

Inequality and Poverty in Japan

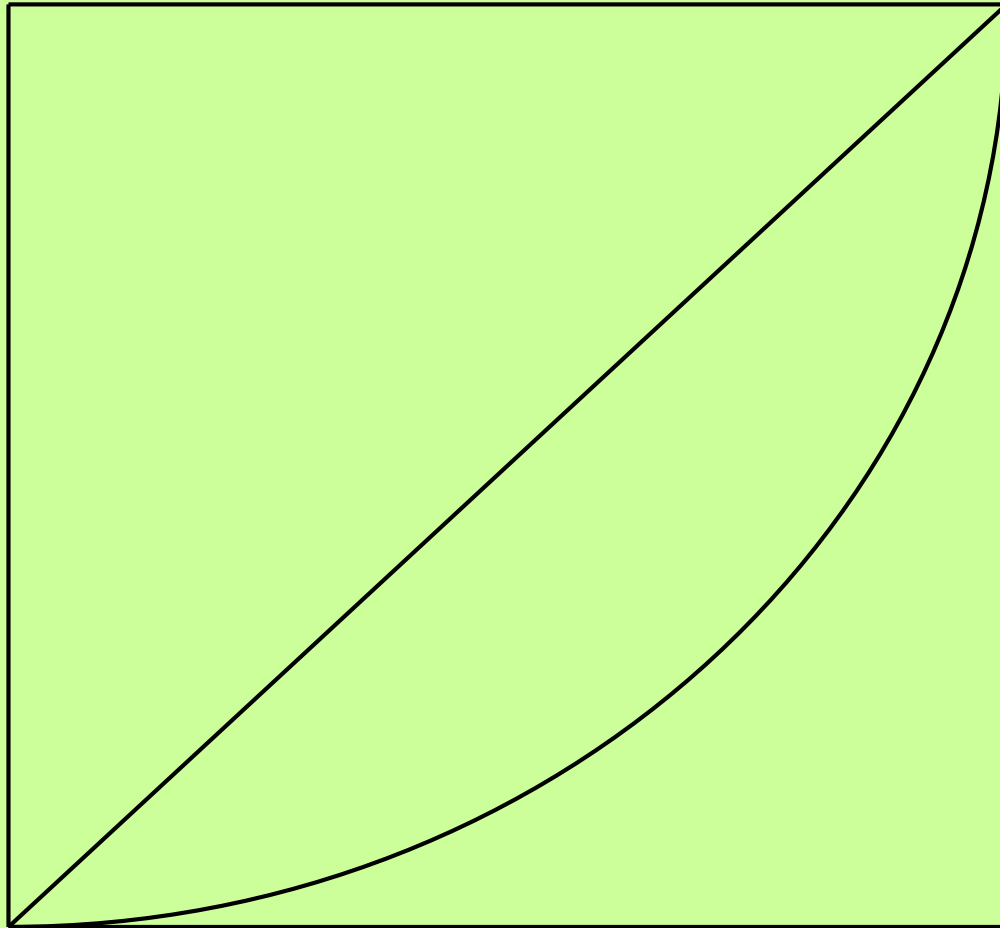
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Issues

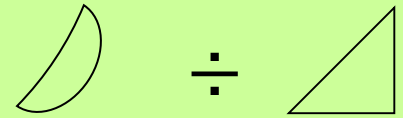
- There is an argument that equity should be sacrificed in order to promote efficiency.
- Parents levels of achievement in education and occupation tend to determine those of their children.
- Poverty has increased, but not yet been seriously discussed as a social problem.

The facts found here

- The Gini coefficient of income, the most widely used measure of inequality is increasing, especially in the redistributed income.
- In international comparison, Japan belongs to a group of OECD countries where the highest level of income inequalities are observed.



Gini Coefficient =



Poor

Rich

A higher Gini coefficient implies higher inequality.

TABLE I
Income Re-distribution Effects by Tax Policies and Social Security Programs

	A	B	C	D	E
			%	%	%
1961	0.390	0.344	11.8	—	—
1967	0.375	0.328	12.6	3.7	8.7
1972	0.354	0.314	11.4	4.4	5.7
1975	0.375	0.346	7.8	2.9	4.5
1978	0.365	0.338	7.4	3.7	1.2
1981	0.349	0.314	10.0	5.4	5.0
1984	0.398	0.343	13.8	3.8	9.8
1987	0.405	0.338	16.5	4.2	12.0
1990	0.433	0.364	15.9	2.9	12.5
1993	0.439	0.365	17.0	3.2	13.2
1996	0.441	0.361	18.3	1.7	15.7
1999	0.472	0.381	19.2	1.3	17.1
2002	0.498	0.381	23.5	0.8	21.4

A, Inequality before income redistribution; B, Inequality after income redistribution; C, Income re-distribution coefficient; D, Income re-distribution coefficient by tax policies; E, Income re-distribution coefficient by social security programmes.

Source: Ministry of Welfare and Labour, *Income Redistribution Survey*, various years.

A: inequality before redistribution
B: inequality after redistribution

TABLE 2
Income Distribution in Japan and Other Advanced Countries Compared

Country	Gini	Country	Gini
Denmark	0.225	Canada	0.301
Sweden	0.243	Spain	0.303
Netherlands	0.251	Ireland	0.304
Austria	0.252	Australia	0.305
Finland	0.261	Japan	0.314
Norway	0.261	U.K.	0.326
Switzerland	0.267	New Zealand	0.337
Belgium	0.272	U.S.	0.337
France	0.273	Italy	0.347
Germany	0.277	Portugal	0.356

Note:

An adjustment was made for household size by using an equivalent scale and data on disposable income.

Source: OECD (2004), *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s*.

Causes of income inequality

1. Transition of wage determination from the seniority payment to performance-based one.
2. The economic slump has increased unemployment, and forced the enterprises to increase non-regular employment with limited duration.
3. Small number of business founders receive very high returns, while many small business owners face failure and bankruptcy.

Causes of income inequality

4. Income differentials among the aged are normally high. If the share of the aged in the total population were higher, larger income differentials would be observed.
5. The degree of progressivity in taxes has been weakened: 70%→30% in income tax.

Causes of income inequality

6. The increase of households with only one member, and with two earners has been widening differentials in household income.
7. Severe competition among workers encouraged by deregulation leads to higher income inequality.

People's recognition of inequality

- People can recognize the increasing inequality through two channels.
 - People can well know about documents and reports.
 - People can know it based on their daily observation of increasing unemployed, and non-regular workers.

TABLE 3
Evaluation by Japanese People of the Current Status of Income Inequality (%)

Inequality is very high	25.04
Inequality is slightly high	39.47
Indifferent	19.93
Inequality is not so high	10.08
Inequality is not high at all	4.80
No opinion	0.68

Source: Tachibanaki (2004)

More people are getting to share the recognition that Japan becomes an unequal society.

Economic Analysis

- There is a trade-off between equity and efficiency. Rapid economic growth tends to be associated with low equity.
- A more progressive income tax and a more generous social welfare transfer could lower the incentive for rich people to work longer and more efficiently.

The mood

- The income elasticity of labor supply is not so high in Japan, which implies a low degree of trade-off between equity and efficiency.
- However, the general mood in Japan does not endorse this view.
- The public favors low taxes which result in higher inequality. This opinion is strong , especially in business leaders, politicians, and neo-liberal academics, who are influenced by Thatcherism and Reaganomics.

Poverty

- Poverty was not a major policy issue in Japan:
 - The poverty rate was not high. There were few beneficiaries of the Income Support System.
 - There is a social norm that family members should provide economic support.
- However, international comparisons suggest that Japan's poverty rate is one of the highest among advanced countries.

TABLE 6
Poverty rates in OECD countries (%)

Mexico	20.3	Germany	10.0
USA	17.0	Austria	9.3
Turkey	15.9	Poland	8.2
Ireland	15.4	Hungary	8.1
Japan	15.3	Belgium	7.8
Portugal	13.7	France	7.0
Greece	13.5	Switzerland	6.7
Italy	12.0	Finland	6.4
Australia	11.9	Norway	6.3
Spain	11.5	The Netherlands	6.0
UK	11.4	Sweden	5.3
New Zealand	10.4	Czech Republic	4.4
Canada	10.3	Denmark	4.3
		TOTAL	10.7

Source: OECD (2004), Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s.

The recipients of income support are increasing.

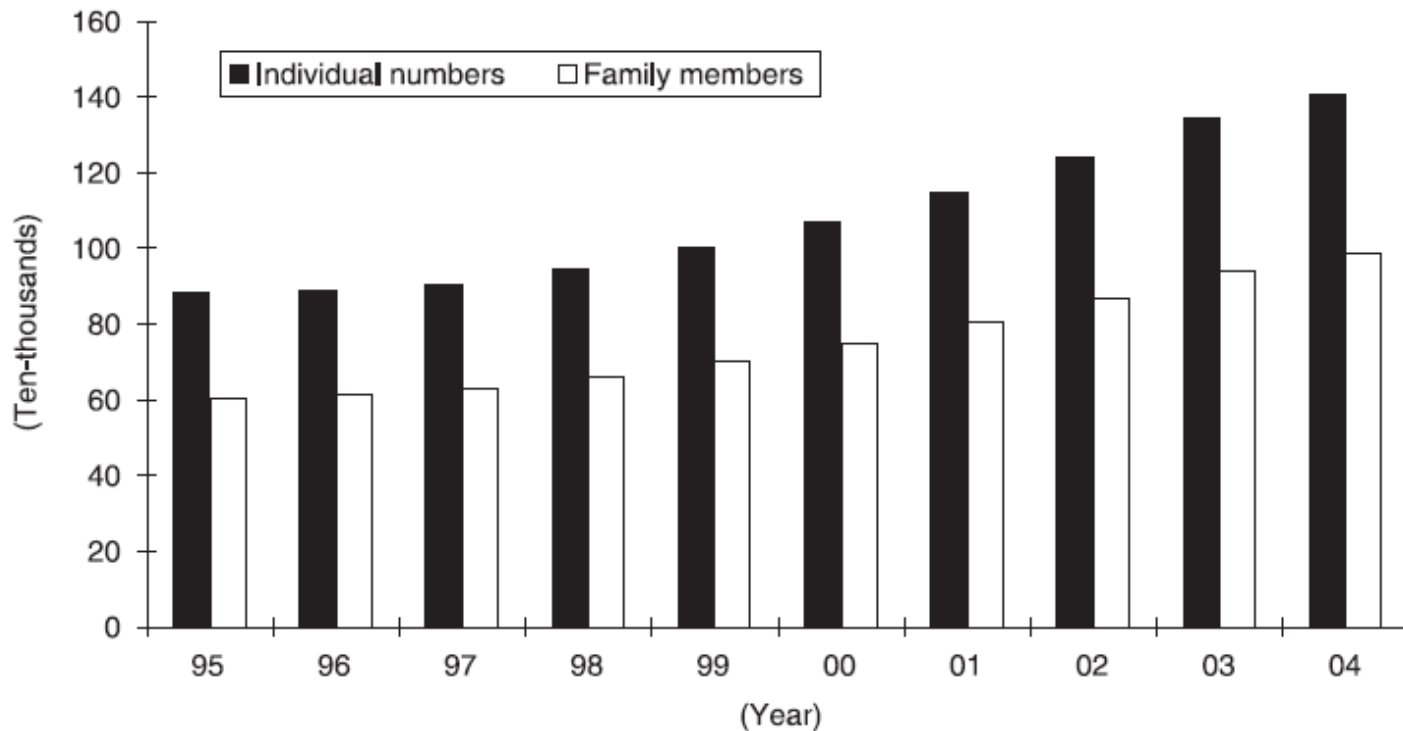


FIGURE 2. The number of income support recipients

Note: Figure are annual average.

Source: Ministry of Welfare and Labour: Annual Report

Old are poorer than young.

TABLE 7
Poverty Rates by Age Class in Japan (%)

Age	Poverty Rate	Share
0–17	14.3	17.4
18–25	16.6	8.9
26–40	12.4	14.9
41–50	11.7	10.3
51–65	14.4	19.4
66–75	19.5	16.4
76 over	23.8	12.7

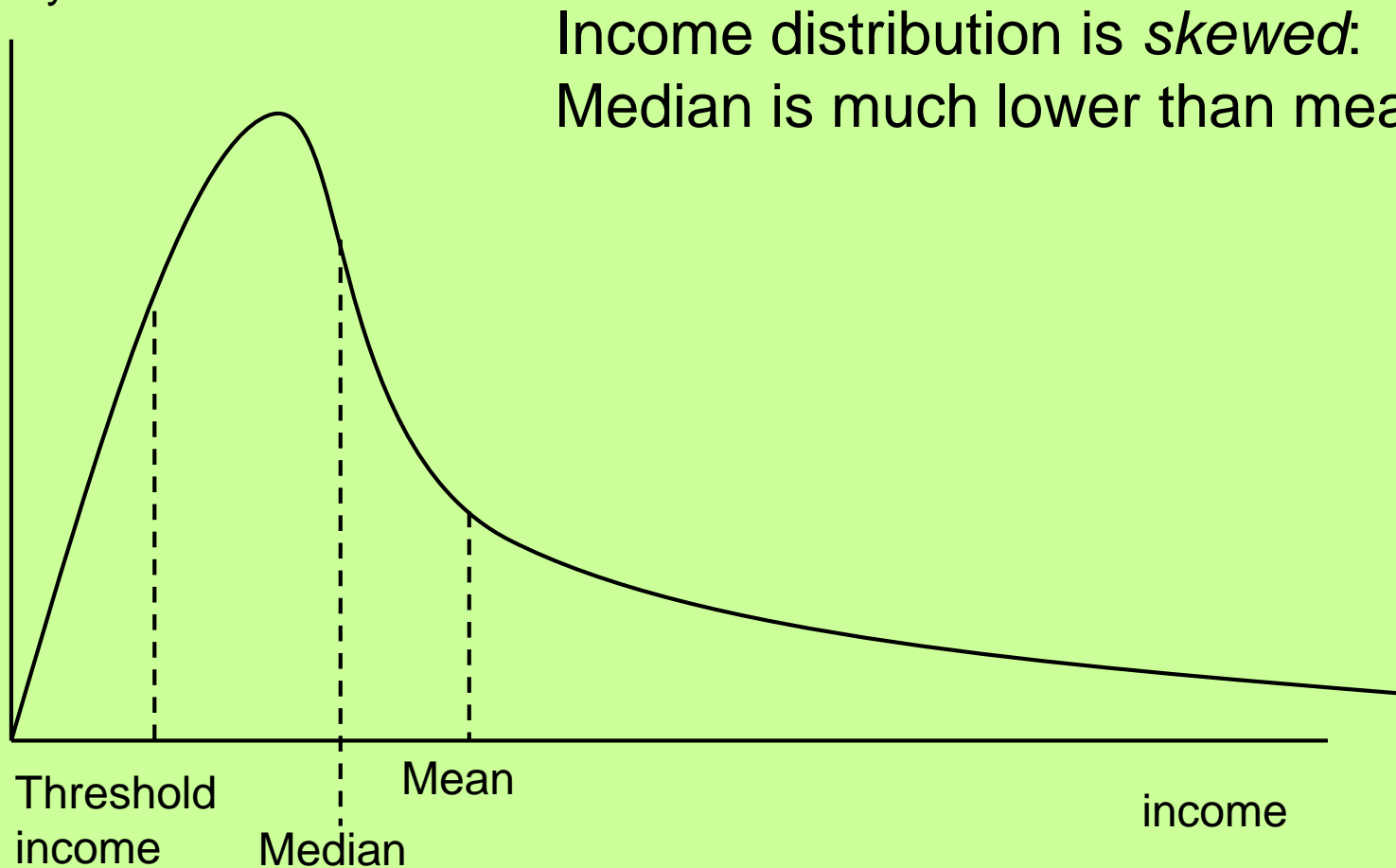
Source: OECD (2004).

Efficiency of the income support program (ISP)

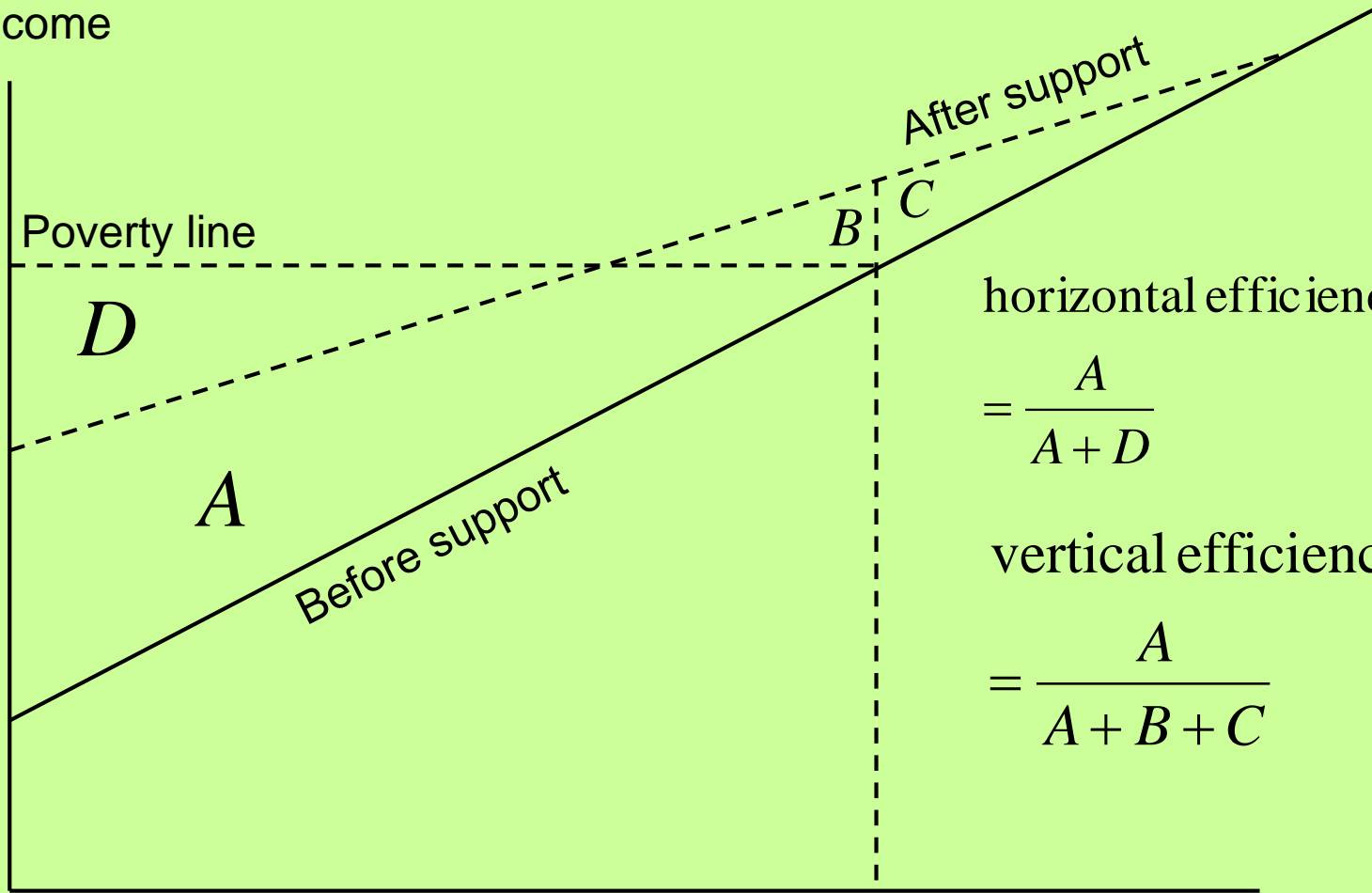
- ISP is *horizontally efficient* if it successfully reduces the number of poor people who have lower income than the threshold after the support.
- ISP is *vertically efficient* if it successfully reduces the amount of redundant payment to people who have higher income than the threshold income.

The threshold income = 40% or 50% of the median income

density



income



Poverty line

D

A

Before support

After support

B

C

horizontal efficiency

$$= \frac{A}{A + D}$$

vertical efficiency

$$= \frac{A}{A + B + C}$$

Poor ←

→ Rich

Japan's ISP is horizontally inefficient but vertically efficient.

TABLE 8
The Estimated Efficiencies for Income Support Programme (%)

	Horizontal efficiency		Vertical efficiency	
	1996	2002	1996	2002
Poverty Line				
50% of the median income	3.5	7.9	88.4	95.8
40% of the median income	5.4	12.8	80.5	92.6

Implications

- The low horizontal efficiency and the high vertical efficiency imply that there are so many people left poor below the threshold income.
- Japan's *mean test* is too severe to support people who really need to be supported.
 - Mean test: inspection of alternative means to support household' life.

Japan's public pension system is horizontally efficient but vertically inefficient.

TABLE 9
The Estimated Efficiencies for Public Pension Programme to Reduce Poverty (%)

Poverty Line	Horizontal efficiency		Vertical efficiency	
	1996	2002	1996	2002
50% of the median income	75.9	76.7	41.5	47.5
40% of the median income	81.7	82.3	32.5	37.4

Public Pension System (PPS)

- The high horizontal efficiency implies that Japan's PPS relatively successfully reduces poverty in old age.
- The low vertical efficiency is not always a bad thing, because the purpose of PPS is not only to reduce poverty but also to support a decent level of economic life.

Three measures of minimum wage:

1. Purchasing power value
2. Ratio to the median of full-time wage
3. Percentage of recipients of minimum wage.

Japan's minimum wage is lower. More people are working at wages under the minimum wage.

TABLE 10
International Comparison of Minimum Wage System (1997 pound level)

	(1) (%)	(2) (%)	(3)
Belguim	4.56	50	4
Canada	3.80	40	5
France	3.97	57	12
Japan	2.41	31	10
the Netherlands	4.27	49	4
New Zealand	3.18	46	1
Portugal	1.65	—	5
Spain	2.10	32	2
USA	3.67	38	5

Notes:

Column (1) is the minimum wage amount, column (2) is the ratio of the minimum wage over the median wage of full-timers, and column (3) is the rate of wage earners who receive wages lower than the minimum wage.

Source: Metcalf (1999)

The minimum wage is much lower than the official poverty line.

TABLE 11
A Comparison between the Minimum Wage and the Official Poverty Line (2002 yen per month)

	Minimum wage	Poverty line	Difference
Tokyo (23 districts)	123,520	163,970	-40,450
Kobe	117,760	163,970	-46,210
Sendai	107,644	156,590	-48,946
Naha	105,376	149,200	-43,824

Notes:

- (1) Poverty line here is given by the cash benefit of the income support programme to poor people.
- (2) Poverty line is based on a household, consisting of a husband (33 years old), a wife (29 years old), and a child (4 years old).
- (3) Minimum wage is calculated for an employee who works average monthly working hours.
- (4) There is an opinion such that these two are not comparable because the minimum wage system is for an individual, while the income support programme is for a household. This table shows the case where a husband works and a wife does not work.

Poverty line is the cash benefit of the income support program.

Reforms to be taken

- It is too difficult to be qualified to receive income support, while the cash payments are generous when qualified. We should ease the qualification standard, and reduce the payments.
- We should increase the minimum wage, because it is reasonable to guarantee higher income for people who work than who don't.

Supplement

Philosophy and Ethics

- Libertarianism:
- Communitarianism
- Liberalism
- (Analytical) Marxism (to be omitted here)

Libertarianism (Hayek, Friedman)

- It emphasizes the importance of human liberty or freedom, and is against any outside interference in human activities.
- It is against the welfare state because:
 - Economic inequality is not the first priority.
 - Welfare deters the incentive to work
 - Social welfare is not endorsed.
 - The role of the state should be minimized.

Communitarianism (Sandel, Waltzer)

- It promotes the just distribution of social goods among people. Community members should help each other.
- Welfare policies should be contained within each community where people share common interests.
- It excludes any bureaucratic authority and encourages non-profit organizations to provide decentralized and mutual welfare services.

Liberalism (Rawls)

- Human moral activities should be organized based on the two principles:
 - 1. the *liberty* principle (humans should express their own opinions without pressures or constraints)
 - 2. the *difference* or the *max-min* principle (humans should maximize the welfare of the least advantaged individuals)

Rawls criticizes the Welfare State

- The welfare state produces an alienated underclass that relies on endless government help without an incentive to participate in society.
- He promotes a *property-owning democracy* instead of welfare-state capitalism.

Opportunity and Outcome

- Equality of *opportunity* is a principle that stands in sharp contrast to equality of *outcome*.
- Equality of Opportunity in two senses:
 - 1. Fairness in competition, with no institutional barriers.
 - 2. non-discriminatory principle that states that any individual with relevant attributes and qualifications must be allowed to apply for a job. Age, sex, cultural background, religion, and race should not be referred to.

Inequality matters in various channels

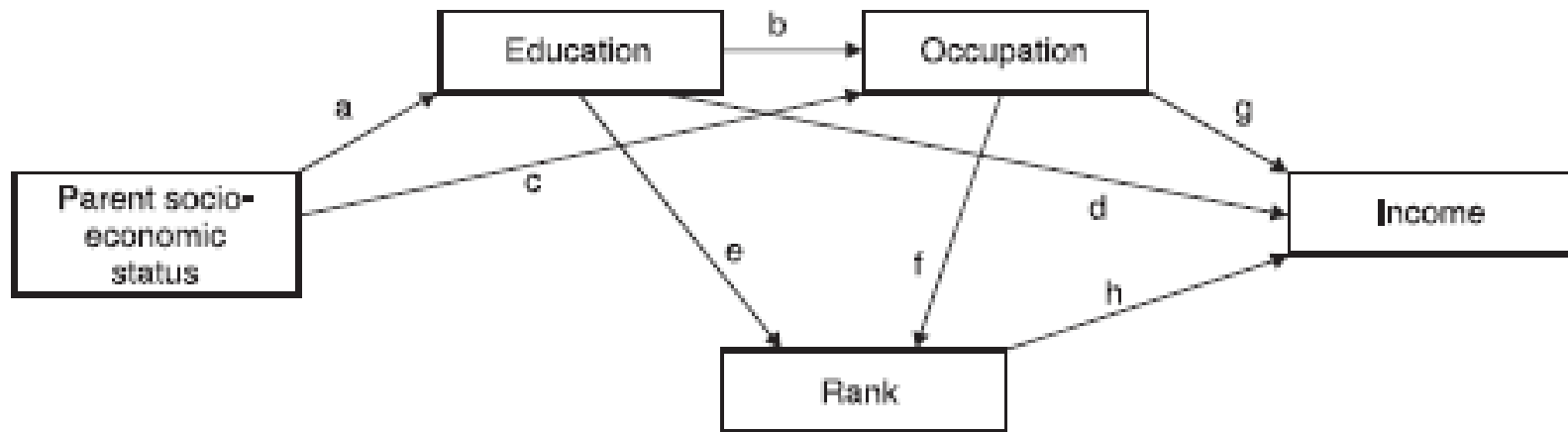


FIGURE 1. A recursive model applied by Tachibanaki
Source: Tachibanaki (1988a,b, 1998b).

Claims in causality

1. *Meritocracy* Claim: Educational attainment should determine an individual occupational attainment ($c=0$, $b=\text{large}$)
2. *Mediatory* Claim: $a=\text{some}$, $b=\text{some}$, $c=0$.
3. *No social mobility* claim: Parents' socioeconomic status is the most important. ($a=b=0$, $c=\text{large}$)

Claims in causality

4. *Performance* claim: Parents' socioeconomic status should not have large effects ($a=c=0$)
5. *Screening* claim: Education determines who should be promoted to a higher rank or position ($e=\text{large}$).

Claims in causality

6. *Human capital* claim: Education indeed raises an individual's productivity and thus earnings power ($d=\text{large}$).
7. *Responsibility and Leadership* claim: High rewards are paid to individuals who occupy the higher ranks ($h=\text{large}$).

Education 1

- Education has a diminished effect on the determination of occupation, because a large number of people can obtain college degrees today.
- For some European countries (UK and France), education is only the instrument of ensuring intergenerational replication.
- In Japan, some prestigious universities are very competitive, reflecting the high capability in jobs of their graduates.

Education 2

- Education has two effects on job assignments and wage differentials:
 - Education increases workers' productivity (human capital). This channel is considered to be weak.
 - Education works as a screening device with which firms select workers. This channel may be strong.
 - Education is not so effective if students are not so capable.