

The Income Gap and Social Stratification in Japan

By *Shiraishi Shigeaki*

Concern over Rising Income Disparity

A TV program, *Kanemochi A-sama, Binbo B-sama* (Rich Mr. A and Poor Mr. B) which compared the lifestyles of two people in the same profession: one successful and rich, and the other unsuccessful and poor, recorded high ratings in Japan. The goal of the program was not to instruct viewers what to do if they want to succeed. Rather, it was to enjoy comparing the lifestyles of the rich and poor.

Zenigata Kintaro is another popular TV program. This focuses exclusively on the lifestyles of the poor, reporting in an interesting and amusing way. The program features several people and introduces why they are poor, explores how they live and what they eat. In fact, it is a competition to see who is the poorest and the winner receives a cash prize.

There are a number of programs showing the lifestyles of the rich. In recent years, living in Roppongi Hills in the heart of Tokyo has become a symbol of success, and the area is actually home to such people as young successful IT company owners. With so many programs showcasing their lives, the layout of a certain IT company president's residence has become so well known even to increase a risk of burglary.

In addition to TV programs, magazines and books also focus people's attention on the rich and poor. For example, Morinaga Takuro's book titled *Nenshu 300 Man-en Jidai wo Ikinuku Keizaigaku* (Economics for Surviving in an Age of Annual Incomes of ¥3 Million), has become a bestseller, while the author himself seems to be enjoying a ¥30 million annual income. Tachibanaki Toshiaki, an influential labor economist and a Kyoto University professor, actively speaks out about the growing income disparity. His recent bestseller co-authored with Mori Takeshi is titled, *Nihon no Okanemochi*

(Study of Japan's Rich People). This blatant title has had a great impact on many people, as was anticipated by the publisher.

Based on the premise that TV programs, books and magazines make money by focusing on people's interests, the situation described above is evidence that many Japanese have a great deal of interest in the themes of "rich and poor" or "winners and losers." Naturally, all human beings have an interest in money to some degree. This is especially true in Japan today, where society is based on an intensive market-economy system. It is a time where Zen priests, supposedly living in a highly spiritual world, risk losing the temple if they do not keep track of their money. However, recent public interest in "rich and poor" issues seems to have gone beyond generalities. This is because people are starting to become aware of the reality of Japan's growing income disparity and social stratification. In fact, according to a lifestyle and society survey carried out in 2002 by Otake Fumio, a professor at Osaka University, 67% said they were aware that the income gap has widened in the last five years. Furthermore, 75% predicted that the income gap would increase during the next five years and 70% answered that the growing income disparity in Japan is a problem. These figures vividly paint the concern that Japanese people have over the threat of income inequality.

Is Income Disparity Growing in Japan?

Let us examine if the income gap is really widening in Japan. According to the Ministry of Health, Labour and Welfare (MHLW)'s Survey on the Redistribution of Income, the Gini coefficient (a number between 0 and 1, where 0 corresponds with perfect equality and 1 corresponds with perfect inequality) has continued to rise since

the survey started in 1987, meaning that income disparity is increasing. In the latest survey in 2002, the Gini coefficient reached an all-time high of 0.4983. This leaves little doubt that there is a growing income gap in Japan.

Many Japanese companies adopted ability- and performance-based evaluation systems in order to overcome the economic difficulties after the collapse of the bubble economy, and restructuring was also promoted. It made many people believe that the distinction between winners and losers became obvious, and the disparity in personal income has increased.

However, the high Gini coefficient indicated above is based on household income, and does not accurately reflect individual income disparity. For this reason, there are two problems: (1) household income disparity will increase if the number of single households, which have lower incomes, rises; and (2) household income disparity will increase if the number of higher-earning elderly households increases.

Therefore, it is necessary to look at the income gap from individual disposable income rather than household level. From this perspective, let us look at the Organization for Economic Cooperation and Development (OECD) working report, *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s*, published in 2005, as a reliable source. This report analyzes income levels on an individual basis, by eliminating the household influence, through the calculation of individual "equivalent disposable income" (household disposable income divided by the square root of the number of household members and then allotted to each household member), using data from the household income survey for each OECD country (in Japan, from the Comprehensive Survey of Living Conditions of the People on Health and Welfare).

Looking at the Gini coefficient for equivalent disposable income on an individual basis for 2000, the income disparity is exceptionally high in Mexico and Turkey, at 0.467 and 0.439 respectively. The second largest income-gap countries (i.e. higher than the simple average of 0.306 for the OECD countries) with strong laissez-faire economies includes the United States (0.357), Italy (0.347), New Zealand (0.337) and the United Kingdom (0.326). Japan belongs to the second group with the Gini coefficient of 0.314. (Fig. 1)

Incidentally, in the small income-inequality group are such northern European countries as Denmark and Sweden, and in the medium income-inequality group are Belgium, France, Germany and other EU countries, as well as Canada and Australia.

Therefore, even on an individual income basis that eliminates the household influence, the income gap in Japan is considered large by international comparison.

Moreover, the gap in Japan is on an upward trend. From the mid-1990s to 2000, the income gap in many countries was stable, while it increased in Japan and the United Kingdom.

The Poor in Prosperous Japan

There are many people with a positive view of the growing income disparity, saying that by monetarily rewarding those who work hard, the overall economy will be stimulated, and the poor will benefit indirectly. Even government policy has endorsed the strengthening of economic incentives in order to rebuild the Japanese economy after the bubble collapse. An example of this is the relaxation of the progressive direct taxation system. This approach closely resembles Deng Xiaoping's slogan of "to get rich is glorious" (the country gets richer and it can help the poor) in communist China. It seems that Japan's passion for learning from China is not limited to kanji characters and Confucianism.

In reality, just as the difference between rich and poor widened in China, the rich in Japan are getting more affluent, while the number of poor people in this supposedly wealthy country is growing. According to the OECD report, if those who earn less than half the equivalent disposable income of the average income earners are defined as poor, the poverty rate in Japan is actual-

ly 15.3%. This is the fifth highest poverty rate in the OECD countries, just behind the rates in Mexico (20.3%), the United States (17.1%), Turkey (15.9%) and Ireland (15.4%). Japan is 5% above the average poverty rate (10.4%) in the OECD countries. (Fig. 2)

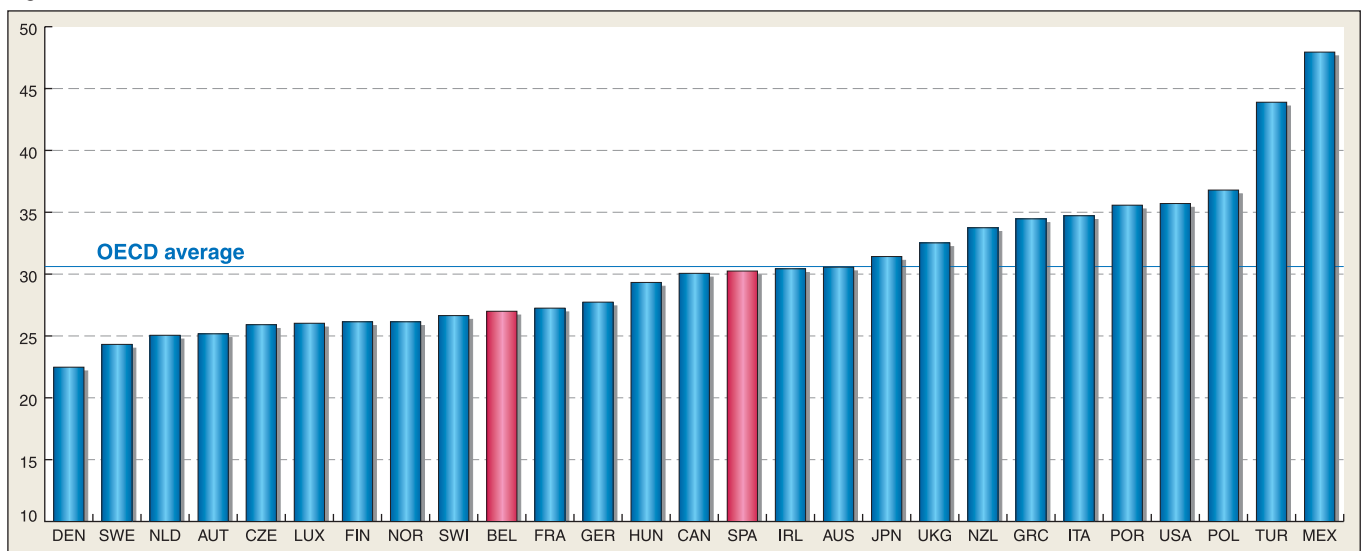
Was it just an illusion that Japanese society is made of equality and based on middle-class people, to which 90% of Japanese consider to belong?

Why Is There Such a Large Income Gap in Japan?

Even when the influence of increasing numbers of elderly and single-person households is eliminated, Japan's Gini coefficient, or its income inequality, is on the rise, and the poverty rate is increasing. What is behind these trends?

The first reason is that Japan's wealth redistribution system is unusually weak from an international standard. From the OECD report, it is clear that Japan's income redistribution through taxes and government social security benefits (child allowance, unemployment benefits, social welfare and other cash benefits only) are exceedingly feeble. When comparing the poverty rate based only

Figure 1 Gini Coefficients of Income Concentration in 27 OECD Countries, Most Recent Year



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

on initial income (excluding tax and social security benefits) with one based on disposable income (including taxes and social security benefits), Japan is below leading Western countries such as France, Germany, Belgium, Denmark, the United Kingdom and the United States, in its initial income poverty rate. In terms of the disposable income poverty rate, however, Japan is far above those countries, except for the United States. Although most of the OECD countries are able to reduce their poverty rates by raising the disposable income of low-income earners through the tax system and social security benefits, Japan is extremely weak in this kind of policy. (Fig. 3) In fact, according to the Survey on the Redistribution of Income by the MHLW, it has been confirmed that Japan's wealth redistribution mechanism is practically ineffective. The study should probably be renamed the "Survey on the Non-Redistribution of Income." The second reason for Japan's rising income gap is the broad scope of low-wage work in Japan. It has been pointed out that one feature of the Japanese labor market is the lifetime employment system, but in reality this practice was only ever found in certain influential companies. After the collapse of the

bubble economy, even these leading companies began to reduce the size of their full-time workforce, and to increase the number of non-regular workers such as part-time and temporary employees. It has been calculated that the difference in lifetime wages for a regular and non-regular employee is ¥200 million. The number of low-wage workers has been increasing in Japan as a result. According to the OECD report, while most of the poor in the productive population of many countries were unemployed, the unemployed in Japan only make up about 10% of the poor. This means that while most the OECD countries have poor people who are out of work, Japan has the working poor. The famous Japanese poet, Ishikawa Takuboku (1886-1912), wrote that "I work, and work, and yet my life is nothing but hardship, so I stare at my hands." Just like in this poem, despite hard work, many people are poor due to low wages in Japan.

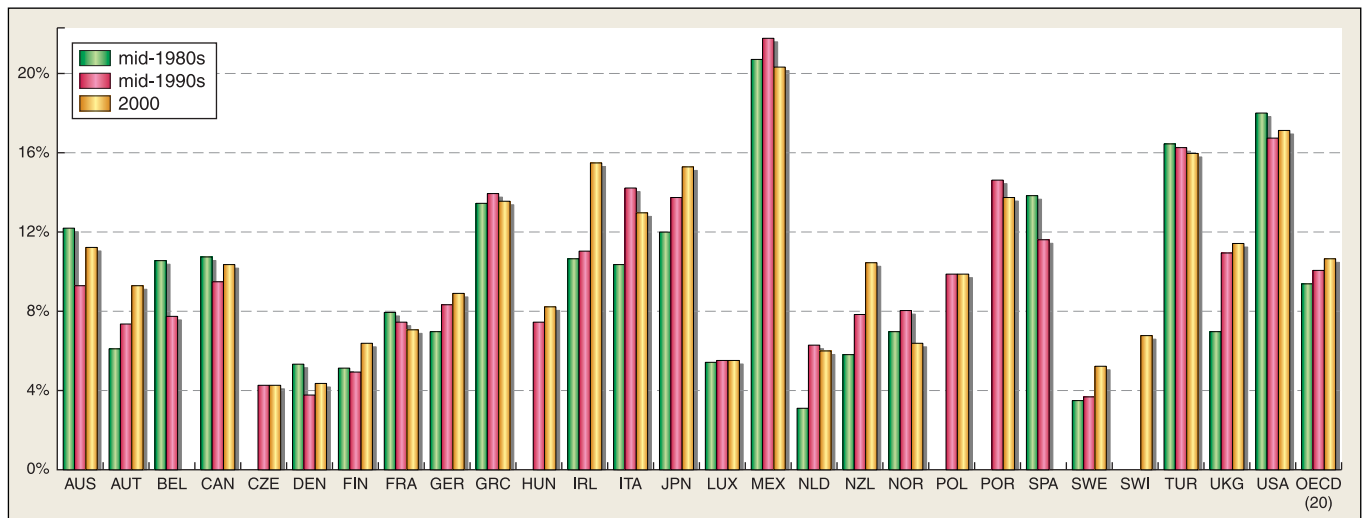
From Income Inequality to Social Stratification

When talking about income disparity in Japan, one point that cannot be overlooked is that people feel this is not just

an income gap problem but the vague uncertainty and dissatisfaction in the society. The root of this lies in the steady stratifying of a society that used to be known for its homogeneity.

A stratified society involves differences not only in people's income levels, but also in their entire lifestyles, and this can become entrenched across generations. For example, it is well known that the proportion of students with parents in high-income brackets has risen dramatically among the students accepted to Japan's leading universities from the survey. In the past, it has long been believed that even though one is poor, if one studies hard and gets into a top university, one will be able to succeed in life. In reality, there were many people who were able to follow this path. However, today, such a path has become considerably narrower. It has been shown that successful people who are born to wealthy parents and graduate from a top university are more likely to marry someone from the same background. Real life versions of the Cinderella story are quite rare. These economically and socially successful people become entrenched across generations, and create suitably wealthy lifestyles for them-

Figure 2 Relative Poverty Rates among the Entire Population



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

selves: live in the central Tokyo or a luxury residential area in an attractive suburb, go to the opera, eat French cuisine, enjoy fine wines, read hardcover educational books, and have their children learn English and the violin.

Meanwhile, the poor people begin to see the attraction of a carefree lifestyle based on forgetting any ambition to move up in the world. They shun regular employment in favor of part-time employment with little responsibility and lots of time off. Or they decide to give up looking for work altogether and become NEETs (people Not in Education, Employment or Training). Then they often end up living in a run-down district with poor seismic precautions that is especially vulnerable to earthquakes, which is of course inexpensive, watching lowbrow TV shows, buying cheap prepared meals at convenience stores, drinking low-priced liquor, reading only mangas, and spending no money on their children's education.

Japanese society continues to become stratified in terms of desire to participate in society, the effort put into personal skills development, consumption behavior, the education of children and many other aspects. This stratification

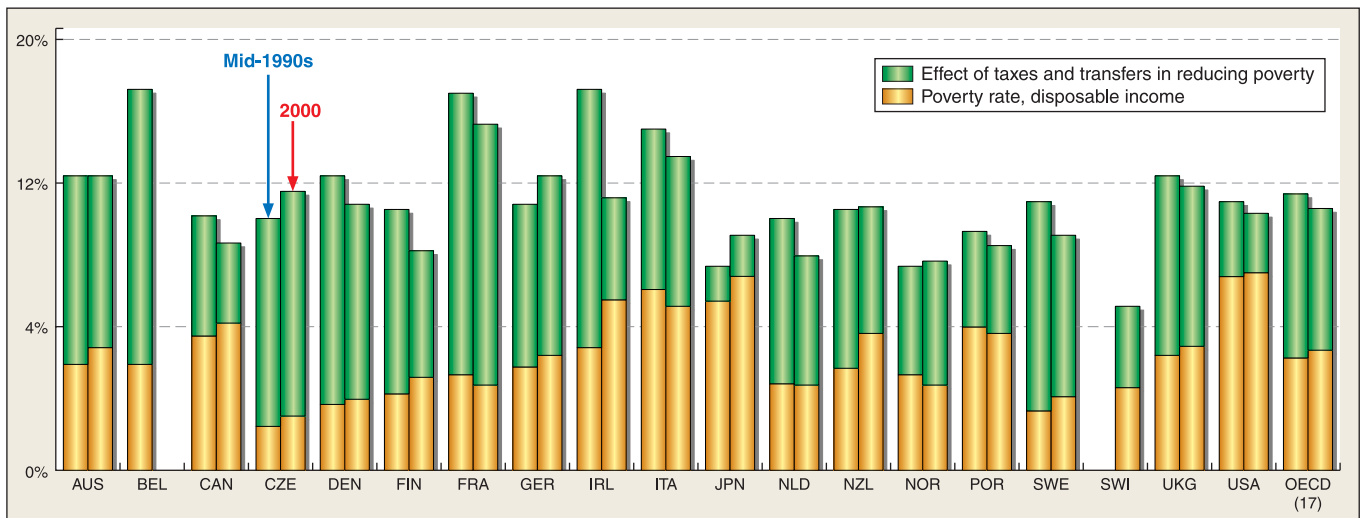
becomes entrenched across generations. At one time, values such as not asking about other people's incomes or not showing off wealth helped to obfuscate the reality of growing income disparity and stratification. Now the creators of TV programs, magazines and books are revealing the income disparity in a straightforward way.

With this growing stratification of Japanese society, we are moving towards a situation where people do not always share a common interest. For example, it is not easy to find common ground between the wealthy and the poor on such issues as tax and pension reform. Perhaps it may be a bit of an overstatement, but Japan, which has held a common belief in itself as a unified nation with a strong identity and as a country with a high level of equality, is now facing the question of how to maintain a cohesive society. Perhaps this is yet one more area in which Japan is faithfully following the example set by the United States. **JS**

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Figure 3 Effects of Taxes and Transfers in Reducing Relative Income Poverty



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