

# Welfare Benefits and Labor Supply: Evidence from a natural experiment in Japan\*

YUGAMI Kazufumi<sup>†</sup>, MORIMOTO Atsushi<sup>††</sup>, TANAKA Yoshiyuki<sup>†</sup>, MATSUMOTO Kodai<sup>†††</sup>

## Abstract

We use municipal amalgamations in Japan to identify the impact of welfare benefits on labor supply. In municipal amalgamations, under Japan's Public Assistance (PA) program, municipalities with the highest class-areas become the new municipality and the basis for calculating welfare benefit levels. We use canonical difference-in-differences and doubly-robust difference-in-differences approach to identify the effect of the increase in PA benefits in Japan after municipal amalgamations on the labor supply. We found that an increase in PA benefit levels has little impact on the employment rate of prime-age populations but decreases that of bereaved or divorced women and women by 1.0% to 3.5%.

*Keywords:* Public assistance, Labor supply, Natural experiment, Difference in differences

*JEL classification:* H53; J22

Research Institute of Economy, Trade and Industry

---

<sup>†</sup> Graduate School of Economics, Kobe University

<sup>††</sup> Department of Economics, North Asia University

<sup>†††</sup> Research Institute of Economy, Trade and Industry