

---

# LIBERALISATION FOR OUTSIDERS. PROTECTION FOR INSIDERS.

*A diachronic comparison of the social structures of Japan's labour market in the  
1980s and 2000s*

---



COPENHAGEN BUSINESS SCHOOL 2017  
INTERNATIONAL BUSINESS AND POLITICS  
COMPARATIVE POLITICAL ECONOMY FINAL EXAM  
STU: 22.745, 10 pages

Supervised by Hubert Buch-Hansen

## Introduction

As the Japanese economy climbed its way to a global second place in the decades after the Second World War, scholars celebrated Japan's regulated labour market structure as a key source of its success. When the economy entered a decade of economic stagnation following the asset price bubble in the early 1990s, scholars blamed the now "rigid and redundant" labour market for prolonging the crisis (Pascha 2004, 235). In order to revive the faltering economy, a series of reforms were initiated – including reforms of the labour market. Through a mix of deregulatory and re-regulatory measures, key institutional features of the Japanese labour market changed considerably in the late 1990s. Through a longitudinal analysis, this paper sets out to explore this change by examining the research question:

*How and why did the labour market institutions in Japan change from the 1980s to the 2000s and what structural changes does this signify?*

Building on Marxist stages analyses, the Social Structures of Accumulation (henceforth SSA) theory places significant emphasis on the labour market (henceforth LM) in its analysis of the institutional structures of capitalism (Li and Qi 2014, 481). It thus provides this paper with a relevant framework for analysing institutional LM change. As the LM is affected by a large variety of economic and political institutions this paper limits its focus to changes in *labour rights* and *wage bargaining*.

Answering the question, I outline the SSA framework as well as the reformulation by Wolfson and Kotz. Subsequently, I present the key institutional components of the Japanese LM in the 1980s and 2000s and compare the two periods across the 5 structural dimensions laid out in W&K's SSA framework. Lastly, I comment on the appropriateness of the SSA framework and discuss the possible contributions of other theories.

## SSA Approach

The SSA approach emerged in the late 1970s as a theory to analyse capitalist crises and variation by looking at the connection between social institutions and capital accumulation over longer periods of time (Kotz 2017, 4). Grounded in Marxism, SSA theory considers the capitalist economy to be full of internal

contradictions and thus constantly moving towards its own collapse. However, capitalism has been able to stabilise itself by means of institutions and thus avoid total collapse (Diebolt 2002, 87).

Capitalists need secure expectations to be willing to engage in long-term investments in an economy and therefore depend on a set of stable supportive institutions. A given stage of capitalism will thus be stabilised by an institutional structure that stimulates rapid capital accumulation by promoting capitalist profit-making (Wolfson and Kotz 2010, 74-77). This is the social structure of accumulation: the interdependent political, economic and ideological institutions that underpin the accumulation process (McDonough 2015, 122). With time, the social structure becomes a barrier to further growth or is destabilised (ibid). The SSA then enters a period of crisis and stagnation, which can only be solved through vast institutional restructuring.

### **Reformulation by Wolfson and Kotz**

In 2010 Wolfson and Kotz presented a critique of the traditional SSA theory contending that a new SSA does not *necessarily* promote rapid growth. Rather, as the capitalist class is bound to play a significant role in the formation of any new SSA, the new institutions will mainly seek to protect the core capitalist interest – high profit rates (Wolfson and Kotz 2010, 77-80). Wolfson and Kotz emphasise the importance of struggles between and within labour and capital in the stabilisation process. This is argued to have significant impact on the formation of a new SSA, which can take one of two forms – a liberal and a regulated SSA. These two varieties will differ on 5 dimensions: (1) the mode of temporary stabilisation of the capital-labour contradiction, (2) the internal capital contradictions, (3) the internal labour contradiction, (4) the state role in the economy and (5) the dominant ideology (ibid, 80-81). States tend to alternate between the two types of SSA, and economic growth is expected to be slower in periods of liberal SSAs (ibid, 87).

### **Japanese Labour Market Structure**

Before applying the W&K's SSA framework to the case of Japan, the following sections outline the key features defining the Japanese labour market (LM) in the 1980s and 2000s in terms of *labour rights* and *wage bargaining*.

**Labour Market in 1980s**

In the post-war era, employment regulation was considered an element of social policy (Pascha 2004, 242) and the system was characterised by a commitment to functional flexibility where workers received company-specific job training enabling them to take on a range of organisational functions (ibid, 232). This type of internal flexibility was supported by features of lifetime employment, a seniority-based wage system, company welfare, cooperation between labour and employers and wage coordination and restraint through enterprise unions (ibid, 237 & Cargill and Sakamoto 2008, 40).

Lifetime employment was provided through contracts to approximately 25% of the workforce but much wider by way of institutionalisation. Seniority-based wage setting and company welfare encouraged company loyalty, strong legal worker protection made layoffs difficult and an implicit understanding existed between workers and employees that firms would pursue other adjustments in times of crisis and only resolve to lay-offs as a last resort (Cargill and Sakamoto 2008, 41). The cooperative relationship between workers and employers also came through in the wage coordination, where annual wage increases were kept below productivity gains and were practically determined for the entire economy by strong enterprise unions (ibid, 43).

**Labour Market in 2000s**

As economic conditions changed drastically in the 1990s, major revisions were made to the Labour Standards Act (LSA), Employment Security Law (ESL) and Temporary Dispatched Work Law (TDWL) towards the turn of the century (Imai 2014, 178). The institutional restructuring was two-pronged; the revisions included both deregulation (for non-regular workers) and reregulation (for regular workers).

While lifetime employment and strong labour protection were maintained for core workers, deregulation increased Japan's numerical flexibility – the ability to hire, fire and transfer – by making it easier for companies to hire non-regulars for longer periods of time. As a result, 50% of firms hired non-regular workers to cut costs in 2003 (Kishi 2009, 45) and the percentage of non-regulars rose to 35% in 2007 (Watanabe 2012, 24). Simultaneously, companies began to

lay off redundant workers rather than reposition them, and wage systems largely shifted towards performance-related pay. Japan thus transferred the labour adjustment costs to non-regulars by offering protection for insiders and liberalisation for outsiders. As deregulation was not accompanied by compensating social protections for non-regulars, LM dualism and inequality rose sharply and flexibility became associated with job insecurity (Song 2014, 24).

### **Comparison across key SSA components**

As shown, the two periods exhibit markedly different features. In order to compare them systematically, I will employ the 5 dimensions from the reconceptualised SSA framework by Wolfson and Kotz. Using this framework, I present a possible explanation of *how* and *why* the LM institutions have changed.

### **Stabilisation of labour-capital contradiction**

An SSA reflects a temporary stabilisation of the class conflict, and the manner in which the contradictions are stabilised will differ for a regulated and a liberal SSA (Wolfson and Kotz 2010, 81). The major institutions characterising the 1980s' LM were settled during the early post-war years (1945-50), where a rise of militant labour movements demanded collective bargaining, democratisation and equal status of white and blue collar workers (Jeong and Aguilera 2008, 16-20). As unions became inevitable, managers, state and workers settled on the formation of moderate enterprise unions that lay the foundations for worker-employer cooperation at the firm level. Employers gradually offered employment protection for regular employees in return for authority over job allocation, training programmes, technology and production (Song 2014, 69). The process of stabilisation through compromise resembles that of a regulated SSA where "*labour has significant power, which capital is compelled to accept*" (Wolfson and Kotz 2010, 81).

The result was a structure of close collaboration between labour and capital, where a decentralised, informal wage-coordination mechanism (the *shunto*) became the main determinant of wage settlement. A few large export-oriented firms and their enterprise unions acted as pattern-setters in wages for the whole economy, and they became equivalent to centralised wage-bargaining

institutions. The unions willingly restrained wage increases in return for employment protection and benefits such as lifetime employment, health care, housing benefits and old-age pension (Song 2014, 36). According to Cargill and Sakamoto (2008) this “*cooperative relationship created a stable economic environment that encouraged investment in new technology and high productivity*” (p. 42), hinting towards the presence of a distinct SSA.

In comparison, following the burst of the asset bubble in 1990, Japan saw significant changes in labour policy-making. With rapid increases in unemployment rates (from 2.1% in 1991 to 5.4% in 2002) and union organisation rates declining to merely 20.7% of workers in 2001, labour unions lost political power vis-à-vis employers (Song 2014, 53 & 35, Watanabe 2012, 26). The policy-making deliberative councils (*shingikai*) with representatives of labour, business and public interests were effectively replaced by centralised deregulation committees in 1994 (Song 2014, 100). These were mainly composed of business representatives with only one labour union representative out of 16 members (*ibid*). Imai (2014) concurrently argues that labour effectively got excluded from the deregulatory reform process by the mid-‘90s. This agrees with Wolfson and Kotz’ (2010) description of stabilisation in a liberal SSA, where capital largely achieves domination over labour and determine the terms of the relation.

However, this did not result in a neoliberal reform with full commitment to numerical flexibility. Employers were interested in maintaining the cooperative industrial relations and benefits of employee loyalty that came through protection of regular employees. Likewise, organised labour mainly represented regular workers, and the costs of deregulation was therefore transferred to non-regular workers with regards to both wages and social protection (Song 2014, 89).

### **Competition between labour**

Distinctive of Japan’s LM is the dual structure that divides labour into regular fulltime workers and non-regular workers who are either part-time, dispatched or temporary employees. Working conditions differ significantly between the two groups. Regular employees are expected to be employed at the same organisation for many years and therefore undergo substantial on-the-job training. They are covered by company welfare, insurance and pension, and

their monthly wages are negotiated through unions and rise with seniority. Non-regular employees on the other hand are not expected to advance internally and therefore receive little formal training and protection. They are hired on short-term contracts where wages are set based on market forces and paid on an hourly basis. This results in a total income equivalent to 54% of that of regular workers. Transition from non-regular to regular employment is rare (Kishi 2009, 47-48 & Jones and Urasawa, 6-11 & Imai 2014, 77-82).

The biggest change in the labour-labour relation is the extent of this LM dualism. In the 1980s the labour force had been a characteristically homogenous group of predominantly white men in regular employment, and the high levels of growth meant that unemployment was very low. Consequently, competition between workers was limited (Song 2014, 30). The reforms of the 1990's increased LM dualism and inequality, as deregulations mainly applied to non-regular labour, while regular employees remained highly protected (Watanabe 2012, 24). In 1987, approximately 82% of workers were regular employees. This number dropped to 67% in 2007. Meanwhile non-regular employment grew from 18% to 33%. (Imai 2014, 66). As a result, working conditions deteriorated for the many now employed as non-regulars as well as for regular workers who were now easier to replace (Watanabe 2015, 429). The labour force became increasingly heterogeneous and thus included a diverse range of interests (Song 2014, 26). Coupled with rising unemployment and falling unionisation this resulted in an increased level of competition within labour. According to Wolfson and Kotz (2010) this could reflect two different SSAs as workers are disposed to be in higher competition with each other in a liberal SSA than a regulated SSA (p. 84).

### **Contradictions within capital**

As with labour-labour relations, Wolfson and Kotz argue that the competition among capitalists will be highest in a liberal SSA (ibid, 83). In Japan, capitalist relations have been characterised by the so-called *keiretsu* intermarket enterprise groups established in the early 1950s. Throughout the 1980s, *keiretsu* functioned as a quasi-organisational structure between companies that facilitated cooperative and stable inter-firm relationships and prevented hostile takeovers. Vertical *keiretsus* facilitated labour lending, job rotation and transfers for companies to deal with labour adjustment and expansions without

lay-offs or hiring (Imai 2014, 56). Horizontal *keiretsus* bound financial institutions together with industrial institutions through cross-shareholding where banks were the biggest owners of cross-held shares. This allowed cheap long-term capital to flow within the group (The Economist 1999). This interdependence of financial and industrial capital aligns with the expectations of a regulated SSA.

In the 2000s, the *keiretsu* system was still dominant, but many argued that it had begun to dismantle. Following corporate bankruptcies and vast amounts of non-performing loans in the 1990s, banks were in need of capital and began selling off company shares. As a result, the stable shareholdings (SS) and cross shareholdings (CS) radically declined from 45% to 33% and 18% to 10% of the overall stock market between 1987 and 2000 (Kuroki 2001, 28). As a result, *keiretsu* ties weakened and labour lending was largely replaced by lay-offs. Financial deregulation also began shifting focus to short-term economic profits, and the unavailability of multiyear financial support from banks forced many firms to cut labour costs and extend non-regular employment (Rosenbluth and Thies 2010, 132). As expected of a liberal SSA, the competition between capital thus became fiercer and financial-industrial ties loosened, directly affecting labour rights negatively.

### **State role in the economy**

The state has affected the Japanese labour market institutions through employment protection legislation (EPL) such as in the LSA and ESL enacted in 1947. These legal acts laid the foundations for the implementation of an 8-hour work day, the establishment of public employment agencies and banning of temporary work (Imai 2014, 94 and Coe 2012, 1099). As labour policy making moved from the 1980s *shingikai* (deliberative councils) to the deregulation committees, Japan saw the elimination of several labour protection laws. With the enactment of the TWL in 1986, temporary work was legalised for 13 occupations. This expanded to 26 in 1996 and was fully legalised except for a few exceptions in 1999 (OECD 2004, 119). A 1997 amendment to the ESL allowed private companies to offer fee-based job-placement services and unpaid overtime was legalised (Watanabe 2015, 418). As a result, according to the OECD index (from 0 to 6) for the overall strictness of employment protection legislation, EPL decreased for both temporary (from 1.69 to 0.88)

and regular (from 1.7 to 1.37) workers from 1985 to 2007 (OECD 2017). This hints towards a less active state in terms of regulation in the 2000s than the 1980s as would be expected in a liberal and regulated SSA.

### **Character of the dominant ideology**

Despite constant dominance of the Liberal Democratic Party from 1953 until today, Japan has seen an ideational shift. The Japanese economy in the post-war era and 1980s was highly politicised and decisions regarding wages and labour rights as well as price levels, how to save jobs and what industries to support were shaped by negotiations rather than market forces or top-down bureaucracy (Katz 1998, 47). The “creative conservatism” of the dominant LDP made them adaptable to political shifts and challenges, and they responded to business pressures in the 1990s with liberalisation. Despite major institutional changes, the reforms that ensued cannot be characterised as across-the-board neoliberal reform as a commitment to the flexible rigidities of lifetime employment was retained for regular workers. However, Watanabe (2015) argues that the most recent administrations (Koizumi and Abe) have had larger shares of neoliberal policy entrepreneurs. Moreover, liberalisation was supported by employers as well as labour unions in the labour policymaking processes in 2003. This suggests a larger ideational shift towards liberal sentiments.

### **Reflection**

Using LM institutions as an indicator of Japan’s social structure of accumulation, it is evident that the 1980s and 2000s exhibited distinctly different characteristics. With strong labour power, a rather homogenous worker group, cooperative labour-capital and capital-capital relations and an active state, the 1980s tend towards a regulated SSA. In comparison, the weakened labour role and increased duality of the LM as well as the breakdown of informal wage coordination and emergence of deregulation committees point towards the emergence of a liberal SSA in the 2000s. However, in order to claim a new SSA, we must look at corporate profit rates.

### **Company profits in 1980s and 2000s**

An SSA is understood as a coherent institutional structure facilitating capitalist profit making (Wolfson & Kotz 2010, 79). Looking at Japanese corporate profits, there is a clear upward-going trend in the post-war era, especially accelerating in the 1980s. Following the burst of

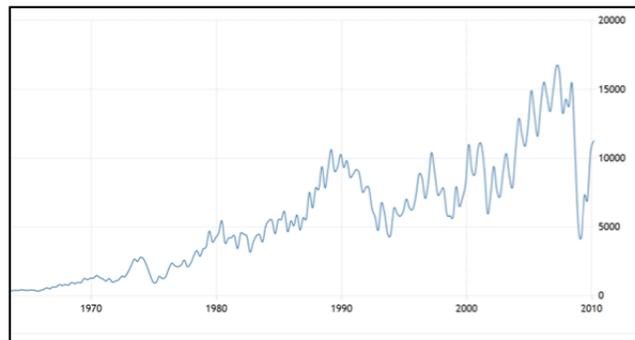


Figure 1 Japan Corporate Profits

Source: [www.tradingeconomics.com](http://www.tradingeconomics.com) | Ministry of Finance Japan

the asset bubble in 1990, corporate profits declined significantly and did not grow steadily for a decade. In the end of the 1990s, rapid growth in profits returned – this time with increased volatility.

This may suggest that the contradictions of capitalism were stable during the 1980s under a regulated accumulation structure. The structure experienced a crisis in the 1990s, which required institutional reconstruction before stabilising anew in the 2000s. Many argue that the asset bubble crisis grew longer as a result of the rigid labour market (Cargill and Sakamoto 2008, 40). In line with SSA theory, this suggests that what used to be considered the strength of the Japanese economy became its own hamartia.

### Theoretical reflections

As the Marxist SSA approach is inherently focused on labour relations and institutions in its analysis of the capitalist system, it has provided a thorough framework to examine the key components of the LM. This would also have been possible using Hall and Soskice's firm-centred approach *Varieties of Capitalism*. VoC focuses on interfirm relations along and between 5 dimensions (Hall and Soskice 2001, 6). Their concept of institutional complementarities could have shed light on the interactions between labour market institutions in the two periods, arguing for a move from a coordinated market economy to a liberal market economy. However, VoC argues for path-dependency and is poor at explaining change (ibid, 64). It is thus better for synchronic comparison across nations. The SSA approach on the other hand is able to look at institutional change and highlight shifting power balances.

However, the SSA analysis is chiefly structural and tend to underestimate agency and the extent to which stabilisation is dependent upon the skill and

luck of actors. The analysis could therefore benefit from accompaniment by Hall's constructivist analysis of policy paradigms to explain how the policy changes are advanced as a result of social learning and the ideas of key actors. The concept of 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> order changes, would shed further light on the nature of and reason for institutional reconstruction in the LM as well as wider ideational changes in the Japanese political economy. The welfare regime and welfare transformation frameworks are ill-suited for this analysis as many elements of the labour market would not be considered part of a welfare regime.

### **Conclusion**

Using the reformulated SSA framework, this paper set out to investigate how and why the labour market institutions in Japan changed from the 1980s to the 2000s and what structural changes it may signify. I found that the highly-regulated labour market of the 1980s was characterised by a commitment to functional flexibility with the majority of workers in regular contracts that provided lifetime employment, company welfare and seniority-based wages settled by a powerful informal wage-coordination mechanism. In the stagnating decade of the 1990s, the rigid labour market complicated economic adjustments and vast deregulation of the *non-regular* labour market began.

Deregulation came as a result of a transformed power balance between labour and capital. The partial dismantling of the keiretsu system increased competition among capital and with it the need to cut labour costs. Declining unionisation, growing unemployment, and the emergence of business-dominated deregulation committees weakened labour who agreed to deregulate the non-regular labour market while maintaining protection for regular employees. Consequently, the labour market structure of the 2000s differed significantly from that of the 1980s. Labour market dualism and inequality increased as non-regular employment expanded alongside performance-based pay, employment protection legislation declined, wage-coordination eroded and labour unions were largely removed from the policy making process. As both the 1980s and the 2000s, saw growing corporate profit rates, these changes to labour market institutions may signify a wider structural change from a regulated to a liberal social structure of accumulation.

## Sources

- Cargill, T. and Sakamoto, T. (2008). *Japan since 1980*. 1st ed. Cambridge: Cambridge University Press.
- Coe, N., Johns, J. and Ward, K. (2011). Transforming the Japanese Labour Market: Deregulation and the Rise of Temporary Staffing. *Regional Studies*, 45(8), pp.1091-1106.
- Da.tradingeconomics.com. (2017). *Japan - Virksomhedernes overskud*. [online] Available at: <http://da.tradingeconomics.com/japan/corporate-profits> [Accessed 21 Apr. 2017].
- Diebolt, C. (2002). Towards a new social structure of accumulation?. *Historical Social Research*, [online] 27(2/3), pp.85-99. Available at: <http://nbn-resolving.de/urn:nbn:de:oi68-ssoar-31260> [Accessed 11 Apr. 2017].
- Hall, P. and Soskice, D. (2001). An Introduction to Varieties of Capitalism. In: P. Hall and D. Soskice, ed., *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, 1st ed. Oxford: Oxford University Press, pp.1-68.
- Imai, J. (2014). *Transformation of Japanese employment relations*. 1st ed. New York: Palgrave Macmillan.
- Jeong, D. and Aguilera, R. (2008). The Evolution of Enterprise Unionism in Japan: A Socio-Political Perspective. *British Journal of Industrial Relations*, 46(1), pp.98-132.
- Jiyeoun, S. (2014). *Inequality in the Workplace: Labor Market Reform in Japan and Korea*. 1st ed. Ithaca: Cornell University Press.
- Katz, R. (1998). The system that soured: Toward a new paradigm to guide Japan policy. *The Washington Quarterly*, 21(4), pp.43-78.
- Kishi, T. (2009). Economic recession and changes in wages of part-time employees in Japan. In: J. Corbett, A. Daly, H. Matsushige and D. Taylor, ed., *Laggards and leaders in labour market reform: comparing Japan and Australia*, 1st ed. Abingdon: Routledge, pp.45-67.
- Kotz, D. (2017). Social Structure of Accumulation Theory, Marxist Theory, and System Transformation. In: *ASSA Convention*. Chicago: Union for Radical Political Economics.
- Kuroki, F. (2001). *The Present Status of Unwinding of Cross-Shareholding — The Fiscal 2000 Survey of Cross-Shareholding*. NLI Research Institute.

- Li, Z. and Qi, H. (2014). Labor Process and the Social Structure of Accumulation in China. *Review of Radical Political Economics*, 46(4), pp.481-488.
- McDonough, T. (2015). Social Structures of Accumulation: A Marxist Comparison of Capitalisms. In: M. Ebenau, I. Bruff and C. May, ed., *New Directions in Comparative Capitalisms Research*, 2nd ed. Palgrave Macmillan UK, pp.118-133.
- OECD (2017), Employment Protection Legislation: Strictness of employment protection legislation: temporary employment, *OECD Employment and Labour Market Statistics* (database). Available at: <http://dx.doi.org/10.1787/data-00319-en> [Accessed on 17 April 2017]
- Pascha, W. (2004). *Systemic change in the Japanese and German economies*. 1st ed. London: Routledge/Curzon.
- Richard Watanabe, H. (2015). Institutional Change Under Neoliberal Pressure: Japanese Regulatory Reforms in Labor and Financial Markets. *Asian Politics & Policy*, 7(3), pp.413-432.
- Rosenbluth, F. and Thies, M. (2010). *Japan transformed: Political Change and Economic Restructuring*. 1st ed. Princeton, N.J.: Princeton University Press, pp.53-155.
- Smith, N. (2013). Japan's Last Chance. *Foreign Affairs*. [online] Available at: <https://www.foreignaffairs.com/articles/japan/2013-11-12/japans-last-chance> [Accessed 20 Apr. 2017].
- The Economist (1999). Japan's keiretsu: Mindset. [online] Available at: <http://www.economist.com/node/252069> [Accessed 20 Apr. 2017].
- The Organisation for Economic Co-operation and Development (OECD) (2004). *OECD Employment Outlook*. 1st ed. OECD, pp.62-123.
- Watanabe, H. (2012). Why and how did Japan finally change its ways? The politics of Japanese labour-market deregulation since the 1990s. *Japan Forum*, 24(1), pp.23-50.
- Wolfson, M. and Kotz, D. (2010). A Reconceptualisation of Social Structure of Accumulation Theory. In: T. McDonough, M. Reich and D. Kotz, ed., *Contemporary Capitalism and its Crises*, 1st ed. Cambridge: Cambridge Books Online.