

Low-income people in Social Security Systems in Japan

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1. Introduction

Until recently, it was a common perception that Japan has managed economic success without worsening the income inequality and that Japan's poverty rate is one of the lowest among the developed nations. However, since the economic recession in the 1990s, there has been a fierce debate on whether or not Japan's so-called equality is a myth. In its controversial book *Nihon no Keizai Kakusa (Income Inequality in Japan) (1998)*, Tachibanaki pointed out that Japan's inequality has been increasing rapidly, and by the 1990s, it is comparable to, if not more than, most of the industrialized countries (Fig.1). While many retort to his findings by pointing out that the rapid ageing of the population, and thus increase of the elderly population whose income is low (but whose asset may be high), are the main cause of the increase of inequality (Ohtake 2000, Ohta 2000 among others), it seems apparent that Japanese people and policy makers can no longer take for granted that Japan is an egalitarian society.

Tachibanaki (1998) also mentioned that Japan's poverty rate ranks about the middle among industrialized countries in the West. He refers to Atkinson (1995) that estimated the relative poverty rate¹ for Japan at 8.1% in 1994. The later figures by the Japanese government show the rate to be around 9-10% (Statistics Bureau 2003).

The topic of this paper is how the security system in Japan treats the people of low-income. Given that a certain level of income inequality and poverty, albeit debate of its cause and its level, is an unavoidable characteristic of Japanese society, the social security system must take them into consideration. However, the main claim of this paper is that Japan's social security system is not adequate to handle the problem of low-income.

In this paper, three systems in particular will be examined: social (public) insurance systems (especially public pension and health insurance), the Public Assis-

tance and the Public Housing. The latter two are the main income-tested programs for the poor in the social policy of Japan, while the social insurance is the dominant scheme of the social security systems in Japan. The structure of the paper is as follows. Section 2 will briefly describe the basic mechanisms and measures for people of low income in various social security schemes in Japan². In Section 3, the paper describes the dichotomy of the social security system in Japan. The results of quantitative analysis using macro and micro-data, as well as some international comparisons, will be presented to support the argument. In Section 4, Japan's social security system is analyzed from the view point of social exclusion, given the situation described in Section 3. In Section 5, concluding remarks are presented.

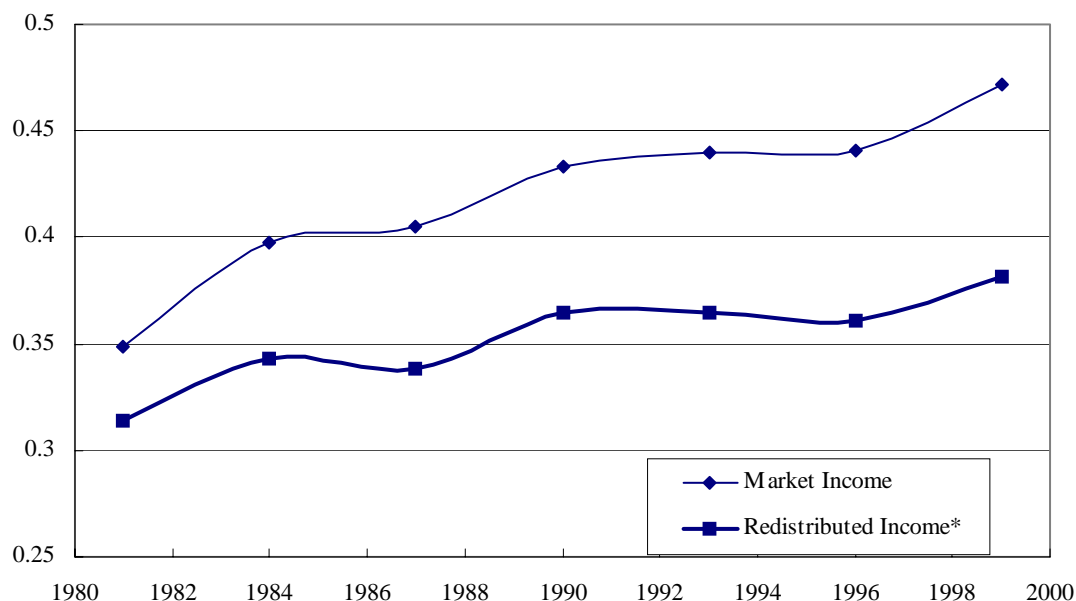
2 Treatment of the Poor in Japan's Social Security Systems

2.1 Social Insurance

In Japan, schemes based on social insurance dominate the social security system. The two pillars of Japanese social security system are both social insurances: the public pension and public health insurance. Added to these two giant systems, a new social insurance, the Long-term care insurance, was introduced in April 2001. All of these systems, in principle, are financed by premiums collected from the subscribers and in the case of employees, employers as well, even though the outlay from the government general budget is significant in both systems. Consequently, they also require beneficiaries to be "subscribers", i.e. they require individuals to pay premiums for certain period of time in order to qualify for the benefit.

The year 1961 was a memorable year in the development of Japanese social security system. This is the year that two laws establishing the public pension

Fig. 1 Inequality Trends 1981-1999 (Gini Coeff.)



"Redistributed Income" is the market income minus taxes and net social security transfers including in-kind benefits (health care, institutionalization, etc.).

Source: MHLW

and the public health care insurance covering the entire population (enacted in 1958 and 1959 respectively) were enforced, achieving “universal pension” and “universal health insurance”. It became mandatory for every Japanese adult to participate in these schemes. However, since both systems basically require the beneficiaries to pay the premium, it was necessary to create some mechanism to alleviate this burden for people of low-income. This was especially the case for the National Pension and the National Health Insurance³, because the premium structures in both systems are regressive in nature. In case of the National Pension, the premium amount is set equal for all subscribers regardless of their income. In case of the National Health Insurance, the premium differs from a municipality to another, but is usually determined by both head count (number of subscribers in the household) and the household income. The Long-term Care Insurance’s premium structure is also similar to that of the National Health Insurance. Because of this reason, the exemption clause for those who cannot pay the premiums due to financial reasons is built into both systems.

1) National Pension

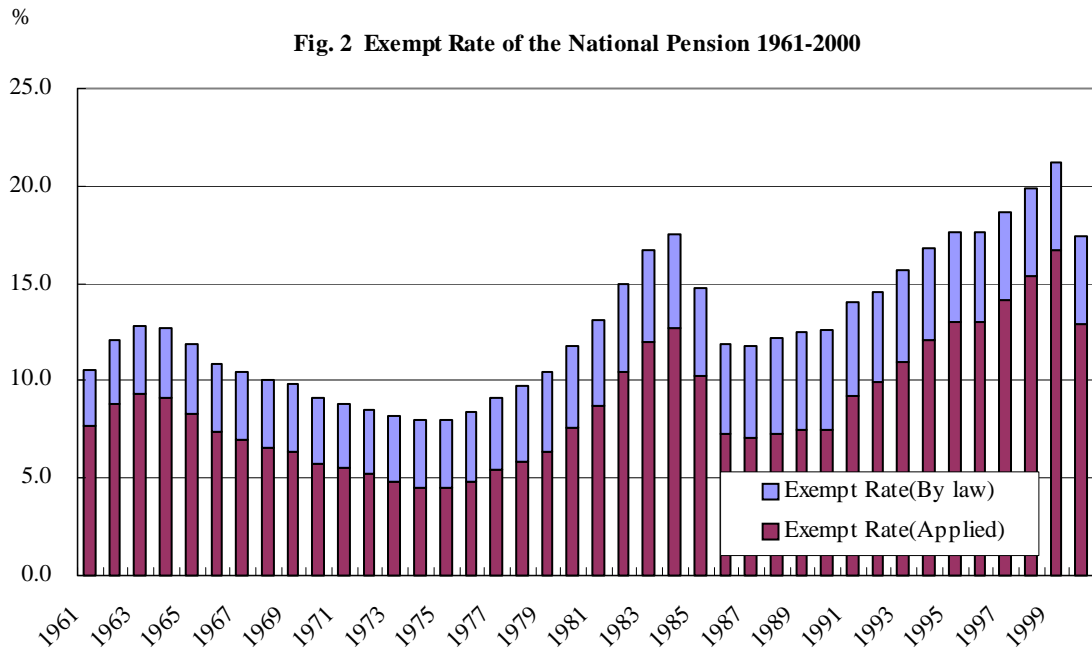
For the National Pension, the premium is exempt based on two categories. One category is called “Exemption by Law” which applies to those receiving disability pensions and the Public Assistance who are automatically exempt from paying the premium. The other category is

“Exemption by Application” and this is granted to those who are below certain income threshold and/or who are facing severe financial difficulty due to illness, natural disaster or sudden drop in income⁴. They must apply to the local government office and be evaluated.

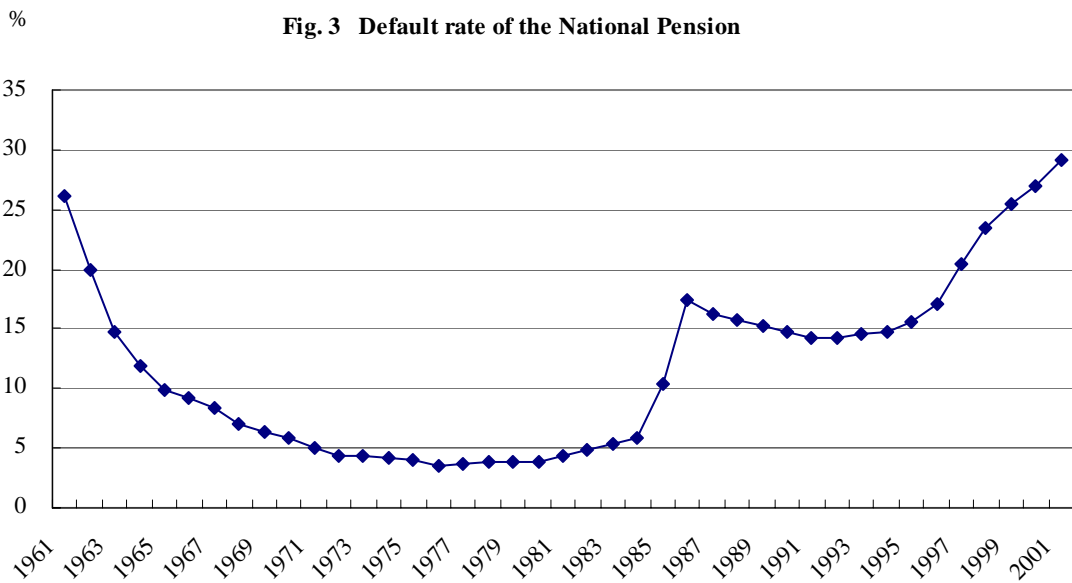
The increase of those being exempt from the National Pension is a cause of concern in terms of financial standing of the National Pension system as a whole, and also in terms of future financial security for the exempted. The years that the premium is exempted count only as 1/3 of a whole year in calculation of the pension benefits, thus, people who are exempt for a long time qualify for lower pension benefit⁵. However, the recent trend shows an alarming increase in the number of the “exemption by application”. In 1999, the exempt rate of the National Pension was more than 20%, indicating that one out of five subscribers did not pay into the system (Fig.2).

Added to the increase of the exempt, another serious concern is the increase of the number of people who are not exempt, but are not paying the premiums (i.e. defaulters). Figure 3 shows the default rate⁶ of the National Pension. In 2001, as much as 30% of the total expected premium revenue was defaulted.

It should also be noted that even though Japan’s public pension is said to be “universal”, there is a small percentage, about 1.44% of people aged 20 to 59 according to the MHLW for 1998 (MHLW 2000), of population who are not currently subscribing to either the National



Source: MHLW, <http://www.mhlw.go.jp/topics/nenkin/zaisei/zaise/data/data01/kokumin/kk-15.html>



Source: MHLWMHLW,
<http://www.mhlw.go.jp/topics/nenkin/zaisei/zaise/data/data01/kokumin/kk-15.html>
 Default rate is the percentage of number of man-months for which the premium was not paid in the total number of man-months.

Pension or the Employees' Pension. The high rate of exempt, default and non-participation in the National Pension seriously undermines the universality of the public pension system in Japan and jeopardize the financial security of the system as a whole.

2) National Health Insurance and Long-term Care Insurance

Similarly, the National Health Insurance also has the mechanism to include low-income individuals into the "universal" health insurance. As noted earlier, the premium structure is set by each municipality, but the reduction of the premium for low-income households is done according to the rules set by the central government. Currently, up to 60% (in some municipality 70%) of the premium can be reduced for households whose income is below a certain level. However, the statistics on the number of people whose premiums are reduced are not readily available.

As for the Long-term Care Insurance, there has been much debate about the additional burden of the Long-term Care Insurance on the poor. Before the introduction of the Long-term Care Insurance, services covered under the Insurance were often offered by the municipalities, as a part of their welfare services, at no or nominal charge. However, the introduction of the Long-term Care Insurance necessitated those above 40 years old to pay additional premiums and the co-payments. Even though the premium amount is set according to the income level, it was considered to be too much for many elderly in the lower income strata. To lighten the burden for the poor, many municipalities have introduced pre-

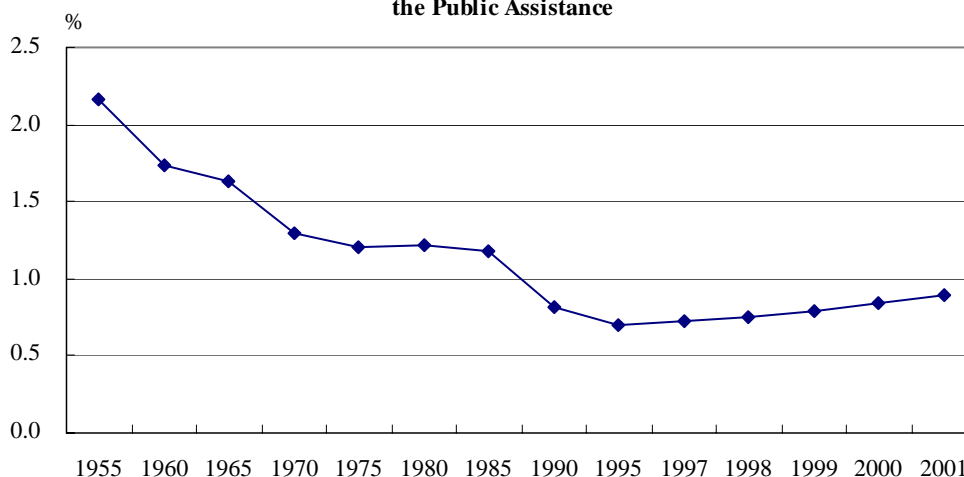
mium exemption system for the poor elderly, despite the Ministry of Health, Labor and Welfare's notice that stated such a measure seriously undermines the insurance concept of the system. For example, some municipalities set up 6 levels of the insurance premiums for the subscribers aged 40-65, as opposed to the government recommendation of 5 levels.

2.2 Non-insurance based social security schemes

1) The Public Assistance

Japan's income support for the poor started in the midst of the confusion after the World War II with the Public Assistance Law (1946), followed closely by its total revision in 1950. The Revised Public Assistance Law (New) still constitutes a backbone of the public assistance today. The public assistance is provided upon a receipt of an application from a household in need and after a careful examination of the application. The assistance is calculated by subtracting the household's final income from the minimum cost of living. In case the minimum cost of living exceeds the final income, the difference is given as the assistance. The examination is accompanied by vigorous means and asset tests, as well as proof of non-support from family members who are required to support the person by the *Civil Law* (not only the case of parent(s) supporting children and vice versa, but also siblings, aunts and uncles supporting adults, etc.). As a result, only a very small portion of the population is the recipient of the Public Assistance (Fig.4). The coverage rate has hit the lowest at 0.7% in 1995 and since then increasing slightly to 0.9% in 2001, but it is still less than

Fig. 4 Percentage of Population receiving the Public Assistance



Source: MHLW 2002

1% of the population.

2) The Public Housing

There are several types of housing provided or managed by the government in Japan. One is “Koei Jutaku” which is aimed to provide low-cost housing to low-income households. The other types are Kodan and Kousha housings which are constructed by quasi-government institutions with government subsidy but target mainly middle-income households⁷. The latter’s objective is more toward meeting the housing demand. This paper will mainly discuss the Koei Jutaku which will be referred to as the “public housing” in this paper. Japan’s Public Housing Act, which is the legal basis for public housing, was enacted in 1951 to meet the strikingly high demand for housing caused by the war devastation and returnees from China⁸. The purpose of the law was to provide (rent) housing for households in need for housing, and to do so, it placed responsibilities on local governments (prefectures and municipalities) to construct public housing with the subsidy from the central government.

The eligibility to apply for a public housing requires the households to be under specific income threshold. However, meeting the criteria does not guarantee a housing unit. The placement into a unit depends on availability of a vacant unit of the type and the location one desires. Single-mother households, households with disabled persons, and households with elderly are given priority. Until 1996, the rent for each housing unit was determined by its construction cost, its size and condition, so forth, and not by renter’s ability to pay. In 1996, the Act was revised to abolish the rent structure based on the cost and instead introduced a rent structure based on abil-

ity to pay. Currently, the public housing has fairly strict income test and those with special housing needs (e.g. single-mother households, disabled persons’ households, elderly households) compose the large share of their residents.

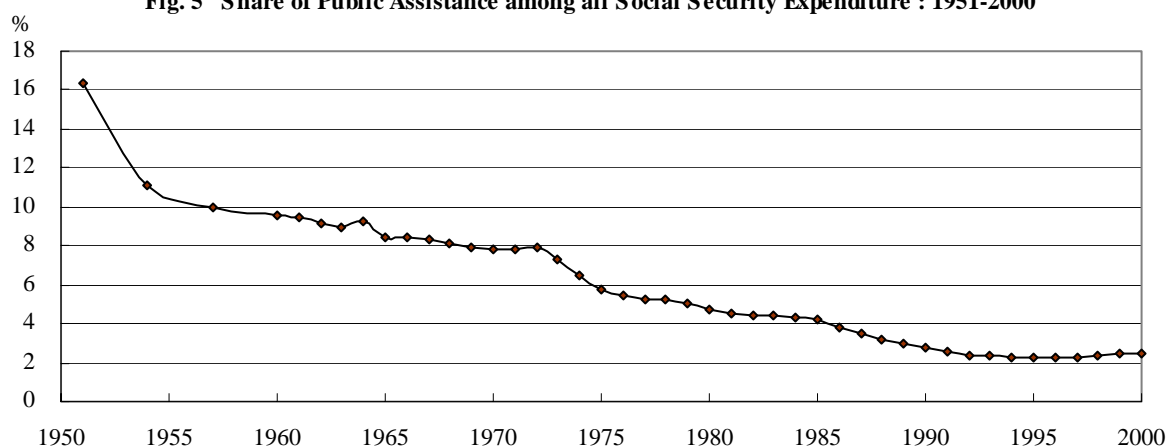
The total stock of public housing is 2.17 million (as of March 2000, MLIF 2001). Of them, about 40% are run by municipalities and 60% by prefectures. Three metropolitan regions (Tokyo, Osaka, Nagoya) account for nearly 50% of all the public housing. The public housings compose about 4.7% of total housing.

3. The Dichotomy of Japanese Social Security System

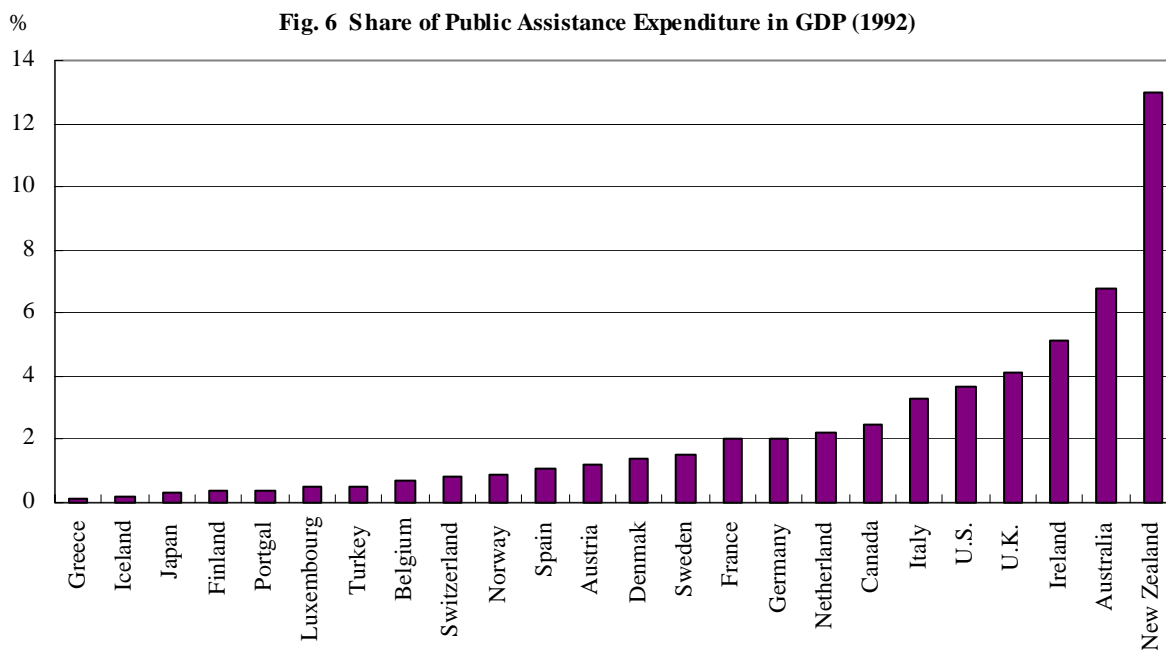
3.1 “Main-Stream” vs. “Residual”

It is a conclusion of this paper that there exists a chasm in Japanese social security system separating the “main-stream” programs and the “residual” programs. The “main-stream” programs are the social insurance based programs such as the public pension and the public health insurance. The “residual” programs are the programs for the “poor” and require income-test to be beneficiary of the programs. The Public Assistance and the Public Housing are the main programs in this category. Japan’s social security programs started with programs for the poor, but as the social insurance programs that started in 1960s expanded exponentially, the programs based on pre-1960 laws were marginalized. Hoshino calls this phenomenon “the ‘middle-class’ification of the welfare state.” (Hoshino 2000). In his view, and the author is inclined to agree, that once the middle class becomes the prime

Fig. 5 Share of Public Assistance among all Social Security Expenditure : 1951-2000



Source: 1951-1990 Shakai Hoken Kenkyusho (1995), 1990-2000 IPSS(2002)



recipients of benefits from the welfare state, the welfare state no longer holds the social justice as its political objective and instead, turns into a “service nation” (Hoshino 2000, pp.269). Interestingly, Hirayama (2003) also uses a term “(social) mainstream-oriented housing policy” to refer to the post-WWII and continuing housing policy in Japan.

The mainstreaming of social policy and/or marginalization of the “residual” programs is apparent from the viewpoint of the government outlay (expenditure). Figure 5 shows the share of the Public Assistance among all social security expenditure from the government from 1951 to 2000. In 1951, the share of the Public Assistance was higher than 16%, but it declined to just about 2% in 2000, while pension and health expenditure skyrocketed. Compared to other developed nations, Japan’s share of the public assistance in GDP is among the lowest (Uzuhashi 1999, pp.74) (Fig.6).

Perhaps, marginalization of the residual programs may not pose a question like the one posed by Hoshino, if the poor are integrated into the “main-stream” programs, as it was intended in the so-called universal design of social insurance. Indeed, this has been the argument of many Japanese scholars and bureaucrats who advocated the expansion of social insurance. However, recent research using micro-data shows that the poor may not be benefiting as much as the middle and upper classes from the social security system in Japan. In Abe (2001), the author divided the population into 4 groups depending

on the poverty status before and after public transfers (both tax and social security system) and then calculated the amount of positive and negative transfers going into each group for 11 countries (Table 1). According to the calculation, Japan ranks among the highest in terms of size of negative net transfer to the poor⁹, and also among the lowest in terms of the size of positive net transfer to the poor. In sum, the poor in Japan receive relatively little in terms of the public transfer, and pay relatively much. On the other hand, the middle and upper class in Japan receives relatively much, and pays relatively little, public transfers.

Such disparity in the actual transfers to the rich and the poor can be attributed to two features of the Japanese transfer system. One is the disparity within the public pension system. In the words of Gould (1993) in his acclaimed book comparing Japan, Britain and Sweden:

It is clear that benefits from these different [pension] schemes varied a great deal. Those employed by large companies, which contributed more to their employees’ schemes than the minimum laid down by the state, received very good benefits. Schemes for civil servants and local government officers were also fairly generous. Those in small companies received lesser benefits, while those in the national schemes [National Pension] were the most disadvantaged. (Gould, 1993, pp.38) ([] added by the author.)

The amount of the Basic Pension (i.e. National Pension) is below the minimum standard of living for

Table 1 Amount of Net Transfers as % of Aggregated Post-transfer Income

Country	Year	Households which received net negative transfer			Households which received net positive transfer		
		Pre&Post Poor	Pre Rich - Post Poor	Pre&Post Rich	Pre Poor - Post Rich	Pre&Post Rich	
Australia	1994	-0.03	-0.02	-22.90	2.22	7.15	1.11
Canada	1997	-0.04	-0.12	-20.89	1.89	5.81	2.37
Denmark	1997	-0.23	-0.67	-38.28	0.89	12.74	1.66
Finland	1995	-0.10	-0.12	-22.87	1.46	12.12	3.73
Germany	1994	-0.03	-1.30	-29.59	1.83	17.77	3.23
Netherlands	1994	-0.74	-0.06	-32.24	1.25	12.97	2.44
Norway	1995	-0.06	-0.10	-20.53	1.30	15.89	2.90
Sweden	1995	-0.11	-0.12	-20.76	1.25	20.26	4.04
UK	1995	-0.04	-0.40	-20.27	2.57	10.32	2.58
US	1997	-0.05	-0.14	-24.90	2.06	3.97	2.10
Japan	1996	-0.24	-0.30	-12.79	1.09	4.75	3.02

Source: Japan"Shotoku Saibunpai Chosa 1996" Other countries LIS in Abe (2001b)

one person as specified in the Public Assistance Law. It is also important to note that not all pensioners meet the premium requirement to receive the full pension. The second cause of the disparity of the public transfer in Japan is the low take-up rate of the Public Assistance. There are many reasons for the low take-up of the Public Assistance, and they will be discussed in detail in Sections 3.2 and 4.

3.2 Universal in principle, Selective in practice

Another indication of the dichotomy of the Japanese social security system is the difference in the composition of people who are in the "main-stream" programs and "residual" programs. There are very high concentration of single-mother households, households with only elderly, and households with disabled and sick persons in the "residual" programs. In the Public Assistance system, the percentage of elderly households account for 46%, single-mother households, 8%, households with sick, 29%, and households with disabled, 10% (Fig. 7). The percentage share of "other" households declined from 34% in 1965 to 7% in 2000 (*Seikatsu Hogo no Doko* 2002). Also in the public housing, similar households, as well as low-income households and those on the Public Assistance payroll, are highly concentrated (Hirayama 1986, Yui 1998, Tanaka & Miyake 1986).

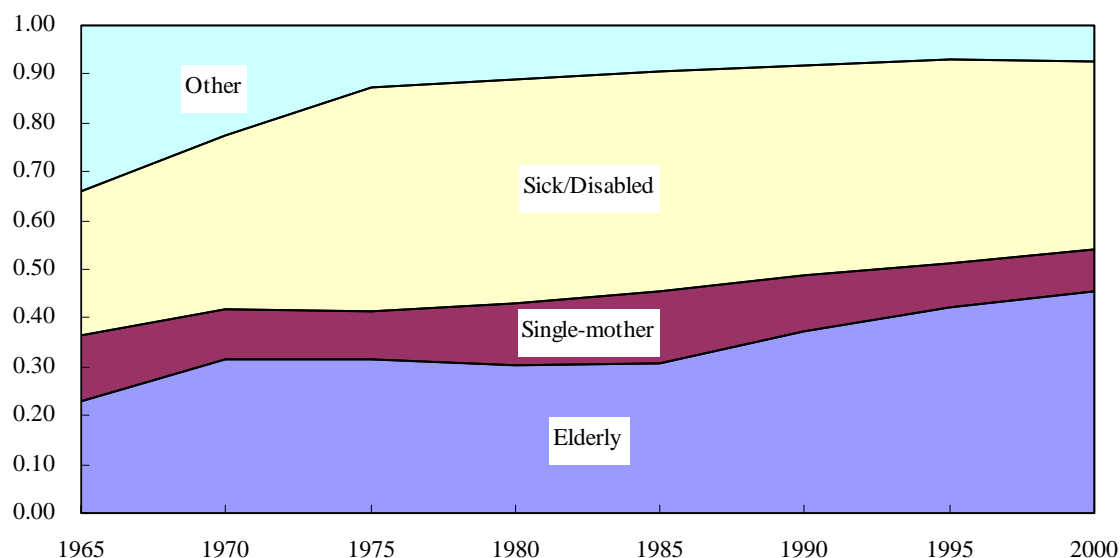
While the high proportion of socially disadvantaged people (such as single-mother, disabled and elderly households) in the "residual" programs is understandable considering the design and intent of these systems to help out the needy, the concentration is such that it almost exclusively caters these households to the point of exclusion of other types of households. In principle, the Public Assistance and Public Housing are designed

to be open to the entire population, regardless of their cause of hardship. The Public Assistance Law specifically states that all people in destitute, regardless of its cause, are eligible to receive the assistance. However, in practice, the Public Assistance has become a system which is extremely difficult to utilize for "normal" households, i.e. households with work-capable adult(s), either with or without children. Reasons for this are manifold: strict means and asset testing, strict application of "self-help" principle, inaccessibility of welfare offices, stigma that deters people from applying, just to name a few. As a result, the Public Assistance System is highly selective, whether it is intended or not.

In the Public Housing, Hirayama (2003) notes that there exists a "filtering" mechanism which separates the low-income households from the rest of the households. According to his assessment, the Japanese housing policy that caters to the needs of middle class and towards purchase of homes, assumes that all low-income households will eventually gain enough financial strength to move out of the public housing. The result is a divide between those who are able to move out and those who are not. This is partially backed by a study of a public housing in Nagoya by Tanaka & Miyake (1986). They noted that the disparity of income from the average increases with the age of the resident.

Such categorical targeting separates the "residual" systems from the rest of the society. This creates the problem of social exclusion both from the viewpoint of those who are in the "residual" programs and those who are in the "main-stream" programs. This is a point, which will be discussed further in the next Chapter.

Fig. 7 Composition of Household Types among Public Assistant Recipient Households 1958-2000



Source: Seikatsu Hogo no Doko 2002.

4. Two Types of Social Exclusion

Marginalization of the “residual” programs and inadequacy in addressing the problem of low income in the “main-stream” programs create two types of social exclusion. One is the exclusion of a portion of the population from various public social security schemes. The other is the exclusion and segregation of those who are in the “residual” schemes. The former is the exclusion faced by “those who are not within the system.” The latter is the exclusion faced by “those who are in the system.” In the following section, the two types of the exclusion are addressed one by one.

4.1 Those who are not within the system

Exclusion from the social insurance programs

First, the exclusion from the social security system can occur in both “main-stream” systems and “residual” systems. The former case is the most apparent in the case of public pension insurance. The high exemption rate of the National Pension premiums (shown in Figure 2) is one indicator. Even though these people are not technically out of the public pension system, years that the premium is exempt count only as 1/3 of a year towards the calculation of the pension benefits. Thus, it is likely that those who were exempt from paying premiums will receive a pension benefit lower than the full amount. Further, the National Pension requires the minimum of 25 years of paying the premiums in order to receive any ben-

efit, and if a person is exempt for a long period, it is possible that he/she may not meet this requirement.

Even more alarming is the high rate of defaults in the National Pension (shown in Fig. 3). Since the defaulted months do not count at all towards the pension benefit formula¹⁰, it is possible that many people will eventually fall out of the public pension system if the current trend of defaulters will continue. On top of this, as stated earlier, about 1.44% of people aged 20 to 59 are not currently subscribing to either the National Pension or the Employees’ Pension.

Non-participation in the public pension system by itself would not be “social exclusion” if it is voluntary, as a matter of choice of individuals. The reasons that some individuals choose not to take a part in the National Pension, either in the form of non-subscription or default of the premiums, are not clear. A common opinion is that the inequality of net benefit between young generations and older generations discourages younger generations to participate in the public pension. Others suggest the 25-year requirement for full pension introduces a kink in the budget constraint and therefore discourages people of certain age group (Suzuki & Zhou 2001). Yet, some evidences suggest that the financial hardship is one of the strong forces, at least for defaulting of premiums. Abe (2001a) analyzed the reasons for defaulting and non-participation using micro-data and found that the ratio of premium amount to income has strong effect on whether

an individual defaults, but a smaller effect on whether the individual participate in the program. If this is the case, it can be said that at least some people are excluded from the public pension system because of low-income.

Exclusion from the “Residual” programs

Exclusion can occur in the “residual” programs as well. One indicator that perhaps the social exclusion is occurring is the take-up rate (defined as the percentage of those who actually are beneficiaries of the program among all those who are eligible). Although it is difficult to estimate the number of people who are eligible in either the Public Assistance or the Public Housing, some scholars have attempted to estimate the figures using micro-data on households. It is their concurring opinion that the take-up rate of both programs is rather low. For the Public Assistance, the rate is estimated to be around 10% (Wada & Kimura 1998) and 5% (Eguchi & Kawakami 1974) of the poor¹¹. For the Public Housing, Maeda (1996) estimates the take-up rate (defined as percentage of households below the income criteria and are actually living in a public housing) is about 8%. A government statistic also shows that only 10.1% of households whose annual income is below ¥2 million (certainly below the income criteria) live in public housings (MPHPT 1998).

As in the case of social insurance, the low take-up, by itself, would not be a matter of concern, if eligible persons are integrated in the “main-stream” and they choose not to become recipients of residual programs. For example, if there are as affordable, and as good quality housing alternatives in the private sector, the low take-up of the public housing is not a concern at all. Similarly, if there are alternative methods of supporting oneself without the public assistance, he/she may choose not to receive the assistance. However, this does not seem to be the case. The reasons for low take-up of the Public Assistance have been debated fiercely among social policy researchers. Most researchers agree that it is due to not only strict means and asset testing, but also due to very strict application of “self-help” principle by the authorities. The Law is interpreted to mean that the person is required to use first and at most all available resources, including assets, ability to work, as well as assistance from relatives before receiving the public assistance. Even though the interpretation of the law has been relaxed some what in recent years, it is still difficult for a person who is deemed capable of earning income to receive public assistance, even if that person is currently

unemployed and not earning any income. It is not stated in the law, but the unemployment is seen as a consequence of the person’s laziness or lack of motivation, and not of the labor market surplus or mismatch. In fact, what is happening is the demarcation of deserving-poor and undeserving-poor. Those who are deemed “deserving”, such as single-mother, elderly and disabled, are allowed into the system, while others are not.

Regarding the public housing, Hirayama (2003) points out that at least at the onset of the Public Housing system, it systematically excluded those belonging to the lowest income strata by setting the rent to meet the cost. He notes that the purpose of the public housing was not to provide housing to “all” including the poorest. The Ministry of Construction, which had the jurisdiction over public housing, was more interested in meeting the housing needs of the working class and boosting the economy by construction boom, and left the poorest people to be taken care by the Ministry of Welfare (Hirayama 2003, 2002)¹².

In addition, there have been some accusations of systematic exclusion of some categories of people in both the Public Housing and Public Assistance systems, despite the fact that the Public Assistance Law, in particular, specifically state that all persons are eligible. For example, until recently, there had been only a few municipalities that accepted homeless people in the Public Assistance system, and it is reported that some municipalities refuse single persons with mental and intellectual disabilities and single persons who require constant care from public housing¹³.

4.2 Those who are in the system

The second type of exclusion involves those who managed to get into the “residual” programs, and takes the form of segregation and stigma. Hoshino (2000) points out that Japan, by adopting a public assistance system which is open to all, but in reality, excludes those who are “able” to work, attaches more stigma to being on the welfare roll. Because of this false “universality” of the public assistance system, those who are in the system are regarded with skepticism, i.e. whether they really “deserve” to receive such assistance. Receiving the public assistance is connected with the feeling of shame. Such stigma not only deters needy people from applying for the assistance, but also segregates those who are on it from the rest of the society. Similarly, high concentration of “problem” households such as single-mother

households and those on the Public Assistance in public housings shuns other “normal” households from public housing and prevent development of active and vibrant community within the public housing complex.

It was noted earlier that the recipients of both systems show extremely high concentration of elderly, disabled and single-mother households. Such composition of recipients precludes the need for and prevents development of a social policy which actively promotes recipients to move out of the system. In fact, the system is designed so that once a person is in the residual program, it is extremely difficult to get out : a phenomenon commonly known as the poverty (housing) trap¹⁴. Especially in the Public Assistance system, once a person is on the public assistance payroll, he/she is cut out from the social insurance, prevented from accumulating savings¹⁵, and faces nearly 100% marginal tax rate if he/she works. Consequently, 88% of households on the Public Assistance payroll have no working members in them (*Seikatsu Hogo no Doko* 2002). What is also making leaving the system difficult is that there is no intervention by the government in either the labor or the housing markets to accommodate socially disadvantaged people such as the recipients of the Public Assistance and residents of the Public Housing. People in the “residual” programs are expected to compete in the labor and the housing markets on their own, if they were to move out of the programs. For example, a single-mother in the public assistance is constantly persuaded by welfare workers to work, yet there is no systematic career development or placement assistance. The only public assistance she has an access to is a job placement center just as anybody else, and being disadvantaged as a single-mother, it is extremely difficult for her to find a reasonable job. Thus, the end result is that people stay within the residual systems, and the duration of assistance keeps getting longer. The most common cause for leaving the Public Assistance is death (Ibid.)

5. Conclusion

In this paper, the author explored the treatment of low-income people in Japan’s social security systems, with particular emphasis on the social insurance, the Public Assistance and the Public Housing. It is this paper’s conclusion that there exists a chasm between the “mainstream” programs dominated by social insurances, and the “residual” programs that are highly selective. Such

dualism in Japan’s social security system both emphasizes and is emphasized by social exclusion in the “mainstream” systems and the “residual” programs.

The duality of Japan’s social security system also is a breeding ground for skewed arguments such as the injustice between those who receive benefits and those who do not. It is claimed that the recipient of the Public Assistance, for example, has higher standard of living than many people who are not the recipients of the Public Assistance, so that the assistance level should be lowered. Such claim ignores the possibility to increase the take-up rate.

In summary, it is concluded that the treatment of low-income people in Japan’s social security system is not adequate. It is not this paper’s intent to suggest that the insurance based social security system be abandoned completely to be replaced by progressive tax based system. However, it seems inevitable that Japan reconsiders how to treat the low-income people in its social security system.

Acknowledgement

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Notes

- ¹ Defined as those with incomes below 50% of national median.
- ² Due to the limited space available for this paper, detail descriptions of each program will be omitted. Readers unfamiliar with the basics of the Japanese social security schemes are advised to read Abe (2002) before reading this paper
- ³ The National Pension and the National Health Insurance cover the self-employed (including farmers and employees of small firms) population and their dependents. The employed persons are covered by the Employees’ Pension and the Employees’ Health Insurance for which the premium is set at a certain percentage of his/her salary.
- ⁴ Until 2003, municipal governments which receive exemption applications had fair amount of discretion to grant exemption status, and thus, the basis of “exemption by application” was not strictly set. However, in

2003, the central government has set a strict means-test for granting the exempt status.

⁵ It should be noted that the full amount of the National (or Basic) Pension for one person is lower than that of the minimum cost of living used in the Public Assistance System. Thus, if a pensioner lives alone, he/she could be below the minimum cost of living even if he/she receives the full amount of the Basic Pension.

⁶ “Default rate is defined as the percentage of aggregated amount of premiums that were collected among the total expected premium revenue. Note that the premiums that are legally exempt do not figure into the denominator in calculating the default rate.

⁷ Yet another type of housing which targets the middle-class households is Special High Quality Rental Housing (Tokutei Yuryo Chintai Jutaku).

⁸ It was preceded by Emergency Housing (Oukyu Kani Jutaku) which was started by the government right after the war (1945).

⁹ The poor is defined as either Pre&Post-Poor (households which were poor before and after transfers) and Pre-Rich Post-Poor (households which were not poor before the transfer but became poor after the transfer). The poverty line is the 50% of the median after-transfer income.

¹⁰ There is a certain timeframe where one can pay the arrears, thus if the reason for default is a temporary liquidity problem, this concern may not come true. However, the continuing increasing trend is signaling that it is not temporary phenomenon.

¹¹ It should be noted, though, that these studies only used income information of households to estimate the take-up rate. The eligibility of the public assistance takes into consideration more than just income, for example, the assets and the ability to work, thus, technically speaking, not all those marked “poor” in terms of income are actually eligible.

¹² Rent was set according to the construction cost, not the ability to pay of the renters.

¹³ The 2000 revision of the Public Housing Act abolished the exclusion of “those needing daily care” from the eligibility. However, some municipalities still exclude those needing daily care from the public housing. (JDPI, 2000).

¹⁴ Yui (1998)

¹⁵ If a person on public assistance manages to save out of his monthly benefit, the same amount is deducted from his benefit. As the systems does not allow for any-

thing but the minimum standard of living.

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