

## Section 3

### Establishment of national minimum

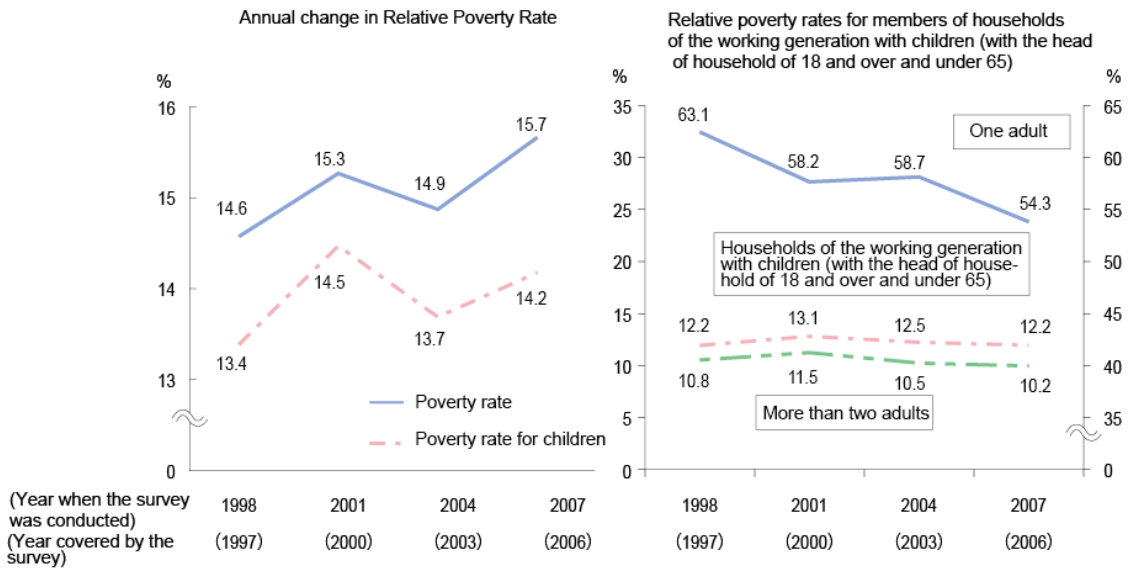
#### 1 Relative poverty rate in Japan

The Ministry of Health, Labour and Welfare announced the relative poverty rate for the first time in October 2009 in order to address the poverty issue. Regarding the relative poverty rate in 2007, which was announced in 2009, the overall rate was 15.7%, and the rate for children posted 14.2%. The latest rate of the households of working adult(s) and child (ren) was 12.2%; among which, the rate of the household consisting of one adult was 54.3%, the household comprising more than two adults held 10.2%. The movement of the overall relative poverty rate has been on the upward trend. The household of “one adult” and child (ren) has been declining but maintains a very high level (Chart 2-3-1).

With the aim of making the Japan’s relative poverty rates comparable with those of other countries, the data was calculated in the same manner with the one submitted to the OECD (Organisation for Economic Co-operation and Development). Based on the “Comprehensive Survey of Living Conditions” issued by the Ministry of Health, Labour and Welfare, the ratio of household member with lower than half of the median of equivalent disposable income (household disposable income divided by the square root of the number of household member) was calculated(Chart 2-3-2). The relative poverty rate is not the absolute rate but a relative indicator for the ratio of the people with smaller than half of the median of equivalent disposable income. Assets such as deposits, savings and real estate are not taken into account. Benefits in kind and indirect taxes are not considered, either.

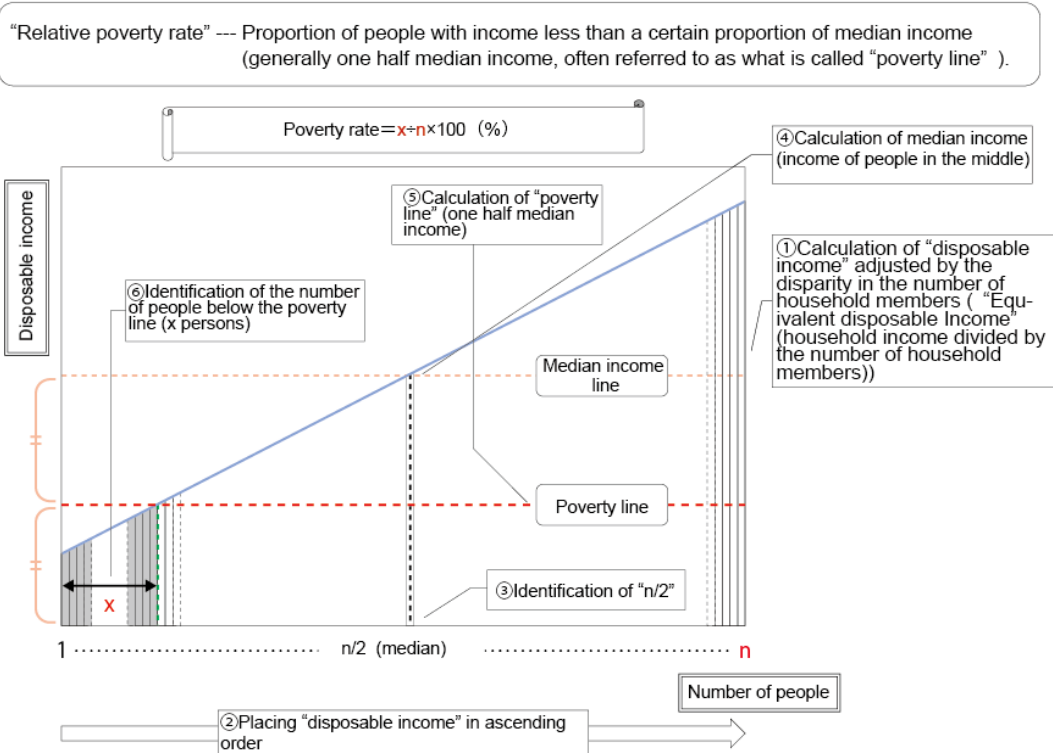
The OECD has announced the relative poverty rates of the OECD member countries till the mid-2000s. The rate of Japan in 2004 was the highest among the OECD member countries (Chart 2-3-3).

Chart 2-3-1 Changes in Relative Poverty Rates



Source: Prepared by the Statistics and Information Department, Minister's Secretariat, MHLW based on the "Comprehensive Survey of Living Conditions" issue by the Statistics and Information Department, Minister's Secretariat, MHLW  
 (Note) "Income" represents the income for one year (from January to December) during the year covered by the survey. The years covered by survey are indicated in parentheses.

Chart 2-3-2 Relative Poverty Rate



\*\* Disposable Income" is defined as gross income minus direct tax/social insurance premiums and does not take into account assets and benefits in kind such as social security benefits.

The Japan's relative poverty rate is the 4th lowest, and the poverty rate of household of the working generation with children and "one adult" is the lowest among 30 OECD member countries.

Chart 2-3-3 International Comparison of Relative Poverty Rates (in the mid-2000s)

	Relative poverty rate		Poverty rate of children		Relative poverty rates for members of households of the working generation with children (with the head of household of 18 and over and under 65)					
	Rate	Rank	Rate	Rank	Total		One adult		Two or more adults	
					Rate	Rank	Rate	Rank	Rate	Rank
Australia	12.4	20	11.8	16	10.1	16	38.3	19	6.5	12
Austria	6.6	4	6.2	5	5.5	5	21.2	8	4.5	5
Belgium	8.8	15	10.0	10	9.0	12	25.1	10	7.3	14
Canada	12.0	19	15.1	21	12.6	21	44.7	27	9.3	18
Czech Republic	5.8	3	10.3	13	7.7	9	32.0	15	5.5	7
Denmark	5.3	1	2.7	1	2.2	1	6.8	1	2.0	1
Finland	7.3	9	4.2	3	3.8	4	13.7	4	2.7	3
France	7.1	6	7.6	6	6.9	7	19.3	7	5.8	8
Germany	11.0	17	16.3	23	13.2	22	41.5	25	8.6	16
Greece	12.6	21	13.2	18	12.1	18	26.5	13	11.7	23
Hungary	7.1	6	8.7	8	7.7	9	25.2	11	6.8	13
Iceland	7.1	6	8.3	7	7.3	8	17.9	5	6.2	10
Ireland	14.8	26	16.3	23	13.9	23	47.0	28	10.1	21
Italy	11.4	18	15.5	22	14.3	25	25.6	12	14.0	27
Japan	14.9	27	13.7	19	12.5	19	58.7	30	10.5	22
Korea	14.6	24	10.2	12	9.2	13	26.7	14	8.1	15
Luxemburg	8.1	11	12.4	17	11.0	17	41.2	24	9.7	20
Mexico	18.4	30	22.2	29	19.5	29	32.6	16	18.7	29
Holland	7.7	10	11.5	15	9.3	14	39.0	20	6.3	11
New Zealand	10.8	16	15.0	20	12.5	19	39.1	21	9.4	19
Norway	6.8	5	4.6	4	3.7	3	13.3	3	2.1	2
Poland	14.6	24	21.5	28	19.2	28	43.5	26	18.4	28
Portugal	12.9	22	16.6	25	14.0	24	33.4	17	13.3	24
Slovakia	8.1	11	10.9	14	10.0	15	33.5	18	9.2	17
Spain	14.1	23	17.3	26	14.7	26	40.5	23	13.9	26
Sweden	5.3	1	4.0	2	3.6	2	7.9	2	2.8	4
Switzerland	8.7	14	9.4	9	5.8	6	18.5	6	4.9	6
Turkey	17.5	29	24.6	30	20.3	30	39.4	22	20.0	30
UK	8.3	13	10.1	11	8.9	11	23.7	9	6.1	9
USA	17.1	28	20.6	27	17.6	27	47.5	29	13.6	25
OECD average	10.6		12.4		10.6		30.8		5.4	

\* Country names are placed in alphabetical order.

Source: "Growing Unequal? INCOME DISTRIBUTION AND POVERTY" OECD

## 2 Establishing criteria for national minimum

Article 25 of the Constitution of Japan stipulates that "All people shall have the right to maintain the minimum standards of wholesome and cultured living.

Being aware that "the minimum standards of living" provided in the Constitution, which means national minimum, has not been necessarily identified and needs to be verified, the Ministry of Health, Labour and Welfare established the "Study Group on National Minimum" with the aim of sorting out the concepts of national minimum, which is the starting point for all social security system, and studying the criteria and indicators. The Study Group had discussions ten times and compiled the interim report in June, 2010.

Chart 2-3-4 Points of the Interim Report issued by the Study Group on National Minimum (June 2010)

<p>Concepts of national minimum</p>	<ul style="list-style-type: none"> <li>○National minimum is “the minimum standard of wholesome and cultured living” that the country secures for the people based on Article 25 of the Constitution.</li> <li>○National minimum has been considered mainly in terms of the economic indicator such as income and assets but should be viewed in relationship with the social indicators, including human relationship and social involvement</li> <li>○Needs for daily lives are diversified and a combination of various indicators should be used to correctly understand the real situation.</li> </ul>
<p>Criteria for national minimum</p>	<ul style="list-style-type: none"> <li>○Diversified verification needs to be conducted on the minimum living costs using new methods including market basket method, while taking level equilibrium method as a standard one.</li> <li>○Minimum living costs are used as a common standard for minimum safeguard pension, minimum wages, and social insurance premiums and for setting up of burdens of insured persons in addition to the criteria for livelihood assistance.</li> </ul>
<p>Measures for securing national minimum</p>	<ul style="list-style-type: none"> <li>○National minimum needs to be secured responding to the various risks in life cycle through social security/employment measures such as pension, minimum wages, employment insurance, health insurance and Child Allowance along with public assistance</li> <li>○The national minimum-related issues include expansion of the trampoline-style public assistance scheme through reinforcement of employment promotion and the second safety net such as housing allowance, etc.</li> </ul>
<p>Liability of national minimum, Relationship between the national and local governments</p>	<ul style="list-style-type: none"> <li>○The national government assumes the final liability of national minimum. The concept of national minimum stipulated by the national government is used as a premise for the discussion on sharing of roles between the national and local governments.</li> <li>○Regional sovereignty needs to be realized, but the region’s originality should be demonstrated by adding to national minimum.</li> </ul>
<p>Correction of poverty/disparity and economic growth</p>	<ul style="list-style-type: none"> <li>○An environment where many people can make challenge should be created by social security in order to extensively make full use of the entire nation’s abilities. Social benefits to the working generation in addition to cash benefit need to be improved for the purpose of correcting poverty/disparity and for economic growth.</li> </ul>

\* The issues requiring technical verification (① the analysis of the minimum living expenses based on the actual situation of consumption by the low-income group; and ② projection of financial losses due to poverty/disparity.) are being worked on separately.

The interim report summarized the discussions made so far on national minimum. For example, the report describes the concepts of national minimum as follow: 1) National minimum is “the minimum standard of wholesome and cultured living” that the country secures for the people based on Article 25 of the Constitution; 2) National minimum has been considered mainly in terms of the economic indicator such as income and resources, but should be viewed in relationship with the social indicators, including human relationship and social involvement; and 3) Needs for daily lives are diversified and a combination of various indicators should be used to correctly understand the real situation. \*1

The interim report also provides verification status for the issues that require continued technical verification including: ① the analysis of the minimum living expenses based on the actual situation of consumption by the low-income group; and ② projection of financial losses due to poverty/disparity. In particular, regarding the latter, the report projects that two-year intensive vocational training provided to a high school graduates creates the effect up to a little over ¥100 million after he or she starts to work, while the training expenses are about ¥4.6 million (Chart 2-3-5). \*2

\*1 In the EU, “indicators related to social protection and social inclusion” to indicate poverty status including health conditions and academic backgrounds are used in addition to the economic indicators (Figure 2-3-6).

\*2 Projection is made based on the vocational training program for young people in the U.S. (Job Corps program).

Chart 2-3-5 Projections for the impacts made by active employment support measures for the poor

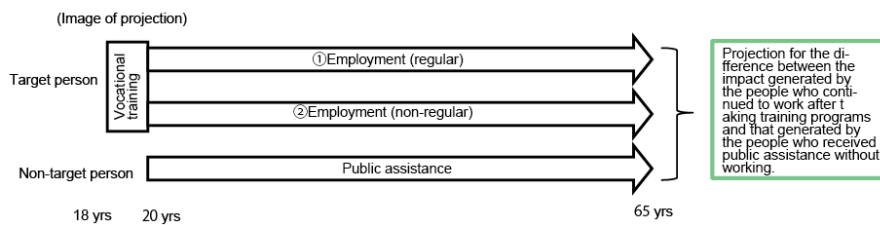
Intensive vocational training provided to young people will generate the effect up to a little over 100 million.  
 \*Projection is made by calculating the difference of administrative costs between the case wherein young people receive two-year intensive vocational training (about 4.6 million yen will be generated based on the vocational training program for young people in the U.S. (Job Corps program) and continue to work as regular employees” and the case wherein “young people receive public assistance without taking vocational training”

○Projections for the effects generated by vocational training program\*

\* (Premium paid through employment/the amount of tax paid) + (The amount of public assistance that would be received throughout life unless employed) – (Vocational training costs)

	Male	Female
①Regular employment after the program	93.74 ~ 110.05 million yen (213.17 ~ 231.05 million yen )	72.26 ~ 87.22 million yen (149.98 ~ 152.39 million yen )
②Non-regular employment after the program	71.88 ~ 85.80 million yen (132.32 ~ 135.91 million yen )	55.92 ~ 75.91 million yen (85.14 ~ 98.49 million yen)

\* Figures in parenthesis indicate the lifetime earning income which is used as a basis to project the amounts of income tax and social insurance premiums paid through employment.



Source: Prepared by the Office of the Deputy Director General for Social Security, MHLW, based on the report “Projections for economic loss caused by poverty/disparity” presented by Aya Abe, Director of the National Institute of Population and Social Security Research at the 10th Study Group on National Minimum held on June 10, 2010 and the interim report “Projections for the impacts made by active employment support measures for the poor” released by the working group of the Study Group.

Chart 2-3-6 Social Protection and Indicators concerning Social Inclusion (2008)

①a	Poverty rate	Share of people with an equivalent household income after redistribution below 60% of the national median income
①b	Relative median poverty risk gap	Difference between the median income of people living below the at-risk-of poverty threshold and the threshold itself
①c	Persistent poverty	Number of people with an equivalent household income below 60% of the national median income at least 2 years during the previous 3 years
②	Ratio of income distribution	Ratio of the total income received by the 20% of the country's population with the highest income to that received by the 20% of the country's population with the lowest income
③	Healthy life expectancy	Number of years that a person at birth, at 45, at 65 is expected to live in a healthy condition
④	Share of persons with low education	Share of persons aged 18 to 24 who have only lower secondary education and have not received education or training in the four weeks preceding the survey.
⑤	Number of people living in jobless households	Share of persons aged 0-59 living in households where no one works
⑥	Projected total public social expenditures	Age-related projections of total public social expenditures (pensions, health care, long-term care, education and unemployment transfers), current level and projected change in share of GDP
⑦a	Median relative income of elderly people	Median income of people aged 65+ as a ratio of median income of people aged 0-64
⑦b	Aggregate replacement ratio	Median individual pensions of 65-74 relative to median individual earnings of 50-59, excluding other social benefits
⑧	Self reported unmet need for medical care	total self-reported unmet need for medical care due to "financial barriers" or "waiting times" or "too far to travel", by income quintile. To be analyzed together with the number of visits to a GP or specialist during the last 12 months.
⑨	Poverty rate anchored at a fixed moment in time	Share of people with an income below the at-risk-of-poverty threshold calculated in income year 2004, adjusted for inflation over the years.
⑩	Employment rate of older workers	Persons in employment in age groups 55 - 59 and 60 - 64 as a share of the same age group
⑪	In-work poverty risk	Individuals who are classified as employed and who are at risk of poverty.
⑫	Activity rate	Share of employed and unemployed people in total population of working age 15-64
⑬	Regional disparities	Standard deviation of regional employment rates divided by the weighted national average
⑭	Total health expenditure per capita	Total health expenditure per capita

\*Social inclusion is defined as process whereby certain individuals, who have been in poverty and pushed to the margins of the society, participate in economic, social and cultural life and acquire necessary opportunities and resources to enjoy a living standard and welfare, which are deemed general in the community concerned. It also refers to the situation that these people can participate in decision making affecting their everyday life and their basic human rights are secured.

Source: EU (2008) Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions

## Column

What is relative poverty rate?

According to the relative poverty rate in the middle of 2000s publicized by OECD, Japan's relative poverty rate is

As a whole 14.9% (27<sup>th</sup> out of 30 in OECD)

Children 13.7% (19<sup>th</sup> out of 30 in OECD)

First of all, let's look at how to calculate relative poverty rate. Relative poverty rate is calculated according to the following steps.

① Calculate disposable income of household (income extracted tax and social insurance fee).

② Calculate income for each person after adjusting a number of household (subtracting SQRT of a number of household from household income) which is income for each person who belongs to that household (equivalent disposal income).

③ Arrange income in order of amount (from low to high) according to equivalent disposal income calculated above and decide median equivalent disposal income (median).

④Decide that halved median amount is poverty line

⑤Rate of them whose equivalent disposal income is under poverty line is decided as relative poverty rate.

Character of relative poverty rate is to just focus on disposal income excluding property (saving and estate, etc.) and benefits in kind (social security benefit offered as service where you can take actual service such as medical insurance, Long-Term Care Insurance and benefit related to childcare), and, is to set up main income as a standard and decide those who can only earn income under specific amount (poverty line) are relatively poverty. Therefore, since it can be calculated with only income, it is relatively easier to calculate and it is an index where comparing it to other countries and annual transition can be easily implemented.<sup>1</sup>

On the other hand, because median which is disposal income excluding tax and social insurance fee is used, you must keep it in your mind that it is an index which is sometimes high and sometimes low depending on comparative relation of tax and social insurance burden of median incomer and that of tax and social insurance burden of low incomer, and that there are cases that we don't know by just calculating it with relative poverty rate since sense of value to living standard is different depending on property or human relations in daily life.

Grasping actual condition of poverty attends a lot of hardship and relative poverty rate help us get to know. It is necessary to deal with poverty problems while considering about effects upon index caused by various policies.

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<sup>1</sup> Although, as another index to evaluate poverty, there is "absolute poverty rate" other than "relative poverty rate" where necessities of life is a criterion and it is used to judge if it can be said as poverty or not, it is pointed out that living standard and necessities of life is really depending on each country, therefore, "relative poverty rate" is applied when to compare it between developed country.