather than collective grievances.

conditions and organization and to cut back their work force, leading to a continued expectation that conflicts of interest with their workers will continue to arise.

At the same time, on the supply side of the labor market, there is an increasing diversity of worker profiles—more women, older workers, foreign workers—and an increase in non-conventional types of employment contract. As compared with earlier times when the labor market was dominated by full-time, male, regular workers, workers' personal concerns are more diversified, personnel managers can no longer make do with standard one-size-fits-all policies, and the possibility of conflicts of interest increases.

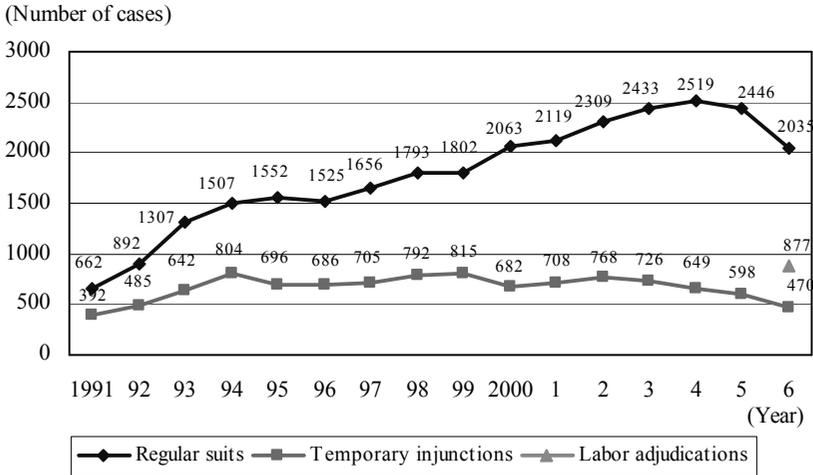
Such factors may promote conflicts of interest and cause worker discontent, but whether or not such conflicts and the resultant discontent express themselves in complaints and disputes is a different matter. It may be that workers will simply put up with their situation and not outwardly reveal their grudges, or it may be that preventive measures resolve the conflict of interest before it gets to the complaint and dispute stage.

In Japan until recently, the first option, “putting up with things,” maybe seen as a rational choice. The so-called Japanese employment system with its long tenures and seniority-constrained pay and promotion system acted to prevent, or reduce the likelihood of, disputes. Workers who lodge a complaint against their employer are generally likely to feel uncomfortable at work and are inclined to look for another job, but in the Japanese system it might well seem a realistically sensible choice to put up with things rather than sacrifice the advantages of security of tenure and prospects of advancement.

As that system changes, so those rewards for “putting up with things” are reduced. As workers' feelings about changing their job begin to alter and the likelihood that discontent will manifest itself in overt disputes is increased. Also, whereas traditionally, the person a worker would complain to would be his immediate superior, with the increasing use of performance pay, that superior is likely, as primary evaluator, to be directly responsible for the decision causing the dispute, or he or she may have been given a greater work load—been made a “playing manager” in the Japanese term—and simply have less time to spare to talk to his subordinates.

Such were the factors that led to increasing arguments in favor of creating a new dispute resolution system, resulting, in 2001, in the Act on Promoting the Resolution of Individual Labor-related Disputes which came into effect in

**Figure 1. Number of newly accepted civil disputes concerning labor matters brought to district courts**



Source: General Administration Bureau, Supreme Court, *Rodo Kankei Minji Gyosei Jiken no Gaiyo* [Outline of labor-related civil and administrative suits], *Hoso Jiho* [Lawyers Association Journal].

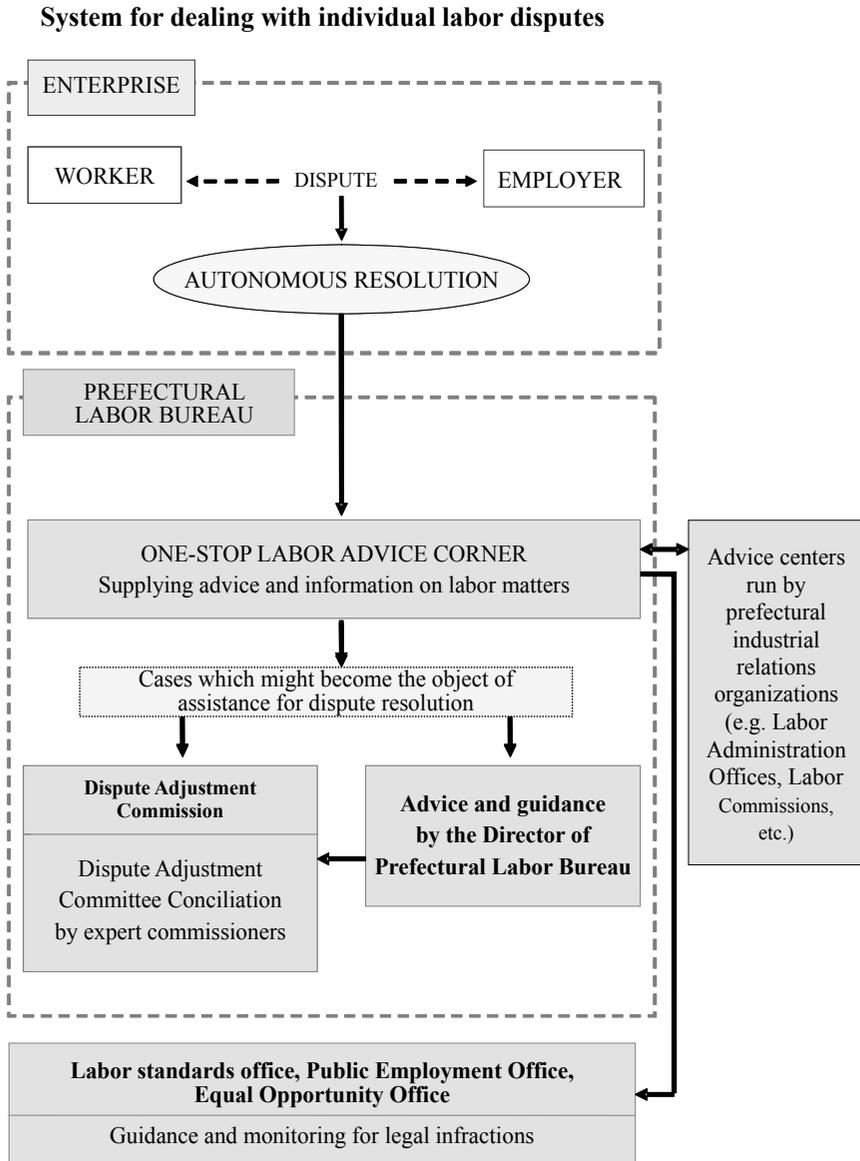
Note: Labor adjudications for 2006 are for April to December. The number in the year April 2006 to March 2007 was 1,163.

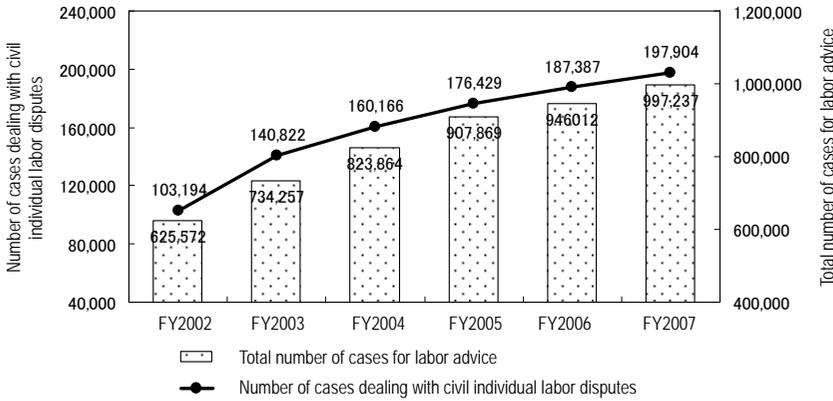
October of that year. It had three elements: a general labor consultation service in the Prefectural Labor Bureau, advice and guidance by the Director of that Bureau, and conciliation by a newly created Dispute Adjustment Committee.

Subsequently, within the legal system proper, a law of 2004 established a system of Labor Tribunals to deal with disputes involving individuals. The tribunals (which began operating in April 2006) consist of a labor-specialist judge and experts from both sides of industry, and are intended to speed up the processing of labor disputes and offer both arbitration and flexible conciliation (See Figure 1, 2 and 3). Further, an amendment of the Labor Union Law, passed in 2004 and effective from January 2005, dealt with disputes involving not individuals but worker organizations. It aimed at speeding up and improving the examination of unfair labor practice complaints made to the Labor Relations Commissions.

These responses of both the judicial and the administrative systems to the increasing number of disputes, together with a revision of the Labor Union

**Figure 2. An outline of the system for dealing with individual labor disputes and number of cases dealt with by the Advisory Service**





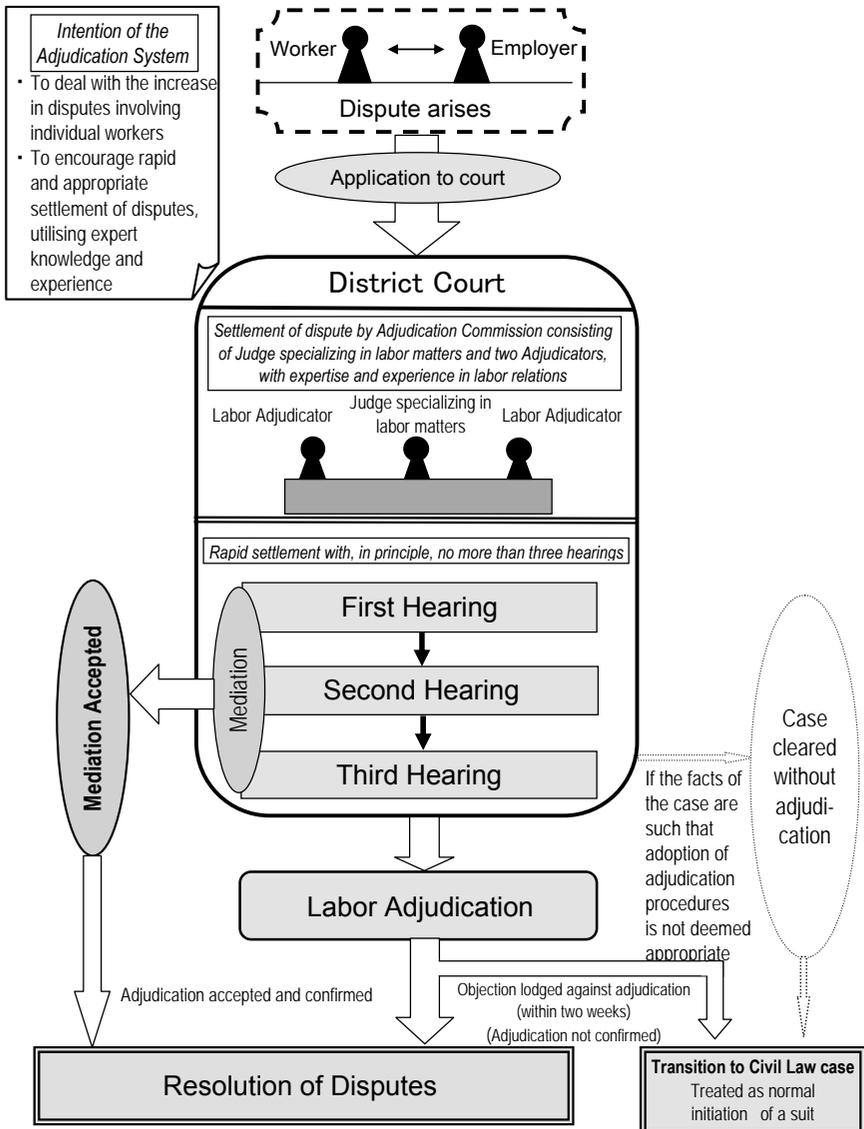
Law’s procedures for dealing with unfair labor practices, brought considerable improvements to the systems for resolving both individual and collective disputes. But they left one area unresolved, namely systems for resolving within-enterprise or private disputes.

There is a general consensus that the resolution of labor disputes at the workplace is best left to employers and employee organizations themselves, but in practice it appears that the grievance committees and the grievance procedures which are formally set up to deal with disputes in firms which have labor unions, are hardly ever used. At the same time, whereas Japanese employers have traditionally put more emphasis on consultation with unions—as a means of preventing disputes before they happen rather than resolving them once they have happened—these dispute-prevention mechanisms seem to have weakened as the evidence cited earlier indicates. These circumstances mean that, even if external, public dispute resolution mechanisms are provided, given their cost and the problem of adapting to the particular circumstances of particular firms, the role of in-firm dispute resolution systems remains of great importance.

But in spite of their importance, there have been insufficient attempts to examine and improve them. There have been studies of worker dissatisfactions and grievances, but even these have rarely been focussed on the systems for resolving disputes.

Such is the background to our study which seeks first to establish by means of earlier studies and our own investigations what actually is the state of dispute resolution in Japanese workplaces today, secondly to consider the systems used

**Figure 3. Outline of the labor adjudication system**



Source: [http://www.kantei.go.jp/jp/singi/sihou/hourei/roudousinpan\\_s-1.pdf](http://www.kantei.go.jp/jp/singi/sihou/hourei/roudousinpan_s-1.pdf)

abroad and how they function, and thirdly, having got some idea of the best sort of system for dealing with disputes in a manner best suited to the circumstances of particular workplaces, to consider what forms of assistance could help such systems to function efficiently.

### **III. The Current State of Workplace Dispute Resolution in Japan: Survey Results<sup>3</sup>**

With the increasing diversity, both of worker preferences and of patterns of employment, and with the trend towards individualized, as opposed to collective rule-making personnel management, it becomes of first-rate importance, both for enterprise managers and for unions, to maintain good communications, create a congenial work environment and make sure that worker discontent is either prevented, or if it occurs, swiftly dealt with. Hence one of the first objects of our enquiry was the state of employer-worker communications, how worker complaints were ascertained, and how they went about resolving them. We sent questionnaires to employers, employees and unions.<sup>4</sup> Below are the main findings yielded by these questionnaires concerning the present state of dispute resolution within workplaces.

Seventy percent of employees said that they were unhappy about something in their workplace: the way work was handled, interpersonal relations, their evaluation rating or work conditions such as wages and hours (Figure 4). There is a wide variety of both formal institutions and informal procedures for ascertaining and dealing with such discontents. Of these, firms tend to put most emphasis on “consulting with managers” and employees on “consulting with

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<sup>3</sup> This section describes the questionnaire survey of 2007. The interim report (sections 1 and 2 of chapter 1) examines the existing literature on the nature of complaints and grievances, how they are dealt with, and what seem to be the problems to be resolved.

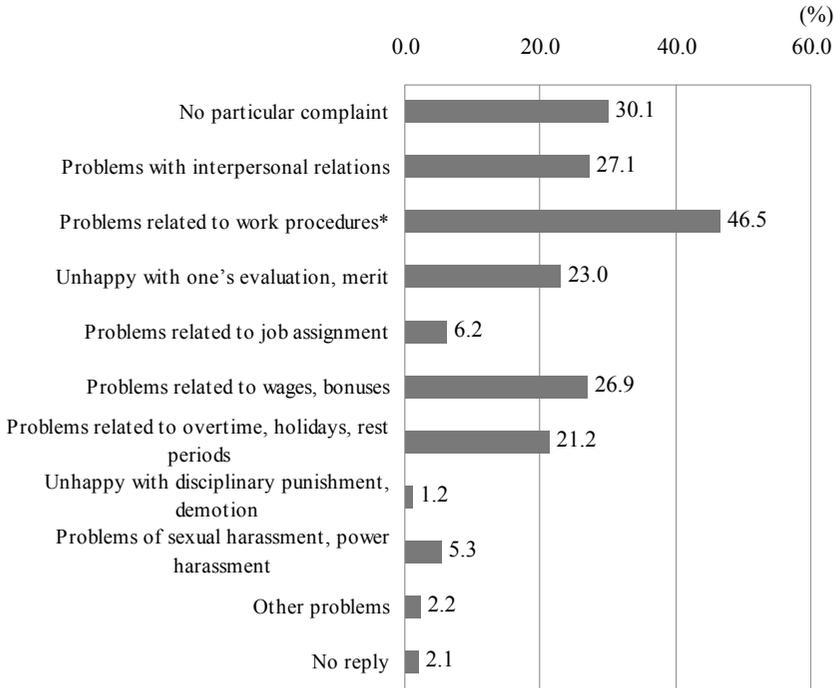
<sup>4</sup> Response rates for the three questionnaires are as follows. The questionnaires themselves and the initial tabulations are printed as an appendix to the final report.

Employers questionnaire: Sent to 10,000 private sector companies (excluding agriculture and fisheries). 1,792 returned: effective response rate 17.9%.

Employees: Sent to 100,000 including part-time, daily hired and contract workers. 10 sent to each company with the request that they be passed on to 3 managers and 7 ordinary employees. 10,851 returned: effective response rate 10.9%.

Unions: Sent to 10,000 unions in workplaces with 100 or more employees (both stand-alone unions and units of federations). 2,349 returned: effective response rate 23.5%.

**Figure 4. Nature of current complaints  
(Employee questionnaire, N=10851, Multiple replies)**

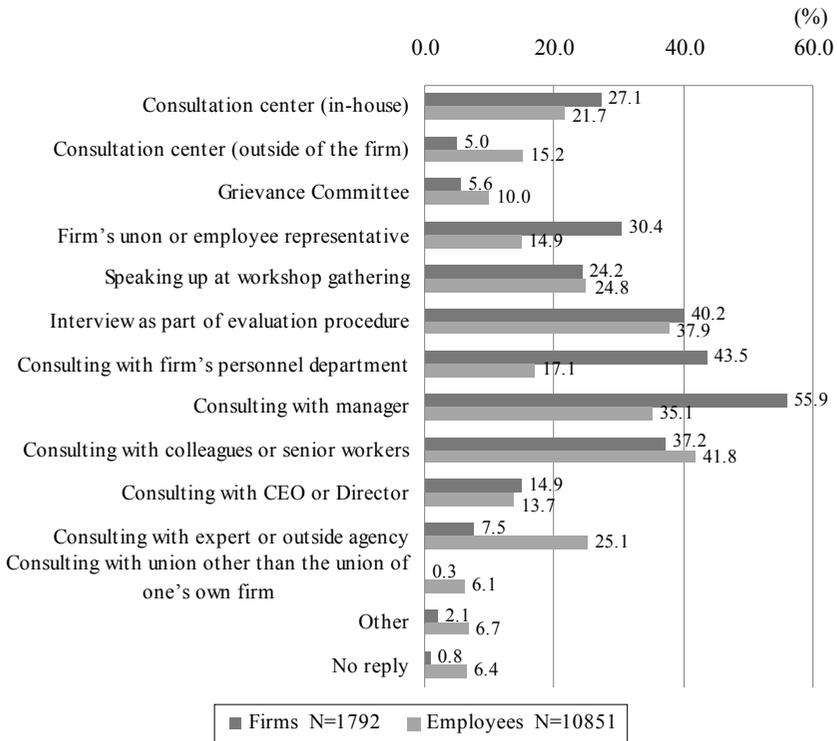


\* The alternatives offered on the questionnaire were: “problems concerning work, such as work methods, work assignments or the content of work.”

colleagues or senior workers” (Figure 5). Unions tend to put most emphasis on day-by-day union activity (Figure 6). Special “consultation centers” and “grievance committees” are more likely to be found, the bigger firms (Figure 7), and although such formal systems are deemed important in those big firms, in smaller firms more informal means of communication are favored.

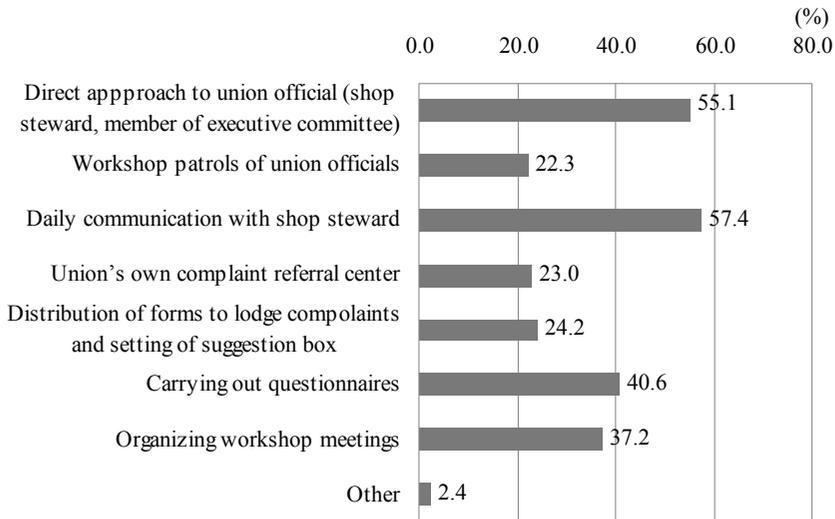
Even where there are special consultation centers and grievance committees, their use does not seem to be growing; for example 80% of the consultation centers had nine or fewer cases a year (Figure 8). As for the reasons why employees do not much use such facilities, the most commonly offered, apart from not fully understanding procedures, was concern about the fairness of the procedures or about the possibility that using them would work to their disadvantage (Figure 9).

**Figure 5. Most important methods or referral points for ascertaining and dealing with complaints (Firm questionnaire) and most appropriate methods or referral points to resort to when you have complaints (Employee questionnaire) (Each allowed up to three choices)**

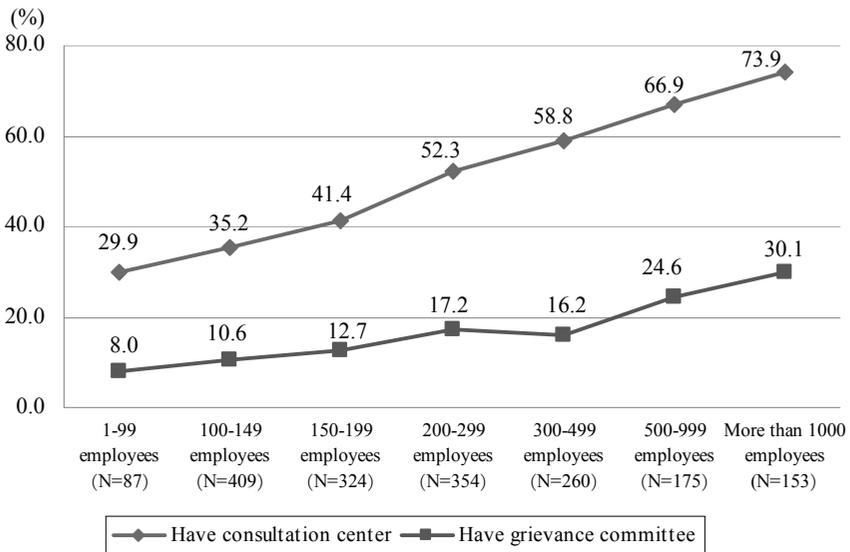


As many as 58.2% of employees said that they had taken some complaint to a superior, a good deal more than the number (respectively 11.5% and 7.2%) who had gone to a consultation center or grievance committee. The most common complaints concerned matters to do with work or interpersonal relations (Figure 10), and while 60% of those who had made complaints said that they had had them largely resolved, the other 40% said that they resigned themselves to nothing being done for them (Figure 11) which is twice the proportion if consultation centers are used (Figure 12).

**Figure 6. Methods for ascertaining dissatisfactions and complaints thought most effective (Union questionnaire, N=2277, Up to three choices)**

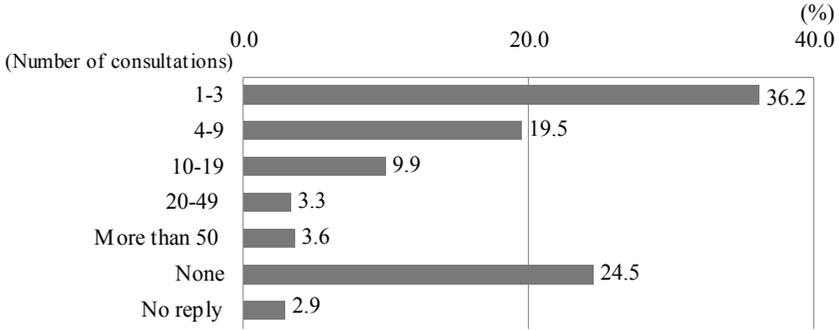


**Figure 7. Presence or absence of consultation centers and grievance committees by firm size (Firm questionnaire)**

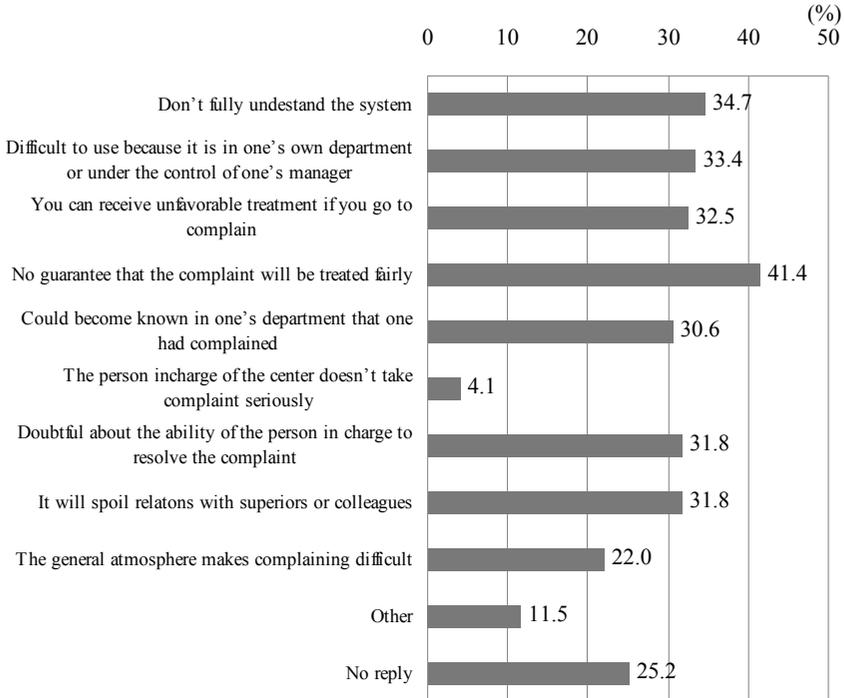


Note: The figures for all firms of all size classes are 49.4% for consultation centers and 16.0% for grievance committees.

**Figure 8. Frequency of resort to consultation center in those firms that have one per year (Firm questionnaire: N=886)**

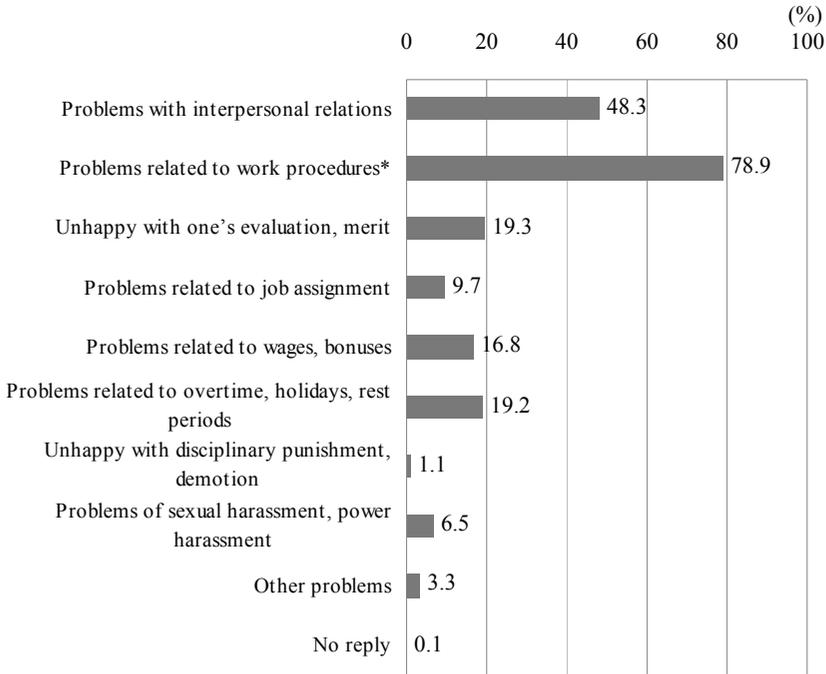


**Figure 9. Reasons for never having used grievance procedures (Employee questionnaire, N=862, Multiple replies)**



Note: The question asked for the reasons why the employee had not used either a consultation center or a grievance committee in firms that had either or both facilities. The tabulation excluded the 63.6% who said that they had never had anything worth complaining about.

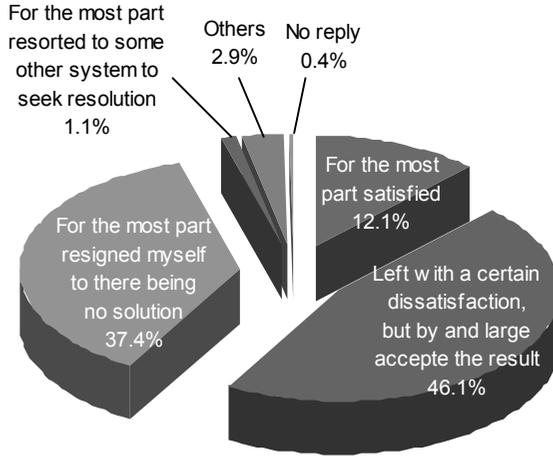
**Figure 10. Nature of complaints actually made to immediate superior  
(Employee questionnaire, N=6317, multiple replies)**



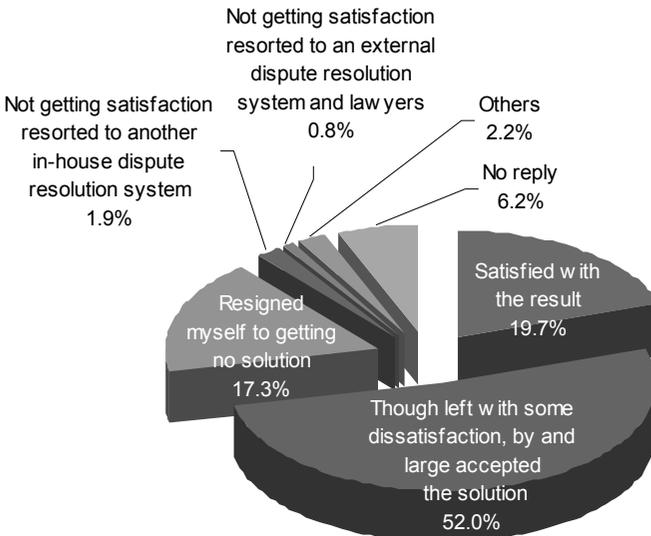
\* The alternatives offered on the questionnaire were: “problems concerning work, such as work methods, work assignments or the content of work.”

As for “consulting with managers,” which firms place so much emphasis on, 66.0% of firms include dealing with subordinates’ complaints among managers’ duties, and 23.3% use it as a factor in manager evaluation. In this way managers are involved in the system for dealing with disputes, but nevertheless a half of the managers at Section Chief level and above felt uncertain whether they could handle disputes in their own right (Figure 13) and many thought there was a need for clarifying what was to happen when they could not resolve a dispute, and a need for better training courses (Figure 14). Among unions, too, 65.1% thought that the role of managers in ascertaining and dealing with complaints was important, but 63.2% of those who did so think felt that they were not up to doing that job, giving as their reasons that, apart from not being particularly concerned about dealing with complaints, also, for instance, they did not have enough time (Figure 15).

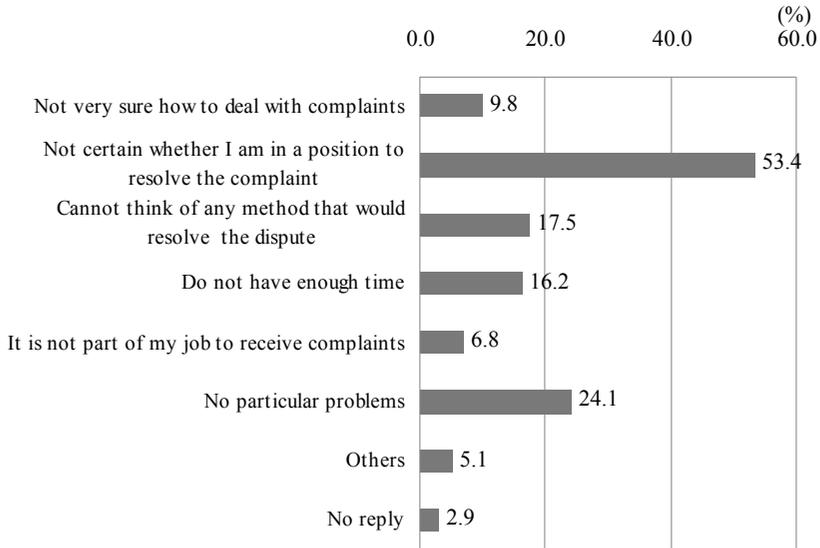
**Figure 11. Result of taking complaint to immediate superior (Employees who had done so, only) (Employee questionnaire, N= 6317)**



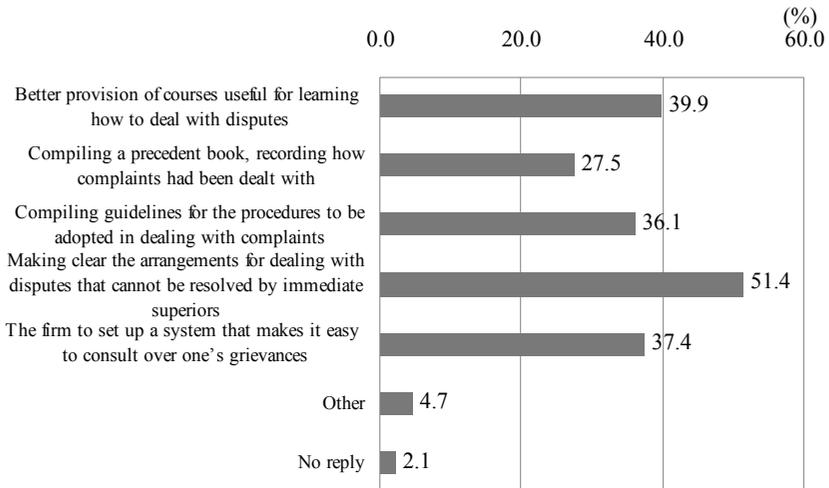
**Figure 12. Result of using the consultation center (Employees who had so used) (Employee questionnaire, N=371)**



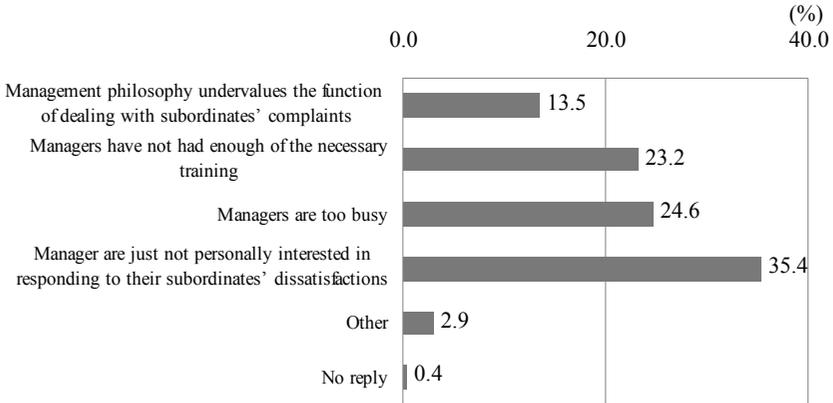
**Figure 13. Problems in dealing with complaints (Section Chiefs and above)  
(Employee questionnaire, N=2309, Multiple replies)**



**Figure 14. What is necessary to make it easier for managers to respond appropriately when they are consulted over grievances (Section Chiefs and above) (Employee questionnaire, N=2309, Multiple replies)**

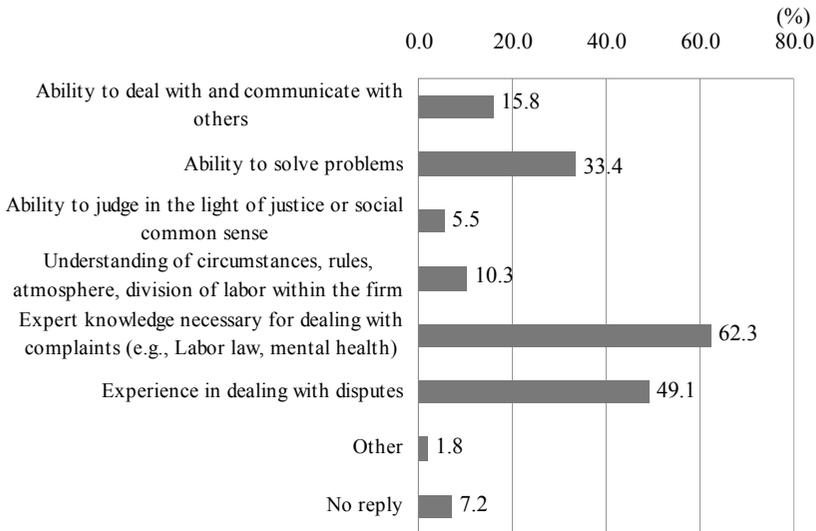


**Figure 15. Why managers are not properly performing their role  
(Union questionnaire, N=1357)**



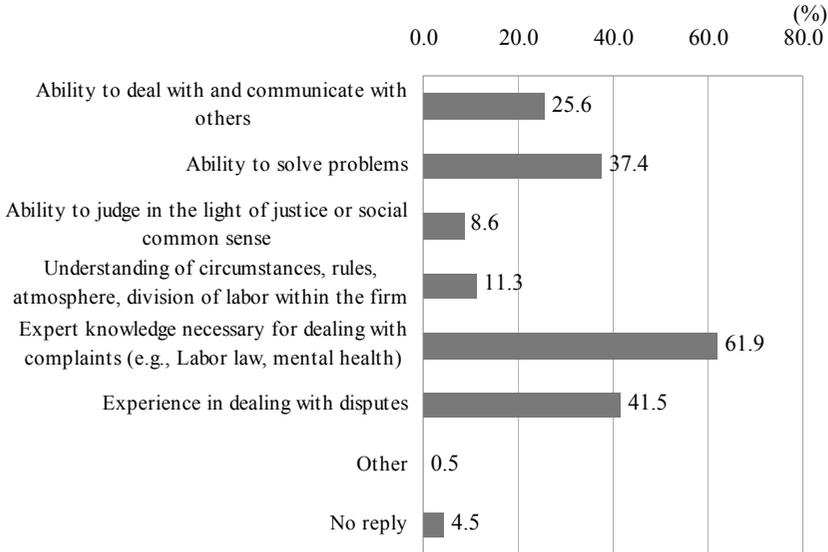
Note: Answers from those unions which recognize the role of superiors in dealing with complaints, but do not perform well (or not very well) in that role.

**Figure 16. Abilities and qualities required in consultation center staff and currently not adequately available (Firm questionnaire, N=886, Two choices)**



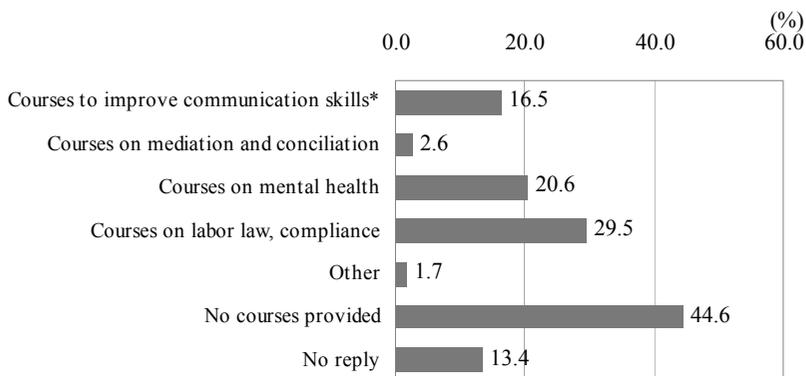
Note: Question asked of those firms which said they had a consultation center. As for the abilities and qualities deemed most important in themselves, they were "Ability to deal with and communicate with others" (77.4%) and "Ability to solve problems" (52.1%).

**Figure 17. Abilities and Qualities required in managers for ascertaining and dealing with complaints, in which they are at present deficient (Firm questionnaire, N=1792, Two choices)**



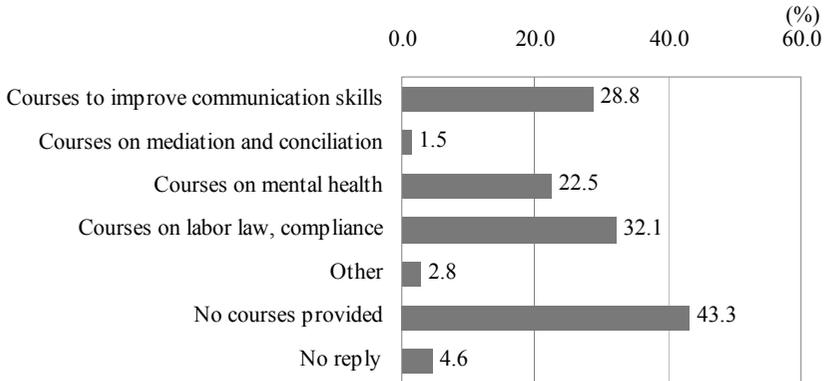
Note: The two qualities deemed of greatest importance were: “Ability to deal with and communicate with people” (82.2%) and “Ability to solve problems” (60.1%).

**Figure 18. Courses provided for those in charge of dealing with complaints (Firm questionnaire, N=1792, Multiple replies)**



\* The wording of the questionnaire was “Courses to improve communication skills (Coaching, counselling, facilitation courses).” Also for Figure 19.

**Figure 19. Course provided for managers to help them ascertain and deal with complaints (Firm questionnaire, N= 1792, Multiple choices)**



When we asked about the abilities and qualities necessary for the staff of consultation centres and for managers, and what might currently be lacking in that regard, large numbers of firms pointed to the lack, apart from experience in dealing with complaints, of expert knowledge (of labor law, mental health issues) and problem-solving ability (Figures 16 and 17). Forty percent of firms said that they provided no courses for consultation centre staff or managers (Figures 18 and 19).

#### **IV. The Current State of Workplace Dispute Resolution in Japan: Information from Site Visits**

In all we visited 11 firms in the course of 2 years to hear what managers and unions had to say about communications in the workplace and in particular the way complaints are recognized and dealt with. The chart below summarizes the main measures reportedly taken, as abstracted from the full case studies in the final report.<sup>5</sup>

In every one of the cases, where there was a labor union, as spelt out in the above table, there were some mechanisms for identifying and resolving complaints, and also for preventing dissatisfactions from arising. Some were put in place by the management unilaterally (various consultation centers, questionnaires),

<sup>5</sup> See Chapter 3 of the final report for details about each case.

Dispute Resolution Systems in the Workplace:  
A Study Relating to Their Establishment and Support

Industry and Number of employees	Measures adopted by management	Management-union measures	Measures adopted by unions
Company A Maker of transfer equipment  Over 34,000 employees	Suggestion box • A few suggestions per month • Chief subjects: harassment and evaluations Questionnaire survey	Workplace meetings for the exchange of ideas • Once every two months Grievance committee • No activity	Consulting on an individual basis • Responding to phone calls or office visits • Content: individual work conditions
Company B Transport  Over 12,000 employees	Helpline • A few score times a year • Chief subjects: harassment and work in general Direct talks between employees and top management	Union-management consultations at various levels and specialist committees Grievance committee • No activity	Union version of helpline • About 20 cases a year Union meeting Individual conversations
Company C Electrical appliances  6,000 and several hundred employees	Management hotline (related to evaluation system) Consultation center for sexual harassment Helpline for company ethics	Personnel management committee (related to evaluation system) • Twice a year Grievance committee • No activity	Dealing with complaints as part of general survey of actual conditions • All union members, three times a year • Subject: chiefly evaluations • Get a response from the company for transmission to employee Questionnaire on the working of the evaluation system
Company D IT-related devices  Approx. 18,000 employees	Speak-up! Program (Illegalities, inappropriate business behavior, complaints and dissatisfactions. Name given on reporting, but subsequent treatment anonymous [unless permission to do otherwise is personally given]) Open Door Policy Consultation center for sexual harassment Survey of employee satisfaction		
Company E Wholesaler of electrical appliances  Approx. 600 employees	Handling of complaints via an Ethics Line (signaling or consulting about infractions of the law or ethical principles. Complaints addressed to the American parent company E. Anonymity allowed.) Dealing with complaints on the intranet Employee Assistance Program (EAP) (Chiefly for mental health problems with a qualified clinical psychologist dealing with problems of harassment etc.) Attitude questionnaire surveys of employees		
Company F Chemical products  More than 10,000 employees	Employment Opportunity Promotion Center (for sexual harassment and work/life compatibility) Compliance Hotline Training of personnel staff, (using past instances of trouble as case studies)	Union management meetings • Twice-yearly Grievance procedures specified in the Management-Union Basic Contract • Never utilized Union-management council on human resources (deals with personnel problems)	Emphasis on identifying and dealing with complaints through everyday workplace activity Branch chiefs talking with individuals Consultation via e-mails
Company G Machine Tool-maker  More than 10,000 employees	Various types of Help Desks • Several tens of consultations per annum • Contents: Chiefly personnel system, sexual harassment Training of personnel staff (Using case studies of particularly difficult cases) Career counseling center Attitude questionnaire surveys of employees	Various union-management consultation organs Grievance committee • No activity	Private consultation center (Union officials responding to approaches as part of daily activities.) Reinforcement of every-day activity Individual discussions with those concerned Questionnaires, suggestion box
Company H Heavy Machinery  Over 6,800	Compliance hotline • Several tens of consultations per annum • Content: Overtime,	Various Union-management consultation organs Grievance committee • One case every 2-3	Consultation in the workplace with someone designated as preferred consultee by the union branch

employees	personal evaluations Sexual harassment consultation centre Questionnaire survey	years Union-management committee for the management of discretionary work-time contracts	Union general meetings and committees Questionnaire surveys of union members
Company I Medical Appliances Approx. 3,200 employees	Account Managers (Deal with complaints concerning evaluations and interpersonal relations) Harassment consultation center Whistle-blower reception center Letters to the company president, etc.	Workplace discussion meetings Grievance committee • Hardly every used Joint committee to examine the evaluation system	Union's own grievance committee Preparatory coordination of opinion before the discussion meetings mentioned in adjacent column Action by executive member for the union branch Questionnaire on evaluation issues
Company J Software Approx. 700 employees	Initiation of complaint • Several tens of consultations per annum • Content: Evaluations, etc. Grievance committee (Mediation between employee and his superior by head office) Suggestion box Questionnaire surveys	Contact maintained chiefly through monthly union-management consultation committee	Responding to individual consultations • content: Evaluations etc. Questionnaires on evaluation procedures, etc.
Company K Supplemental Education Approx. 3,000 employees	Survey of the organizational atmosphere Helpline • Use: several tens of consultations per year • Content: very varied such as sexual harassment Union's efforts to gather and articulate opinions supplemented by the Personnel Department: Meetings to explain and gather comments on changes in the personnel system.		

- Notes: 1. Companies A to E were surveyed in 2006, Companies F to K in 2007. D, E and K did not have unions which enrolled more than half the employees, and at J, union members numbered around 130.
2. Included are mechanisms which, although not specifically for dealing with complaints can function as such.
3. "No activity" for grievance committees includes, also, "No activity lately."
4. This list is not exhaustive of all the mechanisms mentioned, and in every company importance was placed on resolution of individual complaints through discussion with immediate superior.

others by the union (for example identifying problems through everyday activities and shop-floor investigation) and yet others, jointly (various forms of regular consultation committees). Also in companies without unions, there were mechanisms which may be thought of as substitutes for the union's function of gathering and channeling complaints.

One senses from these visits to companies and unions, that there is a general awareness of the importance of swift identification and resolution of complaints, leading to the creation of various hotlines and consultation centers. These do seem to be performing a certain function, but it is generally thought to be a problem to get these mechanisms trusted and utilized.

Likewise, everyone stresses the importance of the immediate work superior in dealing with complaints, but both managers and unions recognize that many managers are too busy to fulfill that role properly, and this is one reason for re-examining the role of consultation centers and procedures.

Union-management consultation and face-to-face meetings to improve acceptance of personnel evaluation decisions are important for reducing the origination of complaints, and in this an important role can be played by the union itself and also in conjunction with the company.

## **V. Mechanisms of Dispute Origination and Resolution**

### **1. Dispute Origination and Resolution**

Disputes arise when a worker's request or claim is rejected (not accepted by the other party); one part wants something, the other recognizes no obligation to grant it. The key to resolving disputes is recognition of the interests which lie behind the position of the two parties overtly in dispute. Ury, Brett and Goldberg in their study of disputes in the American coal-mining industry, speak of three approaches to dispute resolution: the underlying interests approach, the rights approach, relying on established rules and procedures, and the power approach which allows the more powerful to overbear the other party. They also suggest that as elements in the evaluation of a resolution outcome, the four criteria should be: transaction costs, the degree of satisfaction with the outcome, the subsequent effect on the relationship, and the likelihood of recurrence of disputes.

In the design of dispute resolution systems, functionality and the trust/confidence factor are all-important. In particular, the assurance of neutrality and respect for the privacy of confidences are one crucial element in setting up consultation centers by the firm itself: otherwise these mechanisms will remain unused. The authors just quoted enunciate six principles for the design of such mechanisms from the list of which, they suggest, individual firms can choose the principles which suit their own particular characteristics. The six principles include (i) a focus on interests, (ii) building in loop-backs to negotiation and (iii) provide low-cost back-up systems for the rights and the power approaches.<sup>6</sup>

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<sup>6</sup> For detail, see William L. Ury, Jeanne M. Brett, and Stephen B. Goldberg, *Getting Dispute Resolved: Designing Systems to Cut the Costs of Conflict* (San Francisco: Jossey-Bass, 1988).

## **2. Dispute Resolution Skills**

High-quality dispute resolution involves four elements: resolution should be at minimal cost in terms of time, cash and psychological stress; it should not simply compromise on a middle position, but make sure that, in the various interests at stake in a dispute, priority is given to the most important; it should leave the complainant feeling that he or she has been fairly treated, and, finally, there should be a learning process, furthering understanding of the fundamental origin and development of disputes. And to achieve all of these, what is required is a “listening” attitude, and skill in “asking” the right questions.

- (i) personal proximity, making eye contact,
- (ii) paying attention to the other person’s feelings,
- (iii) nodding and making understanding noises,
- (iv) being silent when the other person lapses into silence,
- (v) repeating what the other person has said as a means of confirmation, and
- (vi) rephrasing what the other person has said in your own words.

These may seem like basic and obvious practices hardly to be identified as a skill technique, but it does underline the importance of avoiding various forms of defensiveness—feelings, conscious or unconscious, of the need to defend one’s own position, inability to see or hear things which are incompatible with, inconvenient for, or alien to one’s own preconceptions—all of which prevent one listening to what the other person has to say

As for “asking” skills, one can, both through open-ended questions and closed-end (yes-no answer) questions, encourage the other person to articulate and to make judgments which can be effective in inducing in him or her a useful self-awareness which will increase the chances that the complainant will understand the interests which are the background to the dispute, become himself or herself aware of the possible ways of reconciling those interests, and accept such a possible resolution.

A study of mediation veterans, all of whom had dealt with over a hundred cases, also pointed up the importance of building rapport with the parties to the dispute, and the ability to think of novel and creative solutions to problems.

## **VI. Training for Dispute Resolution**

In the United States what is beginning to become widespread is the notion that dispute resolution is a matter of helping the parties to a dispute to reach

their own decisions and the practical means of doing so. Mediation training is seen as an essential means of making it possible for mediators who are assumed to be a wide variety of people, to achieve resolutions of high quality.

In Japan, too, such training in American methods has been given in universities, and by non-profit organizations. Such training should, it is thought, be designed in an open sort of way in order to encourage the self-development of the participants, with a problem-solving orientation and an emphasis on two-way communication, role-playing and group discussion.

Broadly, there are three elements in mediation training listed below, though other elements are also necessary, such as the ability to deal with dilemmas that arise in the mediation process itself (as when one of the parties starts to say he or she has to leave early), knowledge of the law and how to convey it to the parties, liaison with lawyers, etc.

(i) Dividing the mediation process into strategically planned sequential stages

Control over the discussion process is seen as a service which the mediator renders to the disputing parties. (a) Start, (b) Beginning a conversation, (c) Discussion (seeking the basic interests, the nub, of the dispute), (d) Establishing the problem and the clash of interests in which it resides. Throughout this first half, the mediator is not trying to find the final solution and lead the parties to it. But then, (e) brain-storming to find a solution, and helping the parties to produce and select a plan for resolution, (f) Agreement on the resolution, (g) Conclusion.

(ii) A framework for the analysis of the dispute based on concepts of interest

The procedure is based on the assumption that lying behind the demands of the parties there are interests, and real intentions, which are different from the positions they have taken up, and that bringing out that difference will help to establish the real issues to be resolved.

(iii) Communication skills, listening skills

The central techniques—open-ended questions, paraphrasing etc.—are those listed above, but the essential thing is for mediators to listen with an open mind, in full awareness that only the parties to the dispute have the right answer. They should try to cultivate not so much the ability to perceive accurately the feelings of the disputants when they talk, but to get positively involved with them.

Training sessions should be for 20 to 30 people, using a lot of small-group work in twos and threes and conducted in as conversational a manner as possible

so as to provide participant feedback and also practice of communication skills. In role-playing exercises, the mediator should not be party to secrets about the disputants, so that, even if agreement is not reached, they can critically discuss the whole process of the mediation afterwards.

Training requires trainers and training materials. Trainers are in short supply, and if only for that reason the provision of materials that can be used for training labor dispute mediators is important. (There is already a good range of easily used material in the field of dispute resolution between trading partner companies.)

## **VII. Workplace Dispute Resolution, Personnel Management and Industrial Relations**

Dissatisfactions arising from everyday work activity are most effectively settled between the individual and his or her superior. That is what is expected, and only matters which the superior cannot resolve, or which it is inappropriate for him or her to resolve, become “complaints.” Those that get to be dealt with in the external dispute resolution system are those which, perhaps because conflict within the organization has become too overt, are difficult to resolve internally.

In Japan, too, settlement by immediate superiors is the norm, but it is necessary for the personnel department to make sure that the mechanisms that are provided for registering dissatisfactions and complaints are easy to use—by making sure that use of such mechanisms has no effect on one’s evaluation, for instance. It is also important for unions to identify and deal with complaints as part of their normal everyday activity (including using management-consultation meetings to make sure that solutions reached in individual cases are applied to all union members). They also need to monitor the dispute resolution mechanisms established by the company.

Other important things are: preventing disputes from arising in the first place, speedy measures to deal with them when dissatisfactions reach the complaint stage, and the willingness to recognize that when a dispute arises it may present an organizational problem which requires an organizational reform.

Problems which arise over the work process can be divided into those that derive from the nature of the work task and those that derive from the instructions of superiors regarding the manner of working. The former are most likely to be

problems of total work load, and the basically important thing is to reduce excessively heavy assignments. Among the latter are problems of the ambiguity or vagueness of instructions, sexual harassment, and so on, which require for their cure, better training of superiors in how to give guidance to subordinates and how to organize work. When problems arise over personnel evaluation, or treatment based on evaluations, getting workers to accept evaluations requires, apart from making sure that evaluations themselves are fair, checking how far consultation interviews are functioning effectively. In harassment cases, there is an increase in the number being dealt with outside the firm as labor disputes, and a need to consider the risk of the firm being sued when dealing with them.

Various methods for resolving disputes within the workplace are mutually complementary. Hence a need to plan their coordination in such a way as to maximize the useful characteristics of each. And this requires comprehensive overall discussion and planning. With that needs to go efforts to prevent disputes arising, such as making personnel systems clear and transparent and appropriate policies as to what those systems should be. That said, one can list the challenges:

- Strengthening the function of workplace supervisors as people their subordinates can consult
- Coordinating as a “system” the prevention and the resolution of dissatisfactions and complaints
- Reconsidering the positioning of labor unions (monitoring of the company’s mechanisms, their role in preventing disputes from arising)
- Devising methods of genuinely activating the grievance committees jointly run by management and unions.

## **VIII. Designing Appropriate Workplace Dispute Resolution Systems in Japan and Appropriate Forms of Public Support**

### **1. Japan’s Problems and Suggestions from Abroad**

The existing literature and our own research show that firms have a strong desire to settle complaints within the enterprise, and for workers, too, taking complaints outside the firm is uncommon. For both management and union the emphasis is placed on internal resolution. But the systems for doing so are not well developed and a large number of firms and unions recognize the need to revamp and improve them. How to do so is the important question, as is the question of the skills required for successfully operating such systems and the

training to provide those skills. There is also a need for reflection on the general question of how those concerned in both management and union should deal in general with conflict in the workplace, including how to prevent disputes occurring.

One approach to these questions is to look at the situation in other countries with well-developed systems. For the purposes of this study we made field research trips to the US, UK, Germany and France.<sup>7</sup>

Generally speaking, in Europe, particularly in continental France and Germany, public dispute resolution systems are well developed. In Germany the central institution is the “Arbeitsgericht” in which a professional judge and management and union assessors render swift and simple judgments. A vast number of disputes are dealt with every year. In France, although the number of cases does not reach German proportions, there is the “Conseil de Prud’hommes” which also has assessors appointed by management and the unions and deals with a considerable number of disputes annually. In both countries great emphasis is placed on public systems for dealing with disputes and the very notion of “workplace dispute resolution” seems not to be widely diffused, but if one interprets dispute resolution more widely to include the prevention of disputes, the workplace representative/shop steward system can be said to play a big role.

In the United States, by contrast, the judicial system has no special organs for dealing with labor disputes, and, apart from unfair dismissal cases which are dealt with by the National Labor Relations Board, labor disputes are dealt with in the ordinary courts. The American judicial system has very strong elements, such as the jury system and the possibility of awarding punitive damages, but for that very reason is a high-cost, high-risk system. This is why alternative dispute resolution systems have developed outside the purview of the courts. Traditionally, grievance committees and mediation procedures have been specified in union contracts, but lately, even where there is no negotiating union, various procedures for dealing with disputes have become common—appointing external experts to mediate or arbitrate, or appointing an ombudsperson. Thus the development of internal resolution systems is the characteristic feature of the American scene.

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<sup>7</sup> Detailed reports of findings in each country are to be found in Chapter 2 of the interim report.

Britain has its Employment Tribunals on which, as in Germany, professional judges sit along with representatives of management and labor, but a feature of its public system is the fact that mediation by its Advisory, Conciliation and Arbitration Service (ACAS), an administrative body, also plays an important role. In addition, whereas, true to the British tradition of voluntarism, workplace dispute resolution had hitherto been left to the private arrangements of individual managements and unions, the provision of workplace dispute resolution procedures has become legally required, and appeal to Employment Tribunals has to come via such a route. (However, it seems that the government is reconsidering this in the light of criticism that the legal requirement leads to ritual concern for form rather than substance.)

To summarize, although Britain has a well-developed public system of dispute resolution, compared with Germany and France internal workplace systems play a big role. Despite several institutional differences, Britain and the United States have that in common. One can draw the following suggestions for the establishment of appropriate systems in Japan from an analytical comparison between Britain and the US where workplace systems play an important role and France and Germany where public systems are more important.

- In the case of workplace systems of dealing with disputes, it is useful to think more broadly about “dealing with disputes,” including the prevention of disputes from arising, as well as resolving them when they have already arisen.
- In establishing systems of dispute resolution within the workplace, important factors are the perception of needs and incentives (for example the benefits the company derives from resolving disputes.)

## **2. Appropriate Systems for Workplace Dispute Resolution**

It is desirable that workplace systems have the following characteristics:

- (i) That they should be easy to use and work swiftly.
- (ii) In addition to using informal procedures—encouraging the parties to arrive autonomously at agreements—the procedures should be flexible and capable of reaching satisfactory outcomes with as small a staff as possible being involved. (Though formal track alternatives are also desirable.)
- (iii) Important factors necessary to ensure that employees should actually use such systems are, their transparency (employees need to be told clearly

the outline even of informal systems and how to use them, and the knowledge needs to be widely diffused), and the degree of trust employees have in them (no fear of subsequent ill-treatment, keeping secrets, fair procedures and judgments).

Given the importance of workplace disputes reaching a resolution informally and taking into account the reality of the situation in the particular firm, it is necessary for those involved to have the mediator skills and to be capable of delivering solutions that are adapted to the special characteristics of labor conflict. In concrete terms this means not only the general skills necessary for dispute resolution, such as communication skills like the art of active listening, the ability to discern the underlying interests involved in the dispute, and the ability to devise appropriate solutions, but also specific knowledge and understanding of the nature of labor disputes (their diversity, the continuing relations between disputing parties, the relation the dispute has to the institutions and procedures of the firm), together with the ability to apply such knowledge in the settlement of disputes, an understanding of the particular circumstances and procedures of individual firms and a basic knowledge of labor law. Off-the-job training can have played an important role in building up such skills.

Even in the daily performance of work duties, supervisors' treatment of the dissatisfaction of their subordinates can to a certain extent be improved by their possessions of such dispute resolution skills, and it is useful for members of the personnel department to have them and to provide training courses for managers to learn to deploy such skills. It also helps to have the business of dealing with and preventing disputes written clearly into managers' job descriptions. In Japan the unions also play an important role, with workplace representative and branch executives in the course of their daily routines identifying complaints and trying to resolve them at workplace level, and when they involve rules and procedures which require amendment putting them on the agenda for Union-Management Consultation Meetings. All this is part of "dealing with conflict" at the broadest level.

### **3. Appropriate Forms of Public Assistance for Workplace Dispute Resolution**

Basically it is up to individual firms and unions to provide dispute resolution systems suited to their own needs. Nevertheless, in recent Japan, with continuous growth in the number of disputes involving individuals reaching the courts, the institutionalization of workplace systems seems not to be progressing satisfactorily

in spite of a widespread awareness of the need on the part of firms, employees and unions. Given that there is a social value in resolving and preventing labor conflict, it is not unreasonable to consider some form of public support for the installation of such systems and for the training of the personnel who will operate them.

Support can best be given not in the form of imposing standard systems—that is to be avoided—but by providing the information that people need if they are to make an independent choice of the sort of system that would suit their own circumstances—in the form of guidebooks and seminars, giving examples of such systems, points to be wary of when planning and implementing such systems, criteria for settling disputes, and the form such judgments might take, or taking the form of sessions to get them to appreciate the skills necessary for resolving or preventing disputes. It is also worth considering the idea of developing and diffusing a model training program for such skills when they have been fully elaborated in concrete terms.

## **IX. In Conclusion**

This study was carried out at the request of the Secretariat of the Central Labour Relations Commission, an external bureau of the Ministry of Health, Labour and Welfare but interest in the issue is much wider. The Japan Business Federation (Nippon Keidanren) issued a report in May 2006 entitled “Towards the building of intra-enterprise communication systems appropriate to a new age” and noted in it the need to give priority to the ability of firms to deal with disputes in the light of the steady growth in disputes involving individuals, insisting that good communications within the firm was a precondition for competitive success. This is one indication of a general concern on the part of both managers and unions in workplace communications and what is intimately related to it, namely the prevention and resolution of conflict, which suggests that our study is one which addresses a matter of a high level of social concern. We have also been able by our questionnaire and field studies to provide some new information on the actual present state of dispute resolution in Japanese workplaces.

We hope that it will not only provide useful suggestions for the formation of policy, but also provide material for discussion by managers and union officials and others within enterprises who are concerned with the resolution of conflict.



## JILPT Research Activities

### **Research Reports**

The findings of research activities undertaken by the Japan Institute for Labour Policy and Training (JILPT) are published in Japanese in the form of research reports. Below is a list of the reports published from June to August 2008. These reports can be accessed in full on the JILPT's website,\* to which we are also in the process of uploading the English-language abstracts.

### **Research Reports**

- No. 103 *Skills Development and Human Resource Development at Small and Medium Enterprises: A Preliminary Study* (July 2008).
- No. 102 *A Study of Job Creation in the Provinces* (July 2008).
- No. 101 *A Study of Employment Support for Single Mothers* (June 2008).
- No. 100 *Employment of Older People: An Interim Report on Research into Promoting the Employment of Older People* (June 2008).
- No. 99 *Limited-term Labor and Parental Leave: The State of Continued Employment and Obstacles to the Popularization of Parental Leave* (June 2008).
- No. 98 *Survey of Support for Development of Corporate Dispute Resolution Systems* (July 2008).
- No. 97 *Transformation of the Japanese-style High-school Graduate Employment System and Recommendations* (June 2008).

### **Discussion Papers**

- DPS-08-09 Hori, Haruhiko. *Segmentation of the Labor Market and the Gender Wage Gap* (June 2008).
- DPS-08-08 Nakamura, Ryoji. *Measures to Support the Work-Life Balance Viewed from a Corporate perspective: Present and Future with a Focus on Compliance with the Next Generation Education and Support Promotion Act* (June 2008).

### **Research Series**

- No. 49 *New Indices Using Business Statistics 2008* (August 2008).
- No. 48 *Follow-up Survey of Visions of Employment and Personal Life among the Baby-boom Generation: What "This Year" Means to Permanent*

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*Employees Retiring at the Mandatory Age of 60* (June 2008).

**Research Material Series**

- No. 46 *Institutions for Migrant Workers in Foreign Countries and Actual Conditions 2008* (August 2008).
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