

# The Specificity of Japanese Economy<sup>1)</sup> : Japanese Employment Practices and Nowadays Meaning of Japanese Capitalism

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## Introduction

In the two decades following the Second World War, Japan's economic performance was remarkable. The two oil shocks of 1973 and 1979, however, highlighted the vulnerability of the Japanese economy and substantially reduced the economy's growth trajectory.

Many commentators have tried to explain the cause of the success of the Japanese economy, and various explanations and interpretations have been offered. The same is true of Japanese employment practices and industrial relations. Less industrial conflict in Japan may have had a substantial influence on Japan's economic success, a view which has led to a great deal of commentators' interest in the Japanese employment relations overseas.<sup>2)</sup>

Studies of Japanese employment practices abound, not only inside Japan but also outside, many of which characterise Japanese employment practices in terms of life-time employment, seniority-based wages and enterprise unionism. Although it is arguable whether Japanese employment practices should be characterised in this way, it is possible that the Japanese-style management has been idealised.

Regular workers in large enterprises toil for long hours with partly unpaid overtime, death from overwork, a few holidays and very low rate of absenteeism. There is also a remarkable use of 'cushion workers' whose employment status is unstable as part-time and leased workers.

Why do Japanese workers, who are supposed to be protected by the 'three sacred treasures' put up with such a harsh work place? Lifelong job security applies at most to only about one-third of Japanese workers. We should argue the background to these Japanese employment practices, and to focus on the specificity of the Japanese economy compared with Fordism.

### 1. The method of theorising the economic structure of Japanese society

In order to advance the social scientific analysis of the present day Japanese economy, it is necessary for us, if Marx's concepts of the social formation are to be reinstated, to reconstitute them in a new framework, within which it is also necessary to restructure economic methodology. The concepts of regulation theory reconstituted the Marxist notions of productivity, mode of production, superstructure and so on<sup>3)</sup>. Therefore, it is meaningful for us to take one of the measures from the regulation school's analytical framework, especially, to focus on the specificity of the Japanese economy.

We follow the basic methodological categories of Lipietz.

**A labour process model:** This involves the general principles governing the labour process and the way it involves during the period when the model is dominant. These principles cover not only how the labour process is organized within firms, but also the division of labour

r between firmo. There may be, of course, whole sectors or regions which remains outside the model, but it remains a ‘model’ in that the most ‘advanced’ sectors, in terms of these principles determine how others will involve.

**A regime of accumulation:** The logic and law of macroeconomics describe the parallel development, over a long period, of the conditions of production on the one hand and, on the other hand, the conditions under which production is put to social use (household consumption, investment, government spending, foreign trade).

**A mode of regulation:** This involves all the mechanisms which adjust the contradictory and conflictual behaviour of individuals to the collective principles of the regime of accumulation. At the basic level, these means of adjustment are simply the extent to which entrepreneurs and workers are in the habit of conforming, or are willing to conform, to these principles, because they recognize them as valid or logical. At another level, institutionalized forms are more important the rules of the market, social welfare provision, money, financial networks. These institutionalized forms can be state-determined, private or semi-public<sup>4)</sup>.

And Lipietz’s arguments on the characteristics of ‘Fordism’ are as follows:

mass production, involving growing polarization between skilled mental labourers and deskilled operatives, and increasing mechanization leading to a sharp rise in productivity and an increase in the volume of capital goods per worker.

a proportionate share-out of value added; that is, increased real wages to match increases in productivity.

a consequent stability in firms’ profitability, with plant used at full capacity, and full employment.

social legislation covering minimum wage levels and generalized collective agreements, which made employers give their workers annual wage rises in line with increased national productivity.

a ‘welfare state’; that is, an advanced system of social security which meant that wage earners remained consumers even when they were prevented from ‘earning their living’ through illness, retirement, unemployment or the like.

credit money issued by private banks, though controlled by central banks, as the economy demanded and not as a function of available gold reserves.<sup>5)</sup>

I think one must re-question whether it is the principles of Fordism that have created the mode of regulation<sup>6)</sup> of the Japanese economy even during the thirty golden years, when the crisis of the second half of the 1970s came to the high growth country of Japan.

The Japanese perceived this crisis from the outside through the oil shock. Although it came as a national crisis, there was no experience of things which the labour movement could be credited with, like stoppage of the production line or wages rising above the rate of productivity. The Fordist crisis was one of the foreign notions which entered Japan.

However, the regulation theory was born of a modernisation of perspectives within Marxism. If we take one of the measures from the analytical framework of the regulation theory, we have

to focus on the specificity of the Japanese economy.

Especially, we have to focus on a new system of capitalist rule formed on the basis of the transformation of society since the oil crisis. The flexibility of a production place and the system of participation are ruling measures designed to appropriate the activity of workers. And the key point is that a new system of rule is formed on the basis of the division of society into the centre and the periphery. Japanese employment practices and welfare states are limited to the centre.

It is certain that the background of QC circles, the suggestion system and multi-skilling have been Japan's traditional routine system of employment and industrial relations. However, today these are combined with things like free-flow lines and machining centre with intensive ME technology, and they came to be crystallised in a pseudo-independence for workers and the mobilisation

of an intensive system of rule. This is then the system of motivation on which the society of overwork is based. Because it has become inseparable from the personnel-record system to check workers' independence and spontaneity, it has not produced a genuine spontaneity. Because this structure of motivation and the ME revolution have combined into a system in which they mutually promote each other, the Japanese system has received worldwide attention.

How do the special features of this kind of production process relate to the transformation of the labour market and the reduction of the welfare state? The distinctiveness of the Japanese labour market has traditionally been its dual structure, while the welfare state has been kept to a minimum.

On the issue of corporatism and the welfare state, Japan has generally been seen as getting behind, compared with Europe and United State of America. However, in all the countries of Europe and America in which ME technology and services have become central, the labour movement has become a specialised interest, the labour market has been divided into two, and private capital has proceeded to permeate into welfare state services. The result is that the structure of capitalism has been Japanised. This is a transformation of Fordism into a system governed by a high level of information technology.

In the case of Japan, when the old structure was transformed by ME technology and services along the same lines as in Europe and America, the bifurcation of the labour market and the minimalisation of the welfare state proceeded even further. There has thus been a kind of convergence between Japan and Europe and America.

## 2. The characteristics of the Japanese economy

I think I would like to conclude that the characteristic of the Japanese economy is a system being regulated by 'the Japanese-style regulation.' It means that economic development depends on the division of society into centre and periphery. The Whole society is regulated by reproduced difference between the centre and the periphery, and the Japanese social productivity is expanded by reproduced difference.

First, in production process, this is where the highly computerised central production process and the Taylorist supported peripheral production process diverge. The key point is that the peculiarity

iar quality of the Japanese society into centre and periphery, a division which is promoted by the transformation of the production process.

Second, the labour force market is divided into central workers and peripheral workers. The central are male regular workers in large companies. The peripheral are workers excluded by FA, part-time workers, subcontracted workers, seasonal workers, foreign workers and leased workers. Attention must be given to the income differentials and social welfare differentials between central workers and peripheral workers.

Third, the Japanese-style compromise between management and workers (Japanese employment practices) is limited to regular workers in large companies. On the other hand, peripheral workers are under the flexible employment adjustment.

Fourth, on the consumer market, the consumers are divided into the high-income class and the low-income class. High-income group demands higher grade goods, highquality services and more personal goods.

Fifth, a regional society is subordinated to the centre (a big city) economically. On 1980's, Japanese economy concentrated on a pole (Tokyo). The Japanese regional structure is concentric because of a reflection of the Japanese regulation. The regional society is taken as a low-added value production sector, and supplies the peripheral workers, and offers the consumer market of popularised goods and services. As a result, industrial linkage in the regional economy is broken and the regional economy is organized by the virtual division of labour system with Tokyo as the centre. Then, income differentials and productivity differentials are expanded between the centre and the region.

The regional economy have the mode of growth, consumption-led growth without expanding productivity. The growth cycle in the regional economy is as follows; low income increasing consumption increasing goods imported from other regions enlarged tertiary industry<sup>7)</sup>.

### 3. Japanese Employment Practices and duality

The structure of the Japanese industry is characterised by duality. There are giant multi-national enterprises with many national and international branches and firms. These are instanced by the car-making and electrical / electronic industries. On the other hand, there are a large number of small and medium-sized enterprises, including subcontracting firms that employ some eighty per cent of the labour force, who are in general linked and in many cases controlled by the large scale enterprises. Among these, very small enterprises with no more than a few employees account for a significantly high proportion of all enterprises in Japan.

There is a clear tendency for the proportion of very small enterprises to rise, while that of larger enterprises is declining. For example, the proportion of very small enterprises with four employees or less rose from less than 20 per cent in 1960 to 47 per cent in 1986. On the other hand, the proportion of enterprises with 1,000 employees or more decreased by more than 40 per cent between 1960 and 1986<sup>8)</sup>.

Thus, Japanese enterprises are being divided into two groups, a very small number of very large high-capital enterprises and a large number of small-sized enterprises. This duality is also reflected in wages and other employment conditions. It is often said that Japanese employment practices are characterised by life-time employment, seniority based wages and enterprise-based unionism.

First, life-time employment does not literally mean that a worker is employed by a company on graduation from a school until he / she retires from his / her entire working life. But it means that a worker has spent a large part of his / her working life in the same company for 20 to 30 years.

Workers and manager in large enterprises , roughly one-third of labour force, comprise the core of the Japanese economy and participate fully in the Japanese accord. Surrounding the core are continuous gradient workers employed by suppliers or subcontractors of large companies and a sizable group of part-time and temporary workers, especially women, who make up the periphery of the Japanese economy. Namely, life-time employment in large enterprises is protected by a sizable group of peripheral workers.

Second, the seniority-based wage system is one in which wages increase with age and merit. The seniority-based wage system is a kind of means to get young workers in low-level wages. Starting wages for anyone are rarely living wages in Japan. Workers only get those after some ten years of loyal service. It is essentially a system of withheld wages. If ever one is to get living wages, One has to stay on in the same company, and benefits really only begin to accrue in middle age. This is the reason why the Japanese management has always and still does prefer young to older workers.

Third, enterprise unionism means that it organises workers on a enterprise basis. A union tries to organise all workers of the enterprise, irrespective of their jobs and whether they are blue-collar or white-collar workers.

But exclusiveness to 'outsiders' is a characteristic of the Japanese labour unions. Because the

Japanese unions organise in principle only 'regular' workers, 'nonregular' workers such as part-time workers are virtually excluded from union organisation.

Such workers are not incidental, but essential to the Japanese-style regulation. The position of regular male workers in core companies is both protected by and threatened by the position of the remainder of the working class.

#### 4. The structural changes after the oil-shock

After the first oil shock, enterprises were forced to review their labour force policies because of drastic changes in the economic and industrial environment. They pursued the rationalisation of company management through the strategies which included the decentralisation of administrative structures, the closure and merger of non-profitable sectors and the establishment of new subsidiaries or related companies to revitalise business activity. The rapid introduction of new technology and contracting-out peripheral business were also part of the strategies adopted.

After the oil shock, employers insisted time and again that the Japanese enterprises employed too many workers, a burden which could not be carried in a state of emergency. The target of the 'adjustment' extended from the 'peripheral' workforce, such as part-time workers, to white-collar workers who had been the best protected group under the Japanese employment practices. Large enterprises reviewed and restructured seniority-based wages and promotion systems, and pushed their middle-age and older workers out into their subsidiaries or related companies.

As a result of the successive defeats in the SHUNTOU (spring offensive) since the turning point in 1975, the growth in the labour productivity curve and the real wages curve clearly began to diverge. Productive technology at this time rose very rapidly; in fact, the use of highly flexible and re-programmable ME-type machine tools and various types of flexible manufacturing systems became widespread and hastened the advance of office automation.

These changes, accompanied by globalisation of the accumulation path and the increasingly competitive reorganisation of the Japanese-style management will increase labour flexibility.

The Japanese-style management, if looked at abstractly, has not changed very much. The reality is that the reorganisation tends to refine the competitiveness that exists inside and outside the company. Even in large enterprises, life long employment is not a self-evident presupposition. The number of workers within the web of the Japanese-style management has been greatly reduced. In a word, a kind of cooperativeness within large enterprises has been shaken off. The entire Japanese economy is permeated by competitive flows of labour resulting from the pressures of its hierarchical structure, at the apex of which is the Japanese-style management.

#### Conclusion

As mentioned above, the characteristic of the Japanese economy is that the whole society is regulated by the reproduced difference between the centre and the periphery. The Japanese social productivity is expanded by the reproduced difference. This difference resulted in a certain kind of 'taming of the working class'. This difference reinforced by the passion to climb the educational ladder and supported the cultivation of a 'competitive culture'.

There is neither an across-the-board lifting of the minimum livelihood by means of state-dependent welfare nor any system of wage regulation involving intersecting-enterprises in Japan, and so seniority based wages was necessary for workers. Lifelong employment was necessary for large enterprises when they need to preserve skills while adjusting to a fierce technical revolution and to a long-term chronic shortage of labour.

In relation to the limitless occupational categories and the internal teaching of skills, the policy of labour supervision in large enterprise during the period of rapid growth was clearly different from the tradition of Henry Ford. Nevertheless, this difference can also be considered to have resulted both from the absence of intersecting-enterprise unionism and a level of negotiating power possessed by enterprise unions which is limited to wages and company welfare.

But one should not overestimate the Japanese-style management. Especially, after the oil shock, the number of worker within the web of the Japanese-style management has been greatly reduced. On the other hand, the Japanese enterprises employed a large share of preperial workers. They are one kind of 'cushion workers' whose employment status is unstable.

There is not a class compromise, but a surrender in Japan. The background to this was workers' assimilation into 'company-ism' and 'competitivism', which were cultivated during the period of rapid growth and then consolidated by the powerlessness of unions during the period of rationalisation.

During the process of the economic crisis since the 1970s, the diffusion of information technology has opened up a series of serious changes in the nature of capitalism. In particular, the unit of investment has shrunk, trade unions have become weaker, and the economic role of the state has decreased. These changes have actually reversed the developmental tendencies of capitalism. Although this has not been a desirable change and included a kind of retrogressive historical phenomenon, I think we need to grasp it as the emerging characteristic of the After-Fordism<sup>9)</sup>.

#### Note

- 1) This is a revised version of a paper presented to postgraduate students of faculty of Commerce and Economics, the University of New South Wales, Sydney, 2052, Australia.
- 2) Throughout the word today, debate about the meaning of so-called Japanese management, has extended very widely. For example, Paul Kennedy's 'Rise and Fall of the Great Power', George Friedman's 'The Coming War with Japan', Morisima Michio's 'naze nihon wa seiko shitaka (Why Could Japan Succeed?)', K. Dohse, U. Jurgens and T. Malsch's 'From Fordism to Toyotism? : social organization of the Labour process in the Japanese Automobile Industry'. M. Keney and R. Florida's 'Beyond Mass Production: production and the Labour process in Japan'.
- 3) I think, Regulation theory is meaningful to focus on the specificity of the Japanese economy. Because we can have a correct understanding of the specificity of the Japanese economy compared with the western style economy.
- 4) Lipietz A., Towards a New Economic Order: postfordism, ecology and democracy, Polity press, 1993, p2

- 5) Ibid., pp6-7.
- 6) the basic idea here is that social coherence, or “ regulation,” is embodied in stable institutional arrangements or established social routines. Stable institutional patterns are not automatically generated, but are the products of concrete social forces and struggles. For the regulationists, capitalism is always potentially unstable. During stable periods, disequilibrium is held in check by prevailing institutions. However, once certain threshold points are reached, existing institutional arrangements begin to unravel, and dislocation sets in. It becomes increasingly difficult to obtain productivity improvements from the given to unravel, and dislocation sets in. It becomes increasingly difficult to obtain productivity improvements from the divergence between the ability to generate output and to allocate appropriate shares to accumulation and consumption. This creates a social prisoner’s dilemma, leading to increased malfunction, chaos, and disruption. At these points, the institutional structure of society rigidifies, blocking the institutional regulation necessary for restructuring.
- 7) For a more detailed argument, I would like to refer to my book, “ Chiiki no sangyo to keizairiron (Regional Industry and Economic Theory)”, ACCESS 21, 1993.
- 8) Ministry of Labour, Yearbook of Labour Statistics, Various Issues.
- 9) The regulationists understand ‘ post-Fordism’ as a system which opens up great possibilities for realising the interests of workers. Aglietta sees post-Fordism as a good example of the path to a democratic labour system. In contrast to this, I see ‘ after-Fordism’ as a new system of capitalist rule formed on the basis of the transformation of society since Fordism. On the point of workers, in comparison with Fordism, after-Fordism represents a clear regression.