CORPORATIST GOVERNANCE AND PATH DEPENDENCE IN THE MAKING OF INDUSTRIAL PEACE

A HISTORICAL REVIEW ON JAPANESE CORPORATISM

by

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This thesis analyzes the historical development of the political economy of industrial peace formations in the context of modern Japan by taking the path-dependence perspective as a main analytical framework. The overall pattern of making industrial peace in modern Japan is described as a historical and social construct of path-dependent sequences embedded primarily in economic concessions at the enterprise level. The overriding path of Japanese labor-management relations has been shaped and reshaped centering on micro-corporatism by which labor’s purposive interests on fronts of job security and occupational welfare are reconciled in return for its cooperation with employers at the plant level. The Japanese pattern of corporatist governance can be identified as the ‘trodden path’ that takes shape through the increasing returns to the elongation of company unionism, which has been repeated by other actors of that spontaneously chosen path. Nevertheless, such a trodden trail has been transformed into the ‘branching pathway’ meaning that the path of corporatist governance has been moving beyond micro-corporatism and shaping alternative paths along with the power balance among actors at historical junctures.

At the center of such a peaceful management of industrial relations is the persistent presence of economic concessions characterized by the three modes of Japan’s employment security at the enterprise level: lifetime employment, wages with seniority, and enterprise unionism. Such a conventional three pillars interpretation leaves us the following three puzzling inquiries which have not been hitherto seriously investigated: (i)
what are the social origins of the Japanese corporatism and to what extent did its initial sets influence the later path formation of corporatist governance?; (ii) why and how have increasing returns been emerging constantly in the form of economic concessions which generate enterprise-level stability in labor-management relations?; and (iii) how can we understand the role of labor, other than strong presence of capital or its coalition with government, in maintaining industrial peace? Answering these questions lies in a more comprehensive attempt to uncover the secrecy of Japanese labor-management relations and its underlying mechanism of corporatist governance beyond the traditional blind belief in harmonious and paternalistic relations between labor and capital.

- Readers: Prof. Charles Doran, Prof. Carla Park Freeman, Prof. Eunjung Lim, Prof. Jae-Jung Suh
- Advisor: Prof. Kent E. Calder
Over the seven years that I have been writing this thesis in earnest, my debts for intellectual stimulation and guidance are legion. At the top of the list stands my most sincere gratitude to my academic supervisor, Professor Kent Calder, who taught me how to interpret and describe the political economy facts in a heuristic manner. Without his teaching, patience and encouragement, I could not have completed all this hard work. It was my great honor for me to have such a great mentor at SAIS.

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Chapter 1

INTRODUCTION: THE POINT OF DEPARTURE

1.1 Three Pillars for Explaining the Formation of Industrial Peace in Japan

It is cliché to comment that the constant presence of industrial peace is a necessary condition for economic development in modern capitalist economies, particularly rapid economic growth in developing countries. Labor conflicts between employers and workers, if they were rampant in a society, would hamper economic actors’ efforts to plan and promote economic progresses. Workers’ resistance to labor exploitation leads employers to control them or lay them off, either of which will be impossible in a democratized society. By contrast, labor’s cooperative stance toward capital is prone to facilitate economic performance in a stable and good shape. A second-best solution, therefore, is more likely linked with capital’s (or government’s) strategic concessions to labor in return for its positive participation in forging and maintaining industrial peace. The request of a certain degree of reconciliation between employees and employers is embodied as a form of social contracts, which rest, in many cases, on corporatist consultation arranged by government authorities. Upon due consideration of such labor-management relations, this study undertakes a path-dependence analysis of the changing dynamics of corporatist governance in Japan by employing comparative perspectives that
compare different paths of institutional intermediations where the tripartite actors –
government, employers and workers – would come to an agreement for reconciling their
own interests towards the formation of industrial peace. By staking out the corporatist
theory, it is ultimately aimed to reinforce scholarly efforts to mediate state and society in
the context of Japanese political economy via comparative perspectives which contribute
to seeing the Japanese corporatism as a unique case (Stepan 1978; Koo 1993; Estévez-
Abe 2003).

Over the past two decades, the notion of (neo-) corporatism has been
increasingly acknowledged as a dead theory to explain the political economy of public
governance since the 1980s when the New Right ideology withered trade unionism in
Western Europe and North America (Lash and Urry 1987; Schmitter 1989). Even
proponents of neo-corporatism confessed its theoretical invalidity, ascribing it to the
introduction of the Post-Fordist lean production, neo-liberal deregulation of industrial
relations, and transnational pluralism (Streeck 1991; Streeck and Schmitter 1991).
Contrary to the beliefs embedded in retrenched corporatism, however, corporatism has
been so far endemic to modern liberal democracies (Wiarda 1997; Williamson 2010).
Fashions and styles of government may change but partnerships of various sorts are an
inevitable accomplishment of the pursuance of social and economic goals. Self-regulation
aimed for securing industrial peace has been frequently the result of corporatist bargains
struck between government and organized interest groups concerned where the issues at

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1 A note on terminology is suggested in order to clarify some concepts which otherwise would be easily
confused in this thesis. A nation is the national synthesis of people and country. Society is a nation’s people,
their living conditions and their institutions that work from below. The state is the site and structure of
political power in a nation. A government is the apparatus of rule of the state and its institutions that work
from above. Governance is what is done and produced by a government, as a set of policy consequences
including the process of mobilizing political power and economic resources, and the structure for this
process.
stake are clearly of exceptional national interest (Katzenstein 1985; Gourevitch 1986). In recent years, a large number of European countries have witnessed a wide range of reviving corporatism in the face of neo-liberal globalized pressure. Characteristically, the Irish case demonstrates a successful story of corporatist social pacts contributing to the formation of industrial peace and rapid economic growth, thereby overcoming the chronic ‘Irish disease.’\(^2\) Italy is also another good example of neo-corporatism showing a radical pattern of the tripartite consultation spearheaded by the political alliance between the Italian Confederation of Labor (CGIL) and the coalition government (International Centre for Trade Union Rights 2005). Post-communist Central European countries, notably, launch corporatist arrangements in order to control the social unrest, avoid crises and serve as a middle ground between a weak democracy and a reversion to full-scale communism in the wake of some attempts to implement a liberal-pluralist political order and capitalist economic system (Orenstein and Hale 2001). It is fair to state that corporatist governance is brought back into the frontlines where we discuss how to create industrial peace for enhancing both governability and economic success, and its diversity rooted in the distinctive context of national histories persists to stand against the neo-liberal convergence thesis.

The emergence of such corporatist diversity in contemporary Europe leads us to locate some parallels or variants in Japan, as an exemplar of East Asian countries. Unlike the European cases, however, scholarly interests in exploring and even comparing Japan’s corporatist governance have been, hitherto, limited to a handful of academic attempts for

\(^2\) Given that Ireland was traditionally recognized as fragmented unions and the lack of corporatist infrastructures, it is noteworthy that the Irish model derailed itself from the typical path of Anglo-Saxon uncoordinated liberal market economies by confronting the neo-liberal ideology through establishing social partnerships and centralized wage negotiations (Ó Riain 2000). As a result, the annual rate of economic growth continued to reach 8.7 percent from 1994 to 2000, and the unemployment rate dramatically reduced from 17 percent in 1987 to 4 percent in 2003.
preliminary sketches. Some pioneering works for the Japanese experience, allegedly, claim that the Japanese corporatism has been characterized and accepted as an anomaly named ‘corporatism-without-labor’ which denotes that organized labor was systematically excluded by the strong state (Pempel and Tsunekawa 1979; Wilensky 2002: 89-91). Just as France and perhaps Switzerland demonstrated, Japan in varying ways have developed quasi-public bargaining structures for the interplay of industry, commerce, agriculture, professional groups, and government. These structures permit some coordination and planning of social and economic policies, but they have so far kept labor federations at a distance. However, little discussion on the function of labor unions and its impact on the political economy of Japan’s corporatist experiences has yet found its way into print.

Likewise, some works on South Korea, if any, deal with labor issues in the terrain of corporatist control, articulating that many of labor associations were dependent on the state for their existence and even subordinated to the national priority of economic modernization project in the 1970s and 1980s (Shim-Han 1986; Park 1987). Even post-democratized era necessitated the government initiatives for orchestrating corporatist consultation or unilateral interventions to neutralize the labor demand (Lee, C. H. 1998; Roh 2008: 28-30). The main common feature in the existing accounts for corporatist arrangements of the two countries in East Asia would be to assume the strong state thesis as a key parameter to consider the labor peace formation as a result of the government’s strategic intervention into labor-management relations. Such assumption is prone to sideline some alternative explanations based upon the significance of the other corporatist actors such as organized labor and capital.
Counterfactual views, in this sense, contribute to balance out the state-centered approach. What if the Japanese state – more precisely, bureaucracies – would have been less strategic and overriding architects in fashioning labor conflicts into industrial peace? Particularly, given that social transformations such as the democratic transition motivated societal actors to marshal collective forces against the government’s corporatist control, it can be claimed that state-led efforts to dominate the formation of labor peace would lose ground to a considerable degree under such historical contingencies. Where there is successful governance there are always other contributing actors. As Kent Calder (1993: 4) aptly points out, “such findings of state incapacity would, of course, cast doubt on the persuasiveness of the developmental state arguments, emphasizing the state’s role in economic growth, thus opening the way for alternative interpretations of Japanese state-society relations.” In a similar sense, the very concentration of power which the strong state pursues to win control over society has the perverse effect that it loses control over politics at a given critical juncture of social change (Ringen 1987: 80). This counterfactual approach, thus, is advanced as the methodological underpinning in the thesis, which enables us to do a balanced analysis laying more weights on the tripartite corporatist actors (government, capital and labor) alike, rather than emphasizing the unique role of the state.
Figure 1-1. Labor Strikes and Lockouts in Japan, 1969 – 2008

Source: LABORSTA Internet (laborstat.ilo.org); World Development Indicators (databank.worldbank.org).

Figure 1-2. Labor Strikes and Lockouts in Korea, 1969–2008

Source: LABORSTA Internet (laborstat.ilo.org); World Development Indicators (databank.worldbank.org).
Some simple data on labor issues in postwar Japan and South Korea (hereafter, Korea) help us configure three points of departure for a counterfactual analysis in comparing the labor peace formation of Japan. First, the overall development of labor strikes in figure 1-1 and 1-2 signifies the reverse paths of labor-management relations between Japan and a group of OECD countries. In Japan, the numbers of strikes, workers involved in strikes, and days lost by strikes dramatically diminished right after the oil crisis in the mid-1970s and have, afterwards, reached consistently down to a very small and insignificant size – for example, only 29 strikes in 2005 compared with 287 in Korea. They seem to endorse Japan’s weak labor thesis arguing that the presence of longstanding industrial peace after the oil crisis was due to strategic corporatism set by government or government-business coalitions. A resulting puzzle, then, is why the turbulent era of the labor offensive during nearly two decades after World War II yielded the enduring hegemony of the corporate-centered society. In fact, the labor offensive, reinvigorated by not only democratic reforms of the Allied Occupation authorities but also active supports from the left-wing socialists, organized the Sanbetsu (Japan Council of Industrial Labor Unions) -led “October struggle” of over 100 strikes involving 180,000 workers nationwide in 1946, culminating in the creation of the radical Sōhyō (General Council of Trade Unions of Japan) federation in 1950. In the early postwar years, the power of the working class had been increasingly reinforced to regularize the annual Shunto aimed to improve and renew the conditions of wage labor. Over the ensuing years, however, this radicalism abated as Japan’s democratic polity and capitalist economy grew into more maturity and richness, and it lost vigor severely after the oil crisis. The great annual May Day demonstration, eventually, became a sort of good-natured folk festival (Reischauer
and Jansen 2003: 116). The widespread agreement on the Japanese labor politics exists that state-labor relations has been stable, cooperative, and even tamed for cooperation even if there was the radical expansion of Japan’s postwar civil society in the 1950s (Garon 1987; Kinzley 1991; Gordon 1998). As a result, Japan’s historical path of the industrial peace formation can be identified as a prototype of ‘micro-corporatism’ embedded in the decentralized labor structure consisting of enterprise unions, productivist cooperation at the workplace and privatized welfare for workers (Price 1997; Lee, J. 1998; Wells 2001).

In marked contrast, all three indicators of Korea’s labor strikes in figure 1-2 demonstrate its distinctive pattern of industrial relations different from the Japanese experience. Korea’s civic uprising in June 1987 triggered Chun Doo Hwan’s authoritarian regime to embrace organized labor as a key negotiation partner, thereby undermining the institutional bequest of state corporatism that the past authoritarian governments had wielded long for more than two decades (Buchanan and Nicholls 2003). The explosion of the labor offensive in the wake of the 1987 democratic transition resulted in a sharp increase of labor strikes and lockouts from 276 in 1986 to 3,749 in the following year, and Korea’s average value of workdays lost due to strikes and lockouts per 1,000 employees in the post-democratization years has been ranked as the highest among OECD member countries.3 In November 1995, reformist trade unions marshaled collective forces in launching a leading national labor coalition, Minjunoch’ ong (Korean Confederation of Trade Unions), which galvanized labor movements and workers’

3 The ILO Yearbook of Labor Statistics (2007) reports Korea’s workdays lost due to labor strikes per 1,000 employees has amounted to 83.8 days – almost a quarter of one year – on the average from 1995 to 2005. Japan has lost less than 1 day (0.83) during the same period; Germany 3.1 days; the United Kingdom 23.1 days; Sweden 35.8 days; the United States 36.7 days; France 64.5 days; and Australia 65.3 days.
solidarity, not along with the existing conventional labor federation, *Hanguknoch’ong* (Federation of Korean Trade Unions). Despite the relative decrease in the number of labor strikes in some years of the 1990s (see figure 1-2), the continuing magnitude of the labor offensive and its associated losses of workdays would suffice for the strong labor thesis arguing that the shakiness of labor-management relations has been prevalent enough to hamper the formation of industrial peace in the post-democratization Korea. In response to labor demands, governments launched a series of the tripartite neo-corporatist commissions to appease the labor offensive in the macro-social dimension. Even with the encompassing corporatist efforts at the national level, labor peace used to be easily broken down when the government’s labor policies regressed to conservative trajectories (Lee, Chung, and Jang 2008). All movements in this period, therefore, seem to negate the traditional notion of Korea’s strong statism equipped with corporatist control (Lee 1998; Koo 2001). Accordingly, we are called upon to investigate the following questions: is it really true that the draconian intervention of the strong state in Korea failed to counterbalance the assertiveness of labor demands in the post-democratized society, rather leading to the prolongation of the labor offensive and the instability of industrial peace?; and why has the Korean path of corporatist arrangements evolved around ‘macro-corporatism’ based upon the direct dialogue of labor and government authorities, which is posited as an opposite pattern of the Japanese path of micro-corporatism?

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4 As a good example for such a conservative regression, the Kim Young Sam government, which was widely acknowledged as the first civilian-led democratic administration in the Korean political history, rushed the controversial new labor laws through the National Assembly in December 1996. These controversial labor laws were designed to give employers more power to lay off workers and hire temporary workers and scabs, while disallowing the formation of competing unions in a single workplace for another few years. In January 1997, the general strike mobilized three million workers and shut down production lines in the automobiles, shipbuilding, and other major industries in order to protest newly passed labor laws. The deadlock of labor peace in the year of 1997 continued until the breakout of the financial crisis in the end of 1997 and the following Tripartite Committee in the beginning of 1998.
Throughout such a simple comparison between Japan and Korea, therefore, we now know the fact that the formation of industrial peace has been historically and distinctively constructed in different settings of power balance among industrial actors. By juxtaposing the moving frontiers of corporatist governance in accordance with historical contingencies, the study advances the *path-dependence* approach as a critical method in order to uncover and compare the distinctive processes of the industrial peace formation in Japan. Indeed, we must put recent event into long-run historical perspective in order to understand continuities and new developments (Chase-Dunn 1998). Tracing historical sequences of the changing contours of industrial peace, also, calls for some serious engagement with historical institutionalism in the sense that historical institutionalism contributes to constructing important analytic bridges between state-centered and society-centered analyses by looking at the institutional arrangements that structure relations between the two and working at the level of middle-ranged theory (Hall 1986; Thelen and Steinmo 1992; Mahoney and Rueschemeyer 2003). Identifying the institutional adaptations with corporatist governance in this study, therefore, we explore why Japan, which underwent the strong presence of state corporatism in the period of modern nation building, took a distinctive path of institutional transformations for labor peace in the post-democratization years and how the state and social actors have differently shaped the power balance under corporatist arrangements at a given historical juncture.

To this end, more attention should be paid to not only initial conditions of corporatist arrangements during the period of state corporatism in Japan but also its institutional legacies transforming the subsequent paths of corporatist intermediations.
(Mahoney 2000; Pierson 2000). Without full accounts for the social origin of corporatism and its impacts on the ensuing institutional changes, we can hardly define Japan’s historical path of industrial peace as an enterprise-based cooperative micro-corporatism. As Ralf Dahrendorf (1959) pinpoints, institutional engagements in labor politics has never ceased to be filtered and reproduced by the social reflection of state-society relations, so that corporatist institutions are bound to change according to different landscapes of social relations. For the purpose of comparing the historical development of the industrial peace formation, the historiography of corporatist governance in Japan is divided into the three critical junctures: (1) state-building (Japan’s prewar years since the Meiji Restoration); (2) democratization (Japan’s democratic reforms by the Allied Occupation and its conservative rollback); and (3) economic crisis (Japan’s economic bubbles in the late 1980s).

The second point of analytical departure involves a reconsideration of existing propositions on Japan’s labor politics: weak labor thesis vis-à-vis strong government intervention. This intervention questions the empirical verification of the argument that the Japanese state has successfully incorporated labor unions into the cooperative framework of industrial relations, whereas Japan’s civil society has been tolerating the growing strength of government intervention even in the post-democratized society. On this matter, trade union density data present an interpretation different from the conventional understanding of labor power in Japan (see table 1-1).\(^5\) The simple fact that the Japanese labor demonstrates higher percentage in the density of trade union

\(^5\) According to ILO, the social dialogue indicator, which demonstrates all types of negotiation, consultation or simply the exchange of information between representatives of governments, employers, and workers on issues of common interest, consists of the two main sources – trade union density and collective bargaining coverage – on the part of labor power as a social partner. Thus, the week labor thesis of Japan can be simply called into question by these two criteria (Hayter and Stoevska 2011: 1-2).
memberships than the average rate of OECD

Table 1-1. Union Members and Trade Union Density

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<tr>
<td></td>
<td>Density</td>
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<td>33.1</td>
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<td>28.4</td>
<td>26.4</td>
<td>25.6</td>
<td>25.8</td>
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<td>16,360</td>
<td>16,258</td>
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<td>14,715</td>
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</tr>
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<td>14.3</td>
<td>12.9</td>
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<td>11.3</td>
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</tr>
<tr>
<td>OEDC countries</td>
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<td>23.3</td>
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<td>18.8</td>
<td>17.6</td>
<td>17.5</td>
<td>17.1</td>
</tr>
</tbody>
</table>

Sources: OECD StatExtracts (http://stats.oecd.org).

countries prompts us to call the traditionally-ingrained image of the Japanese labor
movement as cooperative unions subservient to management into question: how Japan’s
unions with higher membership density than the majority of OECD countries have been
enduringly perceived to present lower degree of the labor offensive. It becomes even
more problematic if we recognize that table 1-1 shows the trade union density has been in
slow downturn over time since 1990 in mostly all OECD countries, even in Norway
which is seen as a good exemplar of the social democratic welfare regime and worker-friendly society. The fact that low degree of the trade union density is not a serious problem to Japan only but a world-wide phenomenon brings Japan’s week labor thesis back to the discussion for how to revise it. Indeed, both union members and trade union density have been continuously on the decline against the common sense that the strong labor movement is naturally accompanied with an increasing number of union members supporting the assertive move of organized labor. Although the ratio of union density is not sufficient to describe the whole picture of the power structure of labor politics, it would not be insufficient to pose a counterfactual question about the actual power of organized labor in Japan.6

On top of it, a group of scholars address counterarguments against Japan’s weak labor thesis with the specific emphasis on the Japanese labor’s role in promoting institutional reforms in both the political and economic arenas (McNamara 1996; Shinoda 1997; Kume 1998; Carlile 2006). They stress Japanese labor’s intensified participation within the political economy by its expansion from company-wide to national policymaking – characteristically, the launching of the Rengo (Japanese Trade Union Confederation) consolidating nearly two-thirds of organized labor under one peak organization. It is also claimed that the weak labor thesis loses its analytical value as it fails to explain how weak labor unions in postwar Japan gained more welfare benefits than they were expected to achieve and how corporatist arrangements without full participation of labor produced labor-favored working conditions such as lifetime

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6 Along with trade union density, the collective bargaining coverage rate is seen as one of significant indicators to show the power of workers in that it measures the number of workers in employment whose pay and conditions of employment is determined by one or more collective agreement(s) as a proportion of all those who are eligible to conclude a collective agreement (Hayter and Stoevska 2011: 2).
employment and seniority-based wages. In a nutshell, the absence of militancy and the low incidence of labor strikes in the labor movement cannot be exclusive yardsticks to judge the degree of labor competitiveness with capital or the state. Nevertheless, it is true that the decentralized enterprise-based micro-corporatism still prevails against the creeping neo-corporatism in Japanese society, as Dennis McNamara (1996) aptly defines the Japanese corporatism as corporatism with labor but without the codetermination and proactive representation enjoyed by organized labor in Germany, Austria, and Sweden.

There are also a good deal of arguments of the state’s social engineering designed to influence popular attitudes and social behaviors of labor unions by institutional cooptation and legal enforcement (Garon 1987; Schwartz 1998; Pekkanen 2007). Given that no one pattern of interest exchange can adequately depict the variety of contention and cooperation marking the present and past of Japanese capitalism, the actual power of organized labor should be relatively interpreted in lines with the complexity of its relations with governments and employers.

As for the second observation, the study focuses on the transversal relations anchored in triangular interactions among government, capital and labor at a given historical juncture in which the power balance of triangular actors has been shifting and differently equilibrated for the industrial peace formation. Along with the historical

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7 Likewise, some Korean scholars warn that any attempts to identify the outward militancy of the labor movement with an important component of the strong labor thesis, without due considerations of other related factors affecting industrial relations, might be apt to fall into the trap of over-determination (Song 1999; Im 1999; Chung 2006; Roh 2008; Kim 2008). On the inside of the Korean labor movement, the disunity and dissonant of the two labor peak associations – Minjunoch’ong and Hanguknoch’ong – impeded the search for collective actions of organized labor in an integrated fashion, and the low density of union membership degenerated the possibilities of mobilizing workers at local workplaces against employment policies. Even in the external dimension of the labor movement, the strong labor thesis turns out to be invalid as a consequence of its inability to explain why strong labor unions, which were expected to receive economic benefits from management or government, ironically came up with a low level of redistributive benefits and job protection in reality. In this vein, the emergence of tripartite institutions in the post-democratized society could be reconsidered an example of the state’s strategic concessions, rather than an evidence of the fall of state intervention in industrial relations.
development of corporatist governance in Japan, comprehensive discussions about the roles and relations of three actors in the making of industrial peace at each historical stage are required to clarify the process of the industrial peace formation by connecting the transversal relations with given historical contingencies. Such a horizontal approach contributes to locating analytical weights in all three actors on an equal basis, thereby averting the existing state-centric perspectives and promoting counterfactual explanations. In consequence, the magnitude of labor forces is assessed in relative terms by its reactions – cooperation or challenge – to employers’ employment policies as well as the government’s institutional arrangements for corporatist negotiations. The role and power of management are evaluated in the context of factory regimes according to different modes of production dynamics and the structure of corporate governance, all of which influence the pattern of labor-management relations at workplaces (Burawoy 1985; Sato 1997). The capacity of government in the process of corporatist governance is referred as to its institutional adaptations to control or accommodate organized labor for sustaining industrial peace by inventing or reformulating social policies, labor-related law enactments, and policy guidelines (Woodiwiss 1992; Yi 2007). Exploring the mutual construction of individual functions and relational interactions among all three actors, therefore, helps figure out which actor is relatively salient in shaping corporatist arrangements at a particular landscape of historical conditions (Kim et al. 2011; Ringen et al. 2011). In this regard, the study is going to detect and compare which actor produces relatively stronger impacts than others at a specific historical juncture, with the particular reference to the correlation between stronger actors and the pattern of corporatist governance – namely, Japan’s micro-corporatism in which major actors are found in the
interactions of labor and management at enterprise levels, whereas the Japanese
government plays a significant role in engineering micro-corporatism as a social
consensus on labor-management relations.

The third and most important element in the comparative historical analysis of the
industrial peace formation is social processes subject to the notion of increasing returns
in path-dependent sequences, which contributes to combining historical and transversal
approaches in a systematic way. Generally, the concept of increasing returns, originally
coined by economists, is described as self-reinforcing or positive feedback processes
which keep the existing institutions being preserved and nurtured (Arthur 1994; David
2007). According to Paul Pierson (2000: 251), increasing return dynamics capture two
key elements central to most analyses using path dependence: (1) to uncover how the
costs of switching from one alternative to another will increase markedly over time in
certain social and historical contexts; and (2) to draw attention to issues of timing and
sequence, distinguishing formative moments or conjunctures from the periods that
reinforce divergent paths. Given that an increasing return process engages in not only a
question of what happens but also of when it happens, its temporality is aptly fit for our
efforts to marry historical institutionalist approach with the power structure of triangular
actors in the process of corporatist arrangements.

In this study, issues of increasing returns mostly correspond with institutional
lags of corporatist governance, a matter of the stability of the institutions by which
sources of variability, which if they go far enough, would change the structure of
corporatist arrangements, can be neutralized and remain constant. At the heart of
increasing returns, therefore, are policy concessions that governments or government-
capital coalitions adopt in exchange for workers’ supports to continue the corporatist systems set in motion by the previous conjuncture. Organized labor, on the other hand, uses its market power – the power to strike and disrupt production lines – in order to extract more concessions from employers or government. In other words, increasing returns are supposed to expand further as corporatist actors do opt for ‘voice’, rather than ‘exit’ (Hirschman 1970). Consequently, the anatomy of policy concessions generating increasing return dynamics is critical in understanding the diverging eventualities of corporatism in compared societies. For a comparative analysis, it is suggested that concessions can be divided into two courses of social contracts: (1) ‘economic concessions’ whose emphasis is typically placed upon the redistributive benefits such as occupational welfare, job security and wage-related programs; and (2) ‘political concessions’ which can be identified with state recognition of labor’s nationwide collective bargaining processes and its participation in public-policy forums.

Although the two types of concessions, in practice, have complex linkages and overlaps within themselves, economic concessions are relatively more applicable to Japan. Given that lifetime employment, seniority-based wage system, and welfare benefits from enterprise unionism have, since the 1960s, become de rigueur for any account of Japanese labor relations, economic concessions founded on these three elements of micro-corporatism have cultivated increasing returns securing path-dependent sequences in the economic dimension. Indeed, the conservative political actors in postwar Japan, by utilizing the redistributive benefits in exchange for peaceful cooperation of labor and management at the plant level, pursued an accommodative strategy rewarding labor moderation and weakening those who adhered to a militant line
(Dore 1973; Garon and Mochizuki 1993; Taira 1993). This does not necessarily exclude the possibility of political concessions, so that we need to beware how the prevalence of economic concessions has been reconciled with embryonic demands for political concessions in Japan’s industrial modernization. All in all, the clarification of policy concessions by which increasing returns are distinctively produced and modified helps determine the directions and characteristics of path dependent sequences in the making of industrial peace in Japan.\(^8\)

To sum up, we will engage in extensive historical analysis in order to verify and compare the different kinds of institutional development in keeping up stable relations between labor and management, with particular attention to the three pillars of analytical tool kits – path-dependence based upon historical institutionalism; transversal relations of the state, labor, and capital; and increasing return dynamics. In particular, we will consider not only diverging concessions tripartite actors have undertaken but also institutional influences of the adopted concession on the changing paths of corporatist governance. For it is only by situating our analysis in two different modes of increasing returns processes that we can truly understand the sources of both political stability and political change in the historical development of the industrial peace formation in modern Japan.

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\(^8\) In contrast, the rise and fall of the Korean tripartite committees, designed for neo-corporatist solutions at the national level, lead us to bracket Korea into a good case illustrating the relational macro-corporatist dynamics between political concessions and increasing returns. The labor offensive in the wake of democratization in the late 1980s have called for governments to institutionalize national centers dealing with long-term job stability and labor’s co-participation in the processes of interest intermediations rather than short-term economic gains and enterprise-level resentments (Chung 2006; Roh 2008). In this vein, the formation of industrial peace in Korea has been depending on the degree of political concessions at the national level, locating increasing return dynamics on a series of macro-corporatist arrangements governments utilized as political concessions. One thing we need to keep in mind at this point is the fact that the common pattern of labor-management relations in Korea has firmly remained as enterprise unionism just like Japan, but the stream of Korean workers’ organized demands for macro-corporatist negotiation at the national level became much stronger and more remarkably politicized than that of Japan (Im 1998: 114-116; Roh 2008: 417).
1.2. Gaps in Existing Explanations

In general, a comparative analysis of the similarities and differences in the historical patterns of interest intermediation in dealing with labor in East Asian countries is relatively unexploited topic. There have only been a few attempts made at comparing the national bargaining arrangements among major interest groups and governments (McNamara 1984, 1999). The plethora of the past scholarly works in East Asian studies – particularly, Japanese studies – has filled themselves with the essentials related to the ‘developmental state’ thesis: the close strategic relationship between the bureaucracies and big business (Johnson 1982; Kim 1997; Samuels 1987); the state’s embedded autonomy in industrial transformation (Wade 1990; Evans 1995; Kohli 2004); and meritocratic systems relevant to economic growth (Amsden 1989; Kim 1995). Yet no clear alternative paradigm for understanding the functioning of the Japanese corporatist arrangements, or relating it to the formation of labor peace has decisively emerged. Even with the dearth of previous research accumulation, we can collect some heuristic lessons from four different explanations, most of which help examining the Japanese corporatism in comparative perspectives. A broad range of existing analytical constructs, including cultural analysis, statist thesis, power coalition theories, and corporatist thesis, can help us to rediscover the non-dogmatic acceptability and theoretical stretching of corporatism whose analytical focus is mainly placed on specific institutions and their relationship to the broader society and historical events in which they are embedded (Streeck 2006).
1.2.1. Cultural Thesis

Theories of Japanese exceptionalism characterize the presence of labor peace as the nations’ unique and culturally-derived product to cooperate because individuals and small groups are willing to sacrifice their interests for the sake of the larger group or the state-level agencies. Eugene Kaplan (1972: 10) popularizes a vision of organic culture in the Japanese business-government relationship, with the emphasis on “a propensity, which all Japanese share, for a consensual approach to harmonizing differences”. In a more sophisticated way, Chie Nakane (1972) asserts that the primary basis of group organization in Japan is not common attribute acquired by birth or achievement, but position in a locational or institutional frame. It can be therefore assumed that an individual in Japanese society is identified less by family and occupation than by hometown and employer, and within these groups, members are tied vertically to one another in a hierarchical order. Accordingly, the low level of welfare expenditure and the maintenance of labor cooperation without serious distributive compensation could be justified by adopting this cultural approach to Japanese society.

However, what this approach ignores is that the anti-individualism of cultural values in Japan does not preclude conflicts existing within organized interest groups, among government agencies, and between the two (Koike 1988). Such static accounts for labor peace are bound to undermine not only the possibilities of historical changes in the power balance between the state and civil society, but also the emergence of new institutional arrangements to accommodate new demands from social forces. Characteristically, the cultural approach loses explanatory grounds for the upsurge of
civic organizations and its following power shift in state-labor relations. As Peter Hall (1986: 9) points out, organizational behavior is often molded due less to considerations of culture than to the ways in which specific institutional settings condition individual perceptions and expectations.

1.2.2. Statist Thesis

Given the widespread consent that Japan is thought to have the archetypal strong state, there never is a genuine need to ‘bring the state back in’ to the statist paradigm of Japanese studies. In his seminal work MITI and the Japanese Miracle, Chalmers Johnson (1982) develops a model of bureaucratic dominance, especially the Ministry of International Trade and Industry (MITI), in administering public policies in postwar Japan, by highlighting dirigiste state intervention producing superior economic results. Johnson’s ‘developmental state’ thesis is firmly rooted in statist assumptions in the sense of the state as a decisive, unified rational actor with powerful capabilities to transform the national economy, regard political parties as ineffective actors, and utilize the private sector as a secondary but complementary role in the economic development process. Such a statist model further develops with the notion that Japan’s elite bureaucracy made major decisions, controlled the national budgetary finance, and became the source of all major policy innovations for superior economic performance (Johnson 1999). In this regard, the moderate formation of labor politics during the period of rapid economic development in Japan should be interpreted as a result of the state’s rational regulation by holding off special interest claimants who might have deflected the state from its main
developmental priorities. Policy priorities between democracy and development could be also determined and institutionalized only by state initiatives.

The statist thesis, however, has encountered critiques against its overemphasis on the preeminence of bureaucratic agencies within the strong state. Kent Calder (1993) and Daniel Okimoto (1989) oppose the assumption of MITI preeminence in Japan’s economic policy formation by not only stressing proactive private-sector institutions such as industrial groups, industrial banks, and trading companies, but also revealing the fact that MITI lacked operating responsibility for many important sectors of the Japanese economy such as banks, security companies, shipbuilding, and telecommunication. Contending that business is not always induced to accept government goals, Richard Samuels (1987) perceives a process of ‘reciprocal consent’ in which Japanese firms acknowledge state jurisdiction over markets in return for their continuing control over those markets. By the same token, Eun-Mee Kim (1997) discovers the symbiotic alliance system between the bureaucracy and big business throughout the period of rapid economic development in Korea, even at the peak of state power in the Yushin regime. More importantly, the weakest point of the statist paradigm in terms of labor politics can be found in its Achilles' heel of incapability to explain the rise of autonomous organized labor and its assertive challenge against the state’s governability for labor peace. It is also notable that the properties of statism are socially constructed in the course of mutual penetration between organized labor advocating democratic reforms and the government advancing economic commitments (Koo 1993).
1.2.3. Power Coalition Thesis

One of influential accounts for postwar Japanese politics postulates that the bureaucracy has shared power with the Liberal Democratic Party (LDP) and big business to form an interdependent triumvirate, that is to say, a power elite coalition that effectively controls most policymaking (Yanaga 1968; Boyd 1987). This power coalition explanation can be renamed a ‘triad’ model in that conservative politicians depend on the campaign contributions of business, business people depend on the administrative rulings of the bureaucracy, and bureaucrats depend on the legislative authority of the ruling party. However, this model dismisses interest groups other than big business – to a lesser extent, farmers, small-medium sized enterprises, and organized labor – as inconsequential, whereas it defines the scope of participation in policymaking more broadly than the statist model. The triad model, thus, is bound to face the same impediment as the statist paradigm in the sense that the triangular coalition approach is simply unable to deal with the emergence of organized labor and its participation in the consultation process of the tripartite commissions at the national level.

However, the ruling power coalition model does not hold true to other countries which experienced the politicization of grassroot movements for the democratization. The formation of power coalition, under this contextual circumstance, is systematically entrenched in civil society by trade unions, university students and religious leaders in the wake of the democratic transition, rather than in political society through power elite coalition. Indeed, there are a plethora of cases demonstrating the strategic civic alliance among grassroot movements that plays a significant role in opening the road towards
democratization. This kind of power coalition thesis appears to join the theoretical front of ‘power resource mobilization’ which social solidarity of the working class facilitates the social policy development and democratic reforms of the welfare state (Korpi 1978; Baldwin 1992). However, considering the fact that there is no clear evidence showing the actual improvement of welfare policies for redistributive benefits even in the post-democratized society, the power coalition theory does not suffice to resolve the paradox of labor peace in Japan and other countries. Rather, it can be fairly assumed that the state systematically utilized coalition strategies to co-opt or neutralize the rising power anchored in social solidarity by setting up institutional channels for interest intermediations (Lee and Kim 2015).

1.2.4. Corporatist Thesis

The final litmus test of the theoretical solution for the labor peace formation in Japan can be given to the corporatist model because it provides an analytical tool to investigate the interactive formation of interest intermediations between organized interest groups and the governmental agencies. Traditionally, John Maynard Keynes can be seen as the forerunner of modern attempts to use corporatism as a policy instrument to stabilize and make markets more manageable. Corporatism has been long used as an alternative institutional device to integrate conflicting social actors into a compromised synthesis that neither the liberal-pluralist nor the Marxian approaches were fully adequate to produce (Wiarda 1997: 5-9). The wide application of corporatist explanations includes the incorporation of interest groups into the decision-making machinery of the modern
state; social pacts to guarantee labor peace, involving unions, management, and
government regulators; and public policy and social change more generally in which
government specifies which groups has to be brought in the making of the policy and its
implementation. Despite some retrenchment of corporatism in the face of Neo-liberal
challenges since the 1980s, its high degree of adaptability to altered conditions enables us
to make out varying anomalies of corporatist arrangements in many cases of modern
states. Such variants of corporatism are also found in the cases of Japan.

While labor politics in prewar Japan has been widely regarded as a typical case
of state corporatism, corporatist accounts for the political economy in postwar Japan have
been limited to the identification of Japan as an Asian variant of the orthodox corporatism
in Western Europe (Schmitter 1989: 59-69; Schwartz 1998: 36). Although T. J. Pempel’s
position (1987) has shifted with the times, he and Keiichi Tsunekawa (1979) made an
influential argument that the ruling coalition, in the face of economic threats from abroad,
has always incorporated labor at the plant level but managed to exclude it at the national
level. Against such characterization of Japanese political economy, a number of scholars
give greater weight to the inclusionary aspects of Japanese labor relations. Particularly,
Ikuo Kume (1998) and Yutaka Tsuijinaka (1993) both point to an emerging corporatist
framework in which labor was entitled to participate in policymaking in coordination
with the government and capital, with the respect to the post-1975 period when pragmatic
economic unionism engaged in intensifying contact with the ruling conservatives. It can
be argued that the integration of labor within the enterprise and the coordination among
unions serve as a transitional combination of the longstanding micro-corporatism and the
emerging macro-corporatist challenge in postwar Japan. However, it can be also true that
the lack of substantial corporatist arrangements at the national level prevents the Japanese organized labor from engaging the government’s policymaking processes in a more proactive and effective fashion.⁹

To track different dynamics of how to construct and maintain the cooperative labor in Japan, the following three additional characteristics of corporatism need to be methodically reviewed in order to not only fill the gaps of the existing accounts for corporatist governance in comparative perspectives, but also enhance the analytical utilities of corporatist model in the context of the labor peace development.

1.3. Comparative Corporatism: Three Principal Focuses

First of all, the theoretical utility of corporatism is associated with its comparability (Williamson 2010). The term ‘corporatism’ has become widely stretched concept, with wide variations according to its uses by different contexts.¹⁰ Despite the lack of any

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⁹ Like the Japanese corporatism, the literature on Korean corporatism is relatively thin, and most of it has focused on, by and large, two historical periods: the formation of state corporatism during the Park authoritarian rule in the 1970s; and dramatic changes in state-labor relations after the democratic transition of 1987. The state’s absolute power in the years of the Yushin system created a number of pro-government voluntary associations which were deliberately asked to work for mass mobilization, Saemaul movement, aiming at social and economic development in the area of agrarian communities (Moore 1985; Burmeister 1999), with specific attention to how to control local communities by corporatist intervention (Choi 1984; Shim-Han 1986). Meanwhile, the advent of societal corporatism in the wake of the democratic transition triggered academia and pundits to highlight the structural limits of corporatist control in the past authoritarian developmental period and reinterpret the role of the state in a new political condition of democratized society (Park 1987; Buchanan and Nicholls 2003; Roh 2008). The expansion of labor peak associations such as Minjunoch’ong, together with the outbreak of the financial crisis in 1997, resulted in institutionalizing the political arena for the tripartite consultation as an independent standing organ – typically, Nosajŏngwiwŏnhoe (Economic and Social Development Commission) (Ch’oe 2001). Such a spectacle development of corporatist governance in modern Korea notwithstanding, actual interactions among actors behind corporatist efforts for peaceful industrial relations have not been fully examined, particularly in the sense of what mechanisms generated self-reinforcing feedback to facilitate the emergence of macro-corporatist governance.

¹⁰ Characteristically, the political economies of the European corporatist regimes and those of the rapidly developing economies of East Asia are clearly different in many aspects. While both groups of countries have embraced one or another version of corporatism, the corporatism of the industrialized democracies in
generally accepted definition of corporatism\textsuperscript{11}, its basic idea has evolved on the three common grounds shared by three key scholars in the study of corporatism – Philippe C. Schmitter (1979: 9), Peter Katzenstein (1985: 32), and Alan Cawson (1993: 114-116): (1) the development of centralized interest organizations; (2) the facilitation of associations’ access to the government and the growth of institutionalized linkages between government agencies and such interest organizations; and (3) the tripartite enhancement of the social partnership of organized labor and business, which is designed to regulate conflicts between these groups, in coordination with government policy. On top of these three elements, a considerable variety of corporatism has been newly introduced and accumulated as a common organizational strategy for structuring interest representation, but most questions related to corporatism start from them and converge on three related elements in the end. This complex definition must be unpacked by adopting some comparisons. The notion of ‘comparative corporatism’ provides strong but flexible tools for analyzing the distinctiveness of a corporatist pattern of the political economy through the apposition of some cases with affluent similarities (McNamara 1999: 9-10).

Breaking away from the trodden path of modernization theory, corporatism suggests and

\textsuperscript{11}Characteristically, Gerhard Lehbruch (1982: 16-23) categorizes the varieties of corporatism in Western European countries with four cumulative scales: (i) pluralism; (ii) weak corporatism; (iii) medium corporatism; and (iv) strong corporatism. By focusing different time spans of corporatism, Howard Wiarda (1997: 70-76) addresses the four forms of corporatism which are characterized by a progression or evolution from one form to the next: (i) historical corporatism; (ii) ideological corporatism; (iii) manifest corporatism; and (iv) modern neo-corporatism. Meanwhile, Harold Wilensky (2002: 85-101) demonstrates three types of corporatism according to national bargaining arrangements among major interest groups and the government: (i) democratic corporatism; (ii) corporatism-without-labor; and (iii) least-corporatism.
legitimizes a comparative perspective that allows for a variety of roads to and versions of democratic governance, some of them quite compatible with the healthy survival of institutions. Therefore, comparative corporatism can be described as a heuristic device equipped with the open conceptual architecture and the non-dogmatic, flexible use of core concepts of corporatism ranging from traditional state corporatism to modern neo-corporatism (Streeck 2006: 19).

Secondly, another utility of comparative corporatism lies in its theoretical capacity to integrate conflicting approaches into a compromised synthesis. Corporatism, on the one hand, advocates a strong, guiding, directing state but not one that is totalitarian at all. On the other, corporatism is normally characterized by regulated interest groups, but neither by total control as in Marxism-Leninism nor by completely unregulated interest-group struggle of liberal-pluralism. Under corporatism, a strong but not totalitarian state controls or licenses organized interest groups that are not only limited in number and functions but also part of the state in the name of social partnerships. In other words, corporatism seeks to eliminate conflict by basing social integration around core interest groupings seen to be the basis of civil society (Alexander 2006: 395-408). The primary value of corporatism, therefore, represents the enhancement of the state’s governability on labor and business whereby its aim is to deal with problems of industrial peace. In consequence, operational benefits from strategic corporatism enable policymakers in the government to control the balance between economic development and political democracy in a very integrated manner (Manor 1998). It would be extended

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12 In spite of its theoretical effectiveness in explaining state intervention in industrial relations, corporatism has been often accused of being a right-wing, conservative, and elite-directed way of dealing with the great pressure brought on by industrialization and modernization, and indeed corporatism has often provided a basis for conservative and authoritarian politics (Malloy 1974).
to the Foucauldian ‘governmentality’, the way governments try to produce the citizen best suited to fulfill those governments’ policies by the organized practices (rationalities, techniques and institutions) through which subjects are governed (Foucault 1991; Lemke 2002). It would be also extended to the notion of ‘corporatism as crisis management’ that corporatist institutional experiments emerge out of crises, where elements of discontinuity are salient, and the state and organized interest groups both transform one another to manage such external contingencies (Stepan 1978; Calder 1988). In this regard, the two critical junctures – the democratic transition and the economic crisis – in this study will provide historical conditions crucial to compare different patterns of corporatist governance in dealing with external factors and maintaining industrial peace in Japan.

The third and ultimate element of corporatist governance to be considered in this study is ‘state-society relations’ which are of importance to shape the pattern of the corporatist intermediation at a given historical juncture (Evans 1997; Horowitz 1999; Migdal 2001; Kim 2008b). Dialectic attempts to describe the relational pattern between the state and society, even in a broader term, help us understanding different trajectories of the corporatist development in Japan. While a symbiotic relationship between the state and civil society is more likely to generate a cooperative synergistic form of corporatism, an oppositional relationship triggers interest groups in civil society to reject the state’s policies. Indeed, agreed solutions regarding interest intermediations are crystallized by the social consensus between the state and organized interest groups, varying from political concessions to economic well-being. In the course of the corporatist intermediation, the state seeks to structure, limit, or license organized interest groups via
a way of controlling and locking them under the name of social partnership, thereby structuring relations between civil society and public authority in a polity (Wassenberg 1982; Goldthorpe 1984). A shift in the magnitude of organized labor results in transforming the tripartite pattern of interest negotiation, and the state, in turn, would design new institutional incentives to neutralize labor or embrace capital. The alternative but integrative perspective of comparative corporatism can be, therefore, recognized as a way of describing the distinctive patterns of state-society relations in Japan.
Chapter 2

RELATING HISTORY AND LABOR POLITICS:

ANALYTICAL FRAMEWORKS

Anchored in the features of comparative corporatism, the research strategy for analyzing the making of industrial peace in Japan will be developed in the form of how to relate transversal interactions between corporatist actors to the historical paths of their dependence on institutional arrangements set in different time zones and historical environments. As briefly discussed in the foregoing section, the main key in this framework lies in the intersection of path-dependence sequences and complementarities among stakeholders in labor politics at varying historical conditions, at which we can appreciate different dynamics of increasing returns either sustaining or shifting the existing modes of industrial relations.

2.1. HISTORICAL RELATIONS OF CORPORATIST GOVERNANCE:

PATH-DEPENDENT OR PATH-SHAPING

This thesis stands against a just static comparison of corporatist mechanisms in Japan at a particularly given stage of history, which has hitherto been used as a main analytical
frame. It is, rather, aimed to track the historical processes of the making of industrial peace with the stress on relational interactions of actors concerned. As E. P. Thompson (1963) articulates in his seminal book *The Making of the English Working Class*, the class formation and its associated industrial relations entail the notion of historical relationship. The peaceful or contentious labor-management relationship can be decisively formed by the characteristics of interactions between some actors in society who articulate the identity of their interests as common grounds for themselves in given historical backdrops. In this sense, forging industrial peace needs to be understood and detected as an altered outgrowth of historical relationship, rather than as a static thing. Without a historical scheme to explore the origins of modern industrial relations, we easily come to distort the dynamics of postwar class relations in Japan, and end up relying on a caricature of the industrial relations system to justify our views. Accordingly, the first constituent of the analytical framework is the search for historical continuities and changes in corporatist governance, with the particular reference to varying sequences of the path formation of industrial peace.

Such a historical evolution of the industrial peace formation is linked to institutional legacies of corporatist arrangements under domestic and external pressures for reformative changes in industrial relations (Rhodes 2001; Mahoney 2001). Any versions of corporatism share a common organizational strategy for dealing with the dual problems of domestic division and international weakness: what Katzenstein (1985: 34) calls a sense of ‘international vulnerability’ that openness to and dependence on world markets establish a “compelling need for consensus” which transformed conflict among the main social forces into compensatory bargaining to minimize the political costs of
economic adjustment. The importance of compensatory mechanisms to contend with external contingencies, in a similar sense, endorses Calder’s argument that there must be some evidences of compensation politics behind Japan’s shift from confrontational to cooperative relations of labor politics, reflecting the redistributive concessions of Japan’s postwar public policy (Calder 1988; Taira 1993). Such compensation politics, therefore, encompasses increasing return dynamics – whether they would be economic or political concessions – generating self-reinforcing reactions to reproduce the existing institutions in an enduring fashion.

The concept of path dependence usually refers to the remarkable durability of past institutional choices; it is encapsulated in the proposition that current choices are constrained by the heritage of institutions accumulated from the past. Path dependence stems from the presence of numerous organizations whose survival depends on the perpetuation of those past institutions and which hence will devote resources to preventing any alteration that threatens their survival (North 2005: 51). Path dependence occurs because transaction costs – the costs of defining, measuring, and enforcing a transaction – associated with institutional change are nonrival and typically serve as impediments to rapid or jolting change (Williamson 1994; North and Wallis 1986; Buchanan and Tullock 1962). High transaction costs of understanding the implications of the rules, monitoring government officials, and organizing political support for the alternatives prevent clearly superior alternative rules from being implemented.

Calder (1988: 492) presents crisis management as “a parsimonious explanation for both major policy change and for political stability in postwar Japan. It argues that the principal engine for domestic, non-industrial policy innovation in Japan, particularly in its redistributive dimensions, is crisis, rather than the routine lobbying of corporatist interest groups (either business federations or labor unions) or even the strategic planning of the state.” In this regard, it is suggested that ‘crisis and compensation dynamics’ which rests on the cyclic turbulence of postwar politics in Japan and its entailing compensation policies for nontrade sectors such as welfare, agriculture, and small business.
According to Douglass North (2005: 14)’s recent formulation of institutional change, institutions arise because individuals face an environment with multiple sources of uncertainty, and they have a “ubiquitous drive to make their environment more predictable.” In response to environmentally pressing shocks, the institutional structure reflects the accumulated beliefs of the society over time, and change in the institutional framework is usually an incremental process reflecting the constraints that the past imposes on the present and the future. Institutional change can move forward only when it is convinced enough that existing institutions have become inefficient; there is a better alternative that can be implemented in a timely form; and decision-makers will be able to convince constituents of these points that a new institutional reform is necessarily carried out. However, institutional change in most cases turns out to be path-dependent and not directly taking a new path for institutional change, mainly because such conditions for institutional change cannot be easily set in motion or prepared in practices without large-scaled societal transformations (Kim 2008a).

Increasing return processes begin with historical circumstances at the initial stage, which determine the direction and intensity of path dependence in the following stage (Tilly 1988; Goldstone 1998). As figure 2-1 demonstrates, antecedent conditions play a significant role in defining available policy options and shaping initial contours of industrial relations. The identification of path dependence therefore involves tracing a given outcome back to a particular set of historical events. This initial stage comes under the period of state corporatism common to Japan and other late economic developers in East Asia, even though time zones are differently set – for instance, Japan’s prewar years, particularly military-based war governments in the 1930s and the mid-1940s; both
Korea’s and Taiwan’s authoritarian developmental states in the 1960s and 1970s.

Common features of state corporatism in East Asian countries are encapsulated by the strong state’s penetration into society through a top-down and authoritarian system of
political relations. They include a system of *dirigisme* in the economic sphere, a set of social relations dominated by patron-client relations by which interest groups are all integrated into the state, and a political culture emphasizing discipline, order, and hierarchical society (Levy 2006). Not only the formation of industrial peace but its overarching direction and initial conditions depended highly upon the degree of the state’s direct engagement in labor, regardless of the degree of labor’s reactions. It, therefore, is fair to state that state corporatism in prewar years of Japan would be disqualified from presenting good examples of either economic or political concessions, which the state could have employed in order to incorporate organized interest groups into a classical frame of the Western corporatism aimed for cooperative consultations.

Nevertheless, some embryonic roots of policy concessions, which turned into established institutions promoting industrial peace in the subsequent phases, were found during the period of state corporatism in Japan. For example, the Japanese lifetime employment system traces its origins to corporate welfarism that emerged during the interwar period as a set of human resources management practices on the firm-specific basis (Hazama 1978; Gordon 1985; Moriguchi 2006). This initial set of labor-management relations at the plant level developed further into the corporate culture of enterprise unionism in postwar Japan. It is, thus, of great importance to look into such antecedent conditions at the early stage of state-building in order to validate the latent sources of increasing returns for the industrial peace formation in the ensuing timeframe. Such initial traces of concessions notwithstanding, the obvious fact that state intervention overrode social actors in this period abated the possibility for us to witness any further institutionalized forms of political or economic concessions at initial stages (Wade 1990: 36).
In due course of time, however, state corporatism at the initial stage was bound to encounter some critical junctures at which a positive feedback to support the maintenance of state corporatism would be foiled or altered by the new factors emerging from the original conditions nurtured at the very initial stage. After all, it can be claimed that state corporatism results in producing *path-breaking sequences* where the current path formed by the initial conditions is going to modify itself in the face of new historical circumstances.

Critical junctures breaking the path of preceding corporatism correspond to the two historical events in this study: first, democratic reforms of labor relations; second, the economic crisis. They provide the processes of selecting a particular policy option and negating other multiple alternatives, leading to a qualitative transition in the path of industrial peace (see figure 2-1). If the chosen option turns out to endure counteractions against it, increasing returns to that policy option grow up to institutionalize a specific mode of corporatist governance which would, in turn, reproduce increasing returns stabilizing corporatist arrangements furthermore. Such processes can be defined as *path dependence* setting in motion “self-reinforcing sequences characterized by the formation and long-term reproduction of a given institutional pattern” (Mahoney 2000: 508). It is assumed that path-dependent sequences mainly pertain to the making of industrial peace in postwar Japan. In the democratic transition initiated by the Allied Occupation authorities and retarded by the return of conservative polity, the core option reacting to the labor offensive boiled down to economic concessions at the enterprise level, such as lifetime employment, enterprise-based fringe benefits, and seniority-based wages. Despite assertive demands from the labor federations like *Sōhyō* in the early 1950s,
'welfare corporatism’ arguing for labor’s voice and benefits at the enterprise level, but without reference to the more salient functions of federation at the national level became the main current in Japanese society (Dore 1973). Against the assumption that economic crises would bring about the radical restructuring of labor-management relations, the Oil crisis in the mid-1970s and economic bubbles in the early 1990s remained another critical juncture to confirm that industrial crisis management converged into the protection of economic concessions, albeit the oscillation of its intensity, in order to continue the presence of industrial peace (Koike 1988; Moriguchi 2006). In this process, increasing returns have largely rested on the policy option of economic concessions because the social costs of switching from economic concessions to another alternative such as political concessions would be escalated in those given historical conditions. By doing so, the state and interest groups acquired learning effects and coordination effects, both of which prompted them to learn how to coordinate their interests for producing a positive feedback on economic benefits at the enterprise level. As a result, the final outcome in this case comes up with the formation of industrial peace along with path-dependence sequences.

However, path-dependence processes explain only a part of increasing returns which are mostly based on a positive feedback, by arguing that public policies lock decision makers into particular policy trajectories, due to the nature of pre-established

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14 According to Brian Arthur (1994: 112), four features of a certain social context generate increasing returns: large set-up or fixed costs; learning effects; coordination effects; and adaptive expectations. Among these four features, I like to emphasize learning effects and coordination effects as key factors to determine the direction of increasing returns. The definition of learning effects is that “knowledge gained in the operation of complex systems also leads to higher returns from continuing use.” Coordination effects “occur when the benefits an individual receives from a particular activity increase as others adopt the same option.” With repetition, individuals learn how to use products more effectively, and how to channel the others’ options into a coordinated outcome. If these two effects were well prepared and produced by social actors, increasing returns would remain in a positive way to generate path-dependence sequences; otherwise, they would be in a different direction – mostly, path-shaping sequences in this thesis.
policies. A negative (or dissonant) feedback to increasing return dynamics remains unanswered in the conception of path dependence. In this regard, Kathleen Thelen (2003) cautions that the historical determinism in path-dependent sequences ignores the constant renegotiation of institutional configurations, and claims that institutions undergo continuing moments of institutional evolution wherein key actors renegotiate the configuration and purpose of institutions. In an attempt to escape this false dilemma, we focus on \textit{path-shaping sequences} in a path-dependent context. The notion of path-shaping implies that “social forces can intervene in current conjunctures and actively re-articulate them so that new trajectories become possible” (Nielsen, Jessop, and Hausner 1995: 6). However, such new trajectories should be interpreted in the context of path-dependent sequences because each modification within the sequence is in part a reaction to antecedent events and dependent on prior steps. While path-dependency implies that the institutional legacies limit the current options and possibilities in institutional reform, the analysis of ‘path-shaping in a path-dependent context’ requires a further specification of the different aspects of the complex interaction between corporatist actors for path-dependency and ones for path-shaping (Jessop 1990; Torfing 1999: 389-390).\footnote{In a similar sense, James Mahoney (2000: 509) regards path-shaping sequences as ‘reactive sequences’ of path-dependency. He also emphasizes the path-dependent nature of reactive sequences by stating that “the final event in the sequence is typically the outcome under investigation, and the overall chain of events can be seen as a path leading up to this outcome.” Thus, although opposed to representing simply a sequence of causally connected events, a reactive sequence does follow a specifically path-dependent trajectory.} The sequence whose sources for increasing returns deviate from positive feedbacks, therefore, brings about the dislocation of the old stable path but its bounce back to path-dependency with a certain degree of disruption and modification. By focusing on the dynamic interactions among corporatist actors involved in industrial peace in the Japanese case, the study will analyze the possibility and ways of modifying the taken-for-grantedness of
path-dependence sequences, which shows complicated scenes of modifying increasing returns from old institutions to new ones. Where increasing return dynamics operate with negative feedbacks, they become resistant to deliver a positive feedback and provide inconstant and unstable sequences that eventually result in the path shift to a new direction. It is mainly because all actors participating in corporatist consultation processes well recognize that concessions designed to maintain industrial peace will be easily annulled by altered interests of more influential actors, and the other players, thereby, are able to pursue and expand their own interests through the renewal or repetition of concessions.

As a consequence, it can be fairly stated that the historical evolution of corporatist governance in Japan is portrayed by a distinctive pattern of the industrial peace formation: tracing path-shaping sequences within an isomorphic trajectory of path-dependency. A deeper investigation of internal mechanisms surrounding the dynamics of the path formation, however, requires further elaborating cross-sector relations of corporatist actors at each historical juncture. Indeed, historical temporalities in the making of industrial peace cannot be fully understood without consideration of the structural components and their interactions, which constitute the historical conditions.

2.2. STRUCTURAL RELATIONS OF CORPORATIST GOVERNANCE

The second part of the analytical framework for dissecting the divergence of path-dependency in Japan is based upon the power structure of corporatist actors within the politics of labor relations, which determines who takes the initiative in opting for policy
concessions creating a degree of stability and mutual cooperation. The scale and density of interdependence among corporatist actors depend on their power relations embedded in the structural effects of a given social and historical setting (Gourevitch and Shinn 2005). The crucial determinant in identifying the path of corporatism, in this regard, involves the following questions: which actor becomes more powerful than the others to control the balance of power and decide policy options relevant for increasing returns?; how and to what degree do the public and private actors lock each other into an institutionalized harmony at either enterprise or national level? The ways to deal with these questions in this study are two-folded: (1) sectoral relations of corporatist governance (the unit of analysis); and (2) three different levels of corporatist arrangements (level of analysis).

2.2.1. Sectoral Relations of Corporatist Governance

The dominant units of analysis regarding sectoral relations of corporatist governance are, by and large, limited to the three actors of the state, management and labor.

The State

The first component of sectoral relations is the network of political authorities and its functions over the processes of industrial peace. The concept of the state, as Alfred Stepan (1978: xii) articulates, needs to be regarded as something more than government, in that “it is the continuous administrative, legal, bureaucratic and coercive systems that attempt to structure relations between civil society and public authority in a polity.”
Viewed as a mechanism of domination and control, the state utilizes legislative measures and bureaucratic procedures for public policies, which give power to the state to shape the general guidance of industrial relations and respond to the demands made by organized interest groups. Governments often afford favorable treatment to a particular group or groups, sometimes to the extent of constituting them as the sole legitimate spokesman of the movement concerned – the politics of cooptation (Cawson 1982). The magnitude of state power, which has been hitherto considered the most single important factor for the formation of industrial peace in Japan, will be reassessed by looking into the following governmental apparatuses.

1. **Social policy and Labor Laws**  Governments often cope with labor-management relations by designing and implementing public policies related to occupational welfare, most of which may contribute to not only reducing public welfare expenditure but also assigning welfare provisions to voluntary cooperation between employers and employees at the workplace (Deyo 1989; Yi 2007). In prewar Japan, such ‘off-loading’ feature of social policy was first embodied in the form of mutual aid societies that were established in the private sector by the government and business leaders in order to protect employees from injuries, sickness and disabilities (Lewis 1990; Shinakawa 2007: 63). Even in the postwar years, the Japanese government showed no serious interest in overcoming paternalistic and fragmented social security system caused by patchwork efforts in the prewar period (Estévez-Abe 2003). It is suggested that Japan’s successive governments have adopted the retrenchment social policy and made curbing the national burden ratio one of their
fundamental policy goals (Takegawa 2005). Along with welfare policies pertinent to industrial relations, the enactment of laws concerning labor issues is another critical method that Japanese governments mobilize for the purpose of social engineering to guide workers and employers to a cooperative relationship (Garon 1997). Legislative measures also enable the state to play a significant role in recognizing workers’ demands in the legal forms, thereby softening the labor offensive even in a reluctant way (Woodiwiss 1992). Given that state initiatives in the processes of labor laws in responding to challenges from organized labor would be considered a determinant of estimating the extent of state powers, comparing the features of labor laws before and after the democratic transition or the economic crisis will be useful to understand the discrepancies of intensities of state intervention in the making of industrial peace. Accordingly, the development of social policy and labor laws is an important factor to discern to what degree the state has intervened into the formation of labor-management relations.

2. **Tripartite consultation arrangements** The very direct and powerful corporatist apparatus governments can marshal when promoting labor peace in the face of the labor offensive must be the establishment of tripartite intermediation schemes at the national level. In general, Japanese governments mostly tend to set in motion corporatist advisory institutions where governmental agencies preside and guide consultation councils (*shingikai*) attached to ministries, aiming to encourage participants in those councils to produce industrial harmony on the basis of advice and consent (Kinzley 1991; Schwartz 1998). It can be therefore claimed that one of
the most significant point of differentiating Japanese corporatist intermediations would be linked with the degree of the state’s ensuring the independence of tripartite bodies which validate political concessions to labor in the sense of its direct involvement in the national-level negotiation processes. The level and strength of central meetings for corporatist negotiations should be a critical determinant of the role of the state in the making of industrial peace.

**Management**

The second element of corporatist sectoral relations stems from the function of management in dealing with labor issues at the workplace. The previous scholarships on corporatism in Japan have paid less concrete attention to internal dynamics of the employer strategies, mainly by focusing on not only direct interactions between the state and labor but strategic coalitions between the state and capital (Pempel and Tsunekawa 1979; McNamara 1996). As a result, most observations have easily missed the link of employer’s influences and labor’s responsiveness to them in the dimension of internal structures of management. However, a group of scholars emphasize the role of employers and union coordination at the industry and inter-sectoral levels (Sato 1997; Moriguchi 2006) and leading advocates of *Varieties of Capitalism* highlight the important contribution of firm-based strategies in responding to the external pressure of neo-liberal globalization (Hall and Soskice 2001). A deep look at internal aspects of labor-management relations at the enterprise level helps us understand why the Japanese corporatism is more likely to create economic concessions at a given historical condition. To this end, we will review the influence of management by examining two key factors as
follows:

1. **The Structure of Corporate Governance**  As Peter Gourevitch and James Shinn (2005) articulate, the issue of corporate governance is essentially related to power and responsibility in the sense that it is the structure of the intersection between power and accountability within each firm which determines who allocates money, who allocates jobs, and who takes the blame for corruption, misuse of funds, or poor performance. Corporate governance – the authority structure of a firm – shapes the efficiency of firms, the stability of employment, and the claims of the rich and the poor, but its divergence, arising from labor politics, orientation to shareholder value, and market conditions, can largely determine the ownership structure of large firms and its influences on labor-management relations within firms (Roe 2003; Friedman and Miles 2006). For instance, Korea illustrates a dramatic transformation of corporate governance system from oligarchic dominance by owner-blockholders in early industrialization whose characteristics were drawn on close connections to authoritarian political power to a considerable concentration of shareholder protections after the 1997 financial crisis when a coalition of societal groups previously excluded from political power – labor unions, smaller businesses, and civil servants – was able to demand accountability from firms and the government. Given that the reform of corporate governance in the post-crisis period was conducted by an alliance of inside blockholders, outside investors, and hired managers, workers were merely bystanders to this transformative process of corporate governance. The Korean case is named ‘class conflict model’ as owners
and managers dominate workers within large firms so that workers seek for direct negotiations with government. By contrast, Japan demonstrates a classic example of ‘cross-class coalitions’ that managers and workers join together in a broad bargain providing job security, and regularity; workers cede authority to managers in exchange for stable jobs and income increases; and compromise between employers and employees is sustained by consensual institutions at the enterprise level. Ronald Dore (1990) endorses Japan’s stakeholder-based compromise by describing Japan as ‘a nation made for corporatism.’ In consequence, the structure of corporate governance is a critical determinant of the management power in forming the level and intensity of corporatist negotiations and the related increasing returns with policy concessions.

2. **Production Management** Michael Burawoy (1985) posits a theory of ‘relations in production’, which involves the proposition that specific production regimes at the plant level shape not only the nature of work organization but also the class conflicts and compromises in industrial relations. Such production politics may be divided largely into two modes of production system: the Fordist and the lean production system. The necessity of mass consumption and stable labor-capitalist relations gave rise to the Fordist system that regulates industrial development, socializes a part of the expense of reproducing labor power, and creates a framework for hegemonic

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16 In this vein, Andrew Gordon (1985: 411) concludes that “workers did become part of the organization to a far greater extent than before or during World War II. Although managers rejected their program of control, participation, contractually secure jobs, and explicit livelihood wages, they conceded the status of ‘employee,’ the respect and security of a monthly wage, and the right to use all facilities to an expanding pool of workers. And they worked out an implicit system of job security and livelihood wages acceptable to most employees.”

46
labor-capital relations. The lean production system, however, had a profound impact on the organization of work in mass production industries by introducing its labor-friendly components, such as flexible production, skill formation, and extensive employee involvement through quality circles (Price 1997: 21-22). Accordingly, the role of Japanese management, which is considered a pioneer designing and carrying out the lean production system, reflects the employer influence to induce workers’ voluntary cooperation within firms, thereby undermining labor capacity to remove its employment conditions from the competitive market and employer control (Kenney and Florida 1993). In some other countries such as Korea, Fordism’s strong legacies in production politics have remained as the overriding mode of the production system regulating employees at workplaces and its assembly line embedded in the Fordist continuous flow operations, requiring a standardized, repetitive cycle of movements over which labor had almost no control. Hence, Japan’s shift from the Fordist system to the flexible production lines articulates the role of management in devising how to incorporate workers into a cooperative participation at the plant level. In short, the politics of production management, indeed, provides us with an efficient tool to comprehend how far employers are able to stabilize and control labor-management relations. It also has a close relatedness to which concessions – economic or political – would be promoted within each firm by employers’ initiatives for production

17 Despite its apparent success, lean production has had its critics by claiming that workers no longer turn to the union for help or by contesting the humanist claims of lean production (Berggren 1992; Dohse, Jurgens, and Malsch, 1985). For example, a strike at Toyota Automobile factories in 1946 gave workers lifetime employment and seniority-based wages. These rights supposedly made Toyota workers full members of the enterprise and went far beyond what most unions had been able to negotiate for mass-production employees in the West. However, the introduction of the lean production system with each workplace discouraged workers to be mobilized by unionism movements as previously in the Fordist system, now that job stability and participations in the product lines have been guaranteed by the flexible production system (Womack, Jones and Roos 1990: 54).
management.

**Labor**

The final unit of analysis on sectoral relations of corporatist governance corresponds to the varying degree of labor power. No account of contemporary labor-management relations would be worth its salt if it could not document and analyze the role of workers in the making of industrial peace (Song 1991; Sato 1997). Since the role of labor has been relatively sidelined in the previous explanations, it is a necessary step to explore the role of the labor movement in the process of institutional change in hard times or critical historical junctures. In so doing, we can reconsider the conventional understanding of Japan’s weak labor thesis by revamping the positions of labor in its corporatist relations to the state at the macro-level and management at the micro-level. In particular, more attention should be paid to causal links between to what degree union workers are unified for engaging labor issues and what kind of concessions emerges as a logical outgrowth of corporatist arrangements aimed to embrace labor. We will focus on the following two factors as key clues for outlining the role of labor.

1. **Labor coalitions** Efforts to define the notion of labor coalitions are, more often than not, politically powerful but weakly conceptualized and increasingly contested. Most of all, Japan’s weak labor thesis, which has been long taken for granted, should be necessarily reassessed due to the fact that Japan’s unionization rate has been consistently higher than the average rate of OECD countries, as we discussed earlier (see table 1-1). However, only a low density of union members of other OECD
countries at the workplace does not suffice to deny the militancy of their organized labor now that labor strikes and lockouts in some countries such as France and Korea have been prevailing over Japan, particularly when political or economic crises took place. To map out the degree of labor power in compared countries, the study will mark the structural formation of labor coalitions by dividing them into two distinctive patterns – *internal* coalitions within firms or *external* coalitions beyond firms. It can be, in this relative sense, suggested that Japan shows the strength of internal labor coalitions which are mainly grounded upon enterprise unionism within each firm (Seifert 1988), whereas Korea presents the decisive prowess of cross-union alliances which are formed among trade unions at the national or industrial level despite some conflicts between labor federations (Roh 2008). A close observation on the different loci where labor coalitions come to be constituted, therefore, enables us to detect the causalities of Japan’s economic concessions in response to union power at the enterprise level, rather than at the industrial or national level (Benson 1994). The possibilities of external coalitions with other unions, eventually, come up with the extended and integrated mode of individual unions which mostly corresponds to labor federations and their interactions with governments and political parties.

2. **Enterprise-as-Community** Moreover, the magnitude of labor coalitions is closely connected with the degree of community-based harmonization between employers and employees at the plant level. When the “firm-as-community” awareness becomes rife in firms, employees would be given equal footing with managers and shareholders so that enterprise proceeds are fairly divided and workers do not feel
pressures to look for allies from the outside of firms (Dore 1987; Gordon 1985; Akira 2003). In this enabling environment, workers are more likely to opt for voice than for exit (Hirschman 1970). Japanese enterprise-based communities at workplaces have been considered a driving force of the labor-management harmony in the sense that “for Japanese workers the enterprise union was the only, and most natural, form of organization because their basic common interest as industrial workers had been formulated within an individual enterprise” (Shimada and Shirai 1978: 258). By contrast, workplaces rooted in lack of worker-friendly environments would seldom experience the positive intimacy of labor-management relations at the enterprise level. The state’s strong regulation of labor unions in favor of employers for the lack of community-driven harmonization at the factory level would result in the high potential for contentious labor movement against the structure of state monism (Song 1991; Kim and Lim 1999). Thus, the study will focus on the relatedness of community-based interpretations to the formation of labor coalitions at varying historical junctures of both countries.

2.2.2. Levels of Corporatism: Micro-, Macro-, and Meso-corporatism

The orthodox-patterned relationship between corporatist associations and the state within democratic or societal corporatism comprises a process of mutual exchange, whereby bargains on annual wages or other benefits are struck in which favorable state policies are

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18 Nevertheless, the Japanese enterprise-as-community model has often encountered severe critiques that Japanese unions have not generated the strength necessary to represent workers’ demands properly or to protect their interests, and they have failed to secure the workers’ due share of the gains from economic growth.
traded for compliance and enforcement of those policies by the associations. It is not a relationship in which the state directs the interest groups, or one in which state agencies are captured by organized interests. The state is not powerful enough to formulate and implement policy without the agreement of the partners. These kinds of strategic exchanges may be described as ‘power dependence’ relations, to emphasize that both organized interest groups and the state enjoy some measure of autonomy, although within a set of constraints (Crouch and Dore 1990). Such power dependence would be embodied as the form of social contracts at different levels. As Cawson and others (1985) categorized, the aforementioned sectoral relations crystallize into reality at three different levels of corporatist arrangements in accordance with power relations between tripartite actors at a given historical condition.

**Micro-corporatism**

In fact, much less discussed, and often not acknowledged is the possibility of corporatism at the micro-level. The reason for this is that interest conflicts may be resolved at the micro-level of the firm without the necessity of formal tripartite interest organizations. Micro-corporatism facilitates mostly interest representation of two producer groups, labor and capital, but the two contending classes do not participate in formal politics and the state thus does not directly mediate or coordinate bargaining relationships between the two classes (Wells 2001; Lee, J.1998). As table 2-1 summarizes, interest representation

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19 Cawson (1985: 16) suggests a different pattern of micro-corporatism with the particular reference to the French example where state agencies have a considerable degree of autonomy and bargaining power, but pursue specific policy aims by negotiating planning agreements with individual firms rather than with interest associations in the case of macro-corporatism. The French government in the late 1980s committed this form of micro-intervention, in which firms have signed non-legally-enforceable contracts which bind them to specific investment and employment strategies in exchange for economic assistance from the state. However, this type of corporatist intervention should be categorized as one of institutional patterns of ‘state
Table 2-1. A Typology of Corporatist Governance

<table>
<thead>
<tr>
<th></th>
<th>Macro-corporatism</th>
<th>Micro-corporatism</th>
<th>Meso-corporatism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mechanism</strong></td>
<td>Worker solidarity based on peak associations and social democratic rule</td>
<td>Institutional arrangements of productivist cooperation at the workplace</td>
<td>Multilevel sets of negotiations</td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td>Welfare state with egalitarian goals</td>
<td>Economic redistribution with privatized welfare</td>
<td>The welfare mix</td>
</tr>
<tr>
<td><strong>Concessions for negotiations</strong></td>
<td>Political concessions</td>
<td>Economic concessions</td>
<td>Mixed concessions</td>
</tr>
<tr>
<td><strong>Political implications</strong></td>
<td>Restricted capital’s power in the political arena (the labor market)</td>
<td>Unrestricted capital’s power in the political arena (the labor market)</td>
<td>Various levels of restrictions on capital’s power</td>
</tr>
<tr>
<td><strong>Prototypes</strong></td>
<td>Sweden 1930s-1970s</td>
<td>Japan 1960 – present</td>
<td>Germany, UK in the 1980s</td>
</tr>
</tbody>
</table>
| **Japan**            | Advisory  

chūkishin (1947 – present) rōshi kyōgi kaigi  


Industry federations (1960s – 2000s) |

Source: Cawson (1985); Wells (2001); Streeck (2006).

In micro-corporatism takes place exclusively at the enterprise level, where the productivist cooperative interests of workers coincide with micro-rationalities of...
employers who aim to facilitate the capital accumulation process via the provision of
privatized welfare within the enterprise. Such a cooperative relationship between labor
and capital is sustained primarily by economic concessions including job security and
welfare fringe benefits, which would, in turn, play a critical role in creating increasing
returns to self-reinforcing sequences of corporatist concertation at the factory level.

Corporatist arrangements at the micro-level call for neither strategic capacity of labor and
capital for class-wide collective action nor the state’s capacity for autonomous economic
policy-making regarding labor-management relations at the enterprise level. Instead,
representative institutional arrangements of labor-management cooperation at the point of
production, such as works councils and enterprise unions, contribute to generating terms
and effects of micro-level negotiations. Nevertheless, it is necessary to note that the state
does not remain as just a bystander; rather state agencies implicitly or explicitly regulate
and promote industrial peace at the micro-level by adapting social engineering to
historical contingencies (Garon 1997).

Japan’s labor-management cooperation at the enterprise level has been touted as
a successful case of micro-corporatism, and the enterprise unionism persists as the core
unit of industrial relations and the basis of neo-corporatism in postwar Japan. As a classic
element, rōshi kyōgi kaigi (Joint Consultation Committee: JCC) has served as a channel
for management to inform and consult with labor on both current conditions and future
plans such as collective bargaining over wages and other benefits (Park 1984: 153-67).
Japan’s enterprise unions were already the dominant form of unionism in 1964 (93.6
percent of all unions) and these proportions have not varied much over time. However,
some critiques present the counterargument that JCCs in postwar Japan were a pale
imitation of the former management councils and given the overall relation of forces between labor and management, they did not resemble the forms of codetermination that emerged in continental Europe in the postwar period (McNamara 1996).\textsuperscript{20} One of focal points in this thesis is to explore the relatively consistent presence of micro-corporatism in Japan and the root cause of its consistency by taking stock of economic concessions, corporate governance, and labor politics in making enterprise unionism sustainable.

**Macro-corporatism**

The concept of macro-corporatism was built up during the 1950s and 1960s in Western Europe (especially, Scandinavian countries), when organized labor traded industrial peace for a governmental commitment to full employment and an increased share of political power in the process of national consultations (Cawson 1985: 10). Characteristically, it refers to a neo-corporatist model of interest politics, which aims to provide centralized social contracts via organizational arrangements between the state and representatives of organized interest groups. Such arrangements have indeed proved resilient in hard times, requiring a high level of worker solidarity based on peak associations, bringing about the emergence of the welfare state with universal goals, and restricting capital’s power in the arena of corporatist governance (see table 2-1). The participation of organized interests in policy-making at the macro-level helps avoid social conflicts and disruption since a web

\textsuperscript{20} Korea has also undergone a considerable degree of micro-corporatism from the Park Chung Hee regime, centering around Nosahyŏbŭihoe (Labor-Management Council: LMC) which was forcibly established within each firm by state agencies. Prior to the democratic transition in the late 1980s, LMCs played a significant role as an extended arm of state control in the sense that labor-management conflicts at the enterprise level should be arbitrated only through LMCs, rather than any third actors from the outside (Song 1991: 147). Since democratization, most large enterprises in Korea relinquished repressive labor control practices and installed various welfare-generating mechanisms to induce workers’ consent. Despite the emergence of pragmatic economic unionism in some enterprises, the landscape of Korea’s micro-corporatism in general is characterized by a rocky road full of organizational impediments in embracing it as the main basis of industrial relations (Wilkinson 1994).
of dense and durable bargaining relationships invokes common strategic imperatives of self-restraint and compromise. At the heart of macro-corporatism is thus the process converging on political concessions, in which organized labor is allowed to take part in macro-level negotiations as a political partner. In addition, the successful operation of macro-corporatism requires its national autonomy designed to make labor representatives behave independently of state intervention. There are by and large two modes of macro-corporatist arrangements in accordance with the varying degree of its national autonomy against state engagement: (1) corporatist advisory body tainted with government; and (2) independent standing tripartite body based on consensus (Lewis 1990). These matters are important from the point of view of deciding what is really negotiable and what not; where the power really lies and where it may be shared.

Throughout the Japanese history of industrial relations, the growing role of independent tripartite organs at the macro-level is evident in the establishment of the sanrōkon (Tripartite Roundtable Conference on Industry and Labor Issues). The Ministry of Labor (MOL)’s political efforts for launching moderate national centers from the early 1970s resulted in a wide dialogue on national policies at the tripartite sanrōkon, which finally enabled all tripartite members to overcome two oil shocks and advance national competitiveness (Kume 1988; Taira and Levine 1985; McNamara 1996). However, the 1980s and the 1990s witnessed the weakening of sanrōkon while the rapid appreciation of the yen prompted outflows of foreign investment, industrial production hollowed out, and unemployment grew. Sanrōkon has eventually been phased out as its meetings have been suspended since the late 1990s, and accelerated employment instability in the 1990s the national actors to bring social consultation back to enterprise-based negotiations or
outside _sanrōkon_ (Lim 2004). The _rego_, established in November 1989, also is still lacking in capacity of organizing a national corporatist center in cooperation with the MOL, and the _keidanren_, even though it provides a new national platform for promotion of labor issues at the national level (Tsujinaka 1993; Shinoda 1997). It is fair to assume that Japan’s centralized corporatist consultation based on consensus failed to reproduce increasing returns for making itself self-reinforcing, thereby derailing path sequences from the track of macro-corporatism. However, corporatist advisory bodies – for example, _chūkishin_ (Central Labor Standards Council) – have consistently remained as major macro-level corporatist arrangements that Japanese governments utilized from the late 1940s (Schwartz 1998: 127-47). Based on the politics of advice and consent, _Chūkishin_, affiliated also to the MOL, has been operated as just an advisory body which is often tainted with state agencies and is emplaced in which like-minded appointees are unarguably sharing the business of governing.  

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21 _Chūkishin_ can be categorized as one of macro-corporatist institutions, despite its advisory nature, given that it is “a tripartite commission composed of public-interest, employer, and worker representatives. This kind of tripartism is characteristic of MOL _shingikai_, and all councilors at the time of this narrative were basically satisfied with it” (Schwartz 1998: 127).

22 Korea, by contrast, has been less tied up with corporatist advisory committees than independent tripartite agencies at the national level. Advisory committees related to labor issues mostly consisted of labor experts such as university professors, rather than representatives from unions and employer associations: for instance, _Nosagwangye sŏnjinhwa yŏnguwiwŏnhoe_ (Research Council for Advancing Labor-Management Relations: RCALMR), associated with the MOL, invited 12 university professors and 4 researchers from the Korean Labor Institute as advisory group in 2003. Thus, they are usually not entitled to become a corporatist organ, sponsored by public money and directed by policy guidance of state agencies. The first attempt for macro-corporatist negotiations was made by the Economic Planning Board (EPB), which proposed a national wage council between peak associations of labor and capital in 1989. In the Joint Conference for Social Consensus on Labor-Management Relations (JCSCLMR), established in 1991, the state again propagated its position that excessive wage claims were handicapping the national economy (Roh 2008; Lee, J. 1998). Such state initiatives were rewarded when the representatives of labor ( _Hanguknoch’ong_ ) and capital ( _Kyŏngch’ong_ : Korean Employers Federation) reached social contracts on the wage increase rate (4.7-8.9 percent) in April 1993. But this macro-corporatist agreement was politically constructed by the state stewardship that the state designed and controlled corporatist arrangements but stayed behind the stage without full participation in the processes. The genuine process of macro-corporatism in Korea has been accordingly developed in independent standing bodies based on tripartite consensus. In 1996, the democratic Kim Young Sam administration set up the first macro-level consultation council, _Nosagwangyegaehyŏkwiwŏnhoe_ (Labor-Management Relations Reform Committee or _Nogaewi_ in
**Meso-corporatism**

Unlike macro-corporatism whose characteristic feature is the involvement of peak organizations in policy concertation, meso-corporatism is referred as to political exchange between state agencies and more specialized interest associations. Meso-level corporatism thus involves the fusion of the processes of interest representation, decision-making and policy implementation with respect to a more restricted range of specific issues than the system-steering concerns of macro-corporatism (Cawson 1985). There is no presumption that meso-corporatist arrangements are tripartite in form or the interests they embrace are restricted to labor and capital (Streeck 2006). The range of collective actors which enter into meso-corporatist political exchanges with state actors includes primarily sectoral unions of industries and sectoral associations of business interests, both of which stretch their organizational identities across micro- and macro-corporatism. But other groups are potential partners, including professional and managerial interests, as long as they have developed the organizational capacity to monopolize the representation of a distinctive interest category. As table 2-1 shows, the consequences of meso-corporatism come up with the mixed forms of its mechanisms, policy concessions, and industrial implications.

As some scholars identify, Japan’s industrial unionism has evolved as a form of

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(Macro) in order to cool down the overheated demands from organized labor by achieving tripartite agreement concerning the reform of labor laws. After the financial crisis of 1997, the Nogaewi was further improved to more autonomous Nosajongwiwonhoe, including the state and the peak organizations of capital and labor from 1998, in which a tripartite social compact insured the interests of labor in job stability in exchange for its compliance to severe layoffs due to economic restructuring (Ch’oe 2001). In a nutshell, the making of industrial peace in the post-democratized Korea has been determined and consolidated by path-shaping sequences rooted in political concessions struck between tripartite players via macro-corporatist arrangements, but the general path of industrial peace could also be destabilized easily by political backlashes – withdrawal of labor and capital from tripartite commissions – against macro-corporatism (Im 1999; Chung 2006).
sectoral coalitions in several key industries such as textiles, steel, mining, chemicals, and private railways (McNamara 1996: 388; Koike 1988: 249-51). Bargaining for adjustment strategies in declining sectors has fostered the emergence of stronger industry federations in coal mining and steel, and some enterprise unions sought after sectoral coalitions for wage negotiations, in tandem with Shunto efforts nationwide (Levine 1984: 349-53).

Such a positive interpretation on meso-corporatism in postwar Japan, nevertheless, would be a hasty conclusion because the central engine for sustaining industrial peace still comes from the strength of enterprise unions which thereby sidelines the role of industry federations, and the economic bubbles in the 1990s further deepened the exclusion of industrial unionism.23

In a nutshell, the formation of Japan’s industrial peace would be more rigorously analyzed by juxtaposing structural relations of corporatist governance – embedded in sectoral interactions among the state, labor and business at enterprise, industrial and national level – with historical transformations of governance mechanisms at different critical junctures.

2.3. ANALYTICAL FRAMEWORKS

The fundamental purpose of this study is to describe a comprehensive map of converging paths of the industrial peace formation in Japan – despite its varying relationships among

23 As a good example of the weakness of Japanese industry federations in the 2000s, we can take Tanrō (Japan Coal Miners’ Union). On 19 November 2004, the Tanrō, which was organized in 1950 and grew up as one of the strongest industry federation in postwar Japan, held a dissolution rally and withdrew from the Rengo in conjunction with the dissolution of the Taiheiyo Tankō (Pacific Coal Mine) trade union which was brought about by the closure of its mines in 2002 after an 82-year history. Refer to http://www.jtuc-rengo.org (visited on April 12, 2014).
corporatist actors at different historical junctures – by associating sectoral relations at different levels of corporatist interactions with the historical transformation of corporatist governance. Theoretically, the study advances a historical and comparative alternative for counterfactual views in identifying an Asian variant of corporatist governance by enhancing the intersection of path-dependence theory and historical institutionalism.

Empirically, it aims to add a comparative study of corporatist governance with the particular reference to Japan to the existing scholarly archive on corporatism of advanced economies, and stretch the comparative utility of the corporatist thesis to its East Asian variant. By investigating both processes and outcomes of increasing returns surrounding corporatist arrangements in Japan, it will argue that Japanese political economy demonstrates a ‘path-dependent micro-corporatism’ whose increasing returns are mostly created by economic concessions at the enterprise level in a positive and stable fashion. Such an argument regarding the Japanese corporatist governance becomes more noteworthy when we recognize its historical continuity: Japan began with state corporatism at the initial stage of its own historical paths; and its institutional responses to historical contingencies in the subsequent phases – democratization and economic downturns – continued to sustain and promote its key institutional foundations which were necessarily required for the formation of industrial peace. Indeed, it is impossible to understand the possibilities for change in the present without appreciating institutional legacy of the past, and the way that it often limits choices available to industrial actors in the present (Fukuyama 2011: 438).

As figure 2-2 illustrates, to achieve a causal explanation for path-dependence sequences in the making of industrial peace, the study draws upon a range of
methodologies that serve to combine structural and historical accounts at the three distinctive critical junctures of Japanese political history.

In the first place (chapter 3), Japanese corporatism begins with state corporatism under which the degree of economic and political concessions was low due to the strong state’s domination of industrial relations during the period of modern state-building – Japan’s military regimes from the 1930s to the end of WWII. State corporatism, however, inherently contains path-breaking momentums when organized interest associations attempt to reshuffle the power structure in favor of theirs strategic objectives at a given condition of critical junctures.

**Figure 2-2. Transversal Relations of Corporatist Actors in the Historical Sequences**

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**Macro**

**State:** Social Policy & Labor Laws; Tripartite Consultation Arrangements

**Meso**

**Management:** Structure of Corporate Governance; Production Management

**Micro**

**Labor:** Labor Coalitions; Enterprise-as-Community

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**Critical Juncture I**

**State Building**

**Critical Juncture II**

**Democratization**

**Critical Juncture III**

**Economic Crisis**
In the second place (chapter 4), the democratization process leads Japan’s state corporatism to be transformed into micro-corporatism which remains consistently as a main pattern of corporatist governance in postwar Japan, on condition that its increasing return dynamics are largely based on economic concessions – seniority-based wages, lifetime employment, and other enterprise-based welfare benefits – at the plant level. In this process of micro-corporatism, economic concessions create a positive and self-enforcing feedback by which enterprise unions neither are willing to search for sectoral coalition with other unions nor to launch a centralized labor center to secure job stability and wage increase at the national level. Less motivation to deflect from enterprise-based consultations results in path dependent sequences stabilizing labor-management relations and enduring industrial peace in the face of historical contingencies. The prevalence of pragmatic economic unionism in enterprise unions, based on labor’s narrow interest in the profitability of its own firms and the resultant economic benefits, undermined the political power of labor peak associations and reduced the motivation for launching a macro-level negotiation with the state and employer federations. Despite a few exceptions such as the sanrokōn, the power balance among tripartite actors, normally, is regressed and equilibrated at micro-corporatist arrangements creating economic concessions. As a result, the single most important factor would be economic concessions for sustaining the controllability of cooperative relations between workers and employers at the enterprise level. Apart from results, the process of making interests

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24 The conventional three pillars – long-term employment, seniority-based wage system, and enterprise unionism – have tended to perpetuate Japanese workers as loyal employees bound to the company through paternalistic employment practices of workplace communities. In his seminal work, *British Factory—Japanese Factory*, Ronald Dore (1973: 420) offers the most sophisticated explanation that employers were convinced of the necessity of working with unions from 1922 onwards, and they were able to shape union-management relations before unions became too strong. Despite pessimistic predictions, empirical studies have found no major changes to the practice of lifetime employment pertaining to core employees (Moriguchi 2006).
between capital and labor complementary is itself significant in the formation of Japan’s enduring industrial peace and moderate organized labor (Aoki 1994b).

In the third place (chapter 5), another historical juncture of economic crises – Japan’s economic bubbles in the late 1980s – brings about the high vulnerability to external economic forces, thereby influencing both countries to modify the structure of corporatist governance. Such modifications would be convergent to meso-corporatism in which corporatist arrangements are set up at the multiple levels such as enterprises, industries, and nationals. However, micro-corporatism-based industrial peace is going to be more reluctant and slower to transform itself into meso-corporatism or macro-corporatist mode of industrial relations. Japan’s path dependence sequences, based on economic concessions, undergo even non-incremental changes, and are unlikely to deviate from their existing paths as institutions and economic forces prevent them from radically shifting the bases of their political economy.\(^\text{25}\)

To develop the arguments above in the subsequent chapters, the thesis will work with the following working propositions, which will be further discussed in chapter 6:

**[Proposition I]** The labor offensive is more likely to be neutralized or weakened where increasing returns mostly focus on employment security on the basis of micro-corporatism at workplace. Reversely, the presence of macro-corporatism is not necessarily effective in softening the assertiveness of organized labor.

\(^{25}\) Korea, on the other hand, demonstrates some degree of institutional efforts to look for plausible alternatives to elude economic concessions from middle-range collectivities in negotiating social contracts. In this sense, we can witness moving frontiers of industrial weights from macro-corporatism to industry federation movements in the early 2000s. The main reason for this transition is that Korean workers neither receive economic concession at the enterprise level nor at the macro-level.
[PROPOSITION II] The more favorable benefits are provided by the welfare state out of companies, the stronger the incentives are for workers to exit from firms and to transform corporatist governance beyond Japan’s traditional pattern of micro-corporatism.

[PROPOSITION III] Economic concessions are more likely to generate edurable periods of peaceful relations among corporatist partners, whereas political concessions easily exhibit the vacillation of industrial peace.

Main research strategies for this analysis consist of three related sources: (i) qualitative studies based on historical documents of governments, and organized interest associations of capital and labor; (ii) statistical analyses of data derived from the qualitative analyses; and (iii) comparative analyses that provide further concrete understanding on how differently the Japanese path of industrial peace has been evolving in comparison with other developed countries. On the basis of the three sources, the study adopts the dual strategy for a middle-ranged analysis: the macroscopic approach to historical conditions, and the state’s institutional arrangements in association with labor policies; and the microscopic approach to strategic reactions of organized interest associations – agencies of both capital and labor – in the three dimensions of enterprise, industry federation, and macro-corporatist commissions. Working at the level of midrange framework, historical institutionalism would construct important analytic bridges between state-centered and society-centered analyses by looking at the institutional arrangements that structure relations between the two (Thelen and Steinmo 1992: 10). Such a midrange approach also would have greater validity in the sense that it
illuminates and compares sources of variation on a common theme of corporatist governance. The validity of the first two methods – historical documents and some statistical data – is substantiated in the macroscopic concerns, as research objectives of the thesis converge on the quest of historical-institutional accounts for state-society relations in Japan.

Each chapter in the main body of the thesis is divided into four sections in the following order: (i) historical conditions; (ii) the state’s institutional arrangements; (iii) sectoral reactions of capital and labor; and (iv) the patterned relations of corporatist governance. The first section in each chapter, historical settings, provides a description of the social and political conditions embedded in a given period of time, which determine the power structure of the state, capital and labor. In each historical circumstance, we will explore more substantive and concrete evidences showing activities and performance of the tripartite sectors. Discussion of sectoral reactions of capital and labor considers society-centred accounts of the organisational characteristics of trade unions and employers associations at varying levels, whereas discussion of the state’s institutional arrangements in dealing with labor explores the overarching social policies and labor laws of governments, primarily the institutional adaptations to the changing circumstances of industrial relations. In the final section of each chapter, a type of relational pattern in corporatist governance is presented as a ramification of path-dependence sequences, which forms the overall framework for understanding the relationships at every historical juncture.
Chapter 3

STAGE I: ANTECEDENT CONDITIONS – JAPAN IN REVOLUTION AND WARS

The social origins of corporatist governance in Japan’s industrial relations date back to the period of modern state building, ranging from the Meiji Restoration to interwar years. The process of modern state formation relates to the advent and consolidation of strong states in which the state agencies could equip themselves with autonomous and effective institutions that made it possible to regulate and mobilize societal actors, particularly industrial counterparts. State corporatism presumes a state (usually dominated by a politically reactionary coalition) with institutions and ideological positions strong (or effective) enough so that it can impose its will on possibly unruly domestic social actors. Despite a short presence of democratic rules – the Taishō democracy (1912-26) in Japan – the basic nature of political authorities had mainly remained in the line of strong states anchored in bureaucratic elites, economic priorities for modernization, and cooperative labor mustered at the enterprise level. Japan, during the period of modern state formation, manifested the key attributes of state corporatism, which ended in state direction and private ownership of the means of production aimed at insuring order, unity, nationalism and success. In a nutshell, the advent of state corporatism in prewar Japan can be seen as the process of inventing tradition embedded in strong states’ intervention in industrial
relations (Kinzley 1991; Gordon 1998a; Hobsbawm 1983).

As Theda Skocpol (1992) eloquently states, state formation requires the institutional process of identifying the ways in which political officials have shaped and analyzing the ways in which state structures have patterned social conflicts and coalitions of major social groups. This identification prepares us to specify the peculiar sets of institutions that add up to distinctive versions of the modern state in different historical periods. The initial settings of institutional designs for state formation, thus, become of great importance in understanding Japanese governments’ labor engagement during the prewar period, particularly the wartime military regime, which significantly affected managerial practices and contributed to the emergence of some features of postwar Japan’s famed employment system (Gordon 1985). It is in this sense that searching the institutional foundations of the Japanese corporatism during the period of state formation is a necessary process to identify with its social embeddedness of sequential continuities of Japanese corporatist governance in postwar years.

From the perspective of the ‘invented tradition’, the advent of state corporatism is not necessarily taken for granted as a traditionally-entrenched confidence in Japan’s distinctive industrial harmony (Kinzley 1991). Against the past dominant notion of venerable cultural values used to explain the shape of the organizational elements of Japanese industry, this approach turns its attention to the structural and historical roots of Japan’s employment practices that are seen as the result of rational decision-makers adjusting and readjusting organizational and institutional responses to tangible economic needs and external pressures. Accordingly, Japan’s harmonious industrial relations needs to be recognized as a deliberate invention by the state and its corporatist coalition with
other industrial partners, rather than embedded in its traditional uniqueness per se. Whereas the conservative parties (for instance, the seiyūkai in the 1920s), conventional bureaucrats, and many employers professed to find solutions to labor unrest in Japan’s ‘beautiful’ customs of paternalistic social relations, there was little of substance in their traditions to prepare them for the modern industrial problems of strikes and unionization (Garon 1987; Marshall 1967).

In consequence, the emergence of state corporatism in prewar Japan should be understood in the line of the social construction among the preemptive management of enlightened bureaucratic elites in the Home Ministry, employer’s collaboration, and the reactive adaptiveness of labor unions, rather than the one-way formation by the strong state based upon Japan’s unique culture of harmonious paternalism (onjōshugi) just as T. J. Pempel and Keiichi Tsunekawa (1979) alleged. Past conflicts and institutional structures, as Barrington Moore, Jr. (1966) and Perry Anderson (1974) highlighted, have long-term effects and are of critical importance for later developments. Designing and implementing social policy – particularly, in relations to labor – on the stage of nation-building demonstrates a comprehensive picture capturing the structure of power balance between the state and non-state industrial actors. Indeed, further understanding of the social policy formation in the wake of the Meiji revolution and subsequent wars is able to clarify the source of corporatist governance whose strategic labor policies in the postwar period remained as it had been in prewar years – estrangement from the national level and incorporation at the plant level (Garon and Mochizuki 1992).

In this regard, critical points here at this initial phase of historical sequences involve three fronts of the path-dependence analysis designed to compare different paths
of corporatist arrangements in Japanese industrial relations: (i) what were the initial sets of state-initiated encorporatization of labor, aimed at industrial peace in Japan; (ii) how the state, management and labor related to each other as the initial conditions of state corporatism had been established and consolidated; and (iii) how such initial forms of state corporatism influenced the later path of corporatism in both countries. In dealing with them, we begin with historical and social milieus in the period of state formation in prewar Japan; then, elaborate relational functions of the state, management, and labor, respectively, for the shared purpose of forming industrial peace; and finally, address some salient features of corporatist governance during this period of Japan in revolution and wars.

3.1. THREE HISTORICAL PHASES OF ANTECEDENT CONDITIONS

The years from the Meiji Restoration to the defeat of the Second World War provide a ground foundation of Japan’s modern state institutions designed to promote harmonious labor-management relations. This span of historical period had evolved over three subsequent junctures – the Meiji Restoration, Taishō democracy, and imperial fascism – across which a growing awareness of the centrality of the state in determining national economic and social priorities had been institutionally consolidated. Through the whole processes, the main actor was clearly the state, but its governance for industrial relations remained in a state of flux under the employers’ offensive or labor engagements. We need to gain a more subtle understanding of the twists and turns of early twentieth-century Japanese politics – from oligarchic oppression before 1918, through the liberal attempts
to accommodate popular movements during the 1920s, to the wartime reorganization of autonomous associations. As analytical backdrops, sketching the combined historical conditions of Japan’s late industrialization and its comparatively weak international position helps us to grasp the social origins of Japanese corporatism in the initial sets of its path formation.

3.1.1. The Meiji Restoration

In 1868, a league of domains from southwestern Japan overthrew the Tokugawa shogunate and proceeded to establish a modern centralized state in the name of the Meiji emperor. Along with political regime changes by restoring imperial rule, this period also saw Japan change from being a feudal agrarian society to having a capitalist economy. Over the next four decades, the state, under a modernizing oligarchy, committed itself to a policy of rapid defensive industrialization rarely seen in the nineteenth-century world. State management of modern industries was attempted in military-related industries such as arms production, shipbuilding, coal mining, railroads, communications, and wool textiles, as well as in the cotton spinning industry for import substitution. In 1881, a new Ministry of Agriculture and Commerce was established to promote exports and to give technological and managerial aid to private industries. Mechanized factories first appeared on a widespread basis in the late 1880s and 84 percent of the nation’s 8,612 companies as of 1902 were founded in the few years following the Sino-Japanese War.

26 The leaders of the Meiji Restoration acted in the name of restoring imperial rule. Political power simply moved from the Tokugawa Shogun to an oligarchy consisting of these leaders, mostly from the Satsuma province (Okubo Toshimichi and Saigō Takamori), and the Chōshū province (Ito Hirobumi, Yamaguchi Aritomo, and Kido Takayoshi). This reflected their belief in the more traditional imperial rule, whereby the emperor performed his high priestly duties and his ministers govern the nation in his name.
Given that the influx of modern factories required an enormous demand for labor, the Restoration created a critical momentum of the call for a new social consensus on industrial relations and the emergence of state corporatism in the following three aspects. First, the strong state arrived at the center of Japan’s modernization process. The advent of a centralized government in pursuit of industrialization does not necessarily imply a middle-class revolution or even a democratic one in any meaningful sense (Smith 1955: 13-22; Marshall 1967: 9). Prior to the introduction of party politics in the 1910s, the oligarchic regime, based upon discontented members of the samurai class and the new political elite keenly aware of the importance of economic development to the future of Japan, engineered the formation of the new values of the industrial society of the nineteenth-century Japan.

Second, traditional moral standards were deliberately mobilized by the state in order to consolidate industrial peace in such a non-Western society (Gordon 1998a). After a brief flirtation with Western social and ethical doctrines, particularly from Britain and America, Meiji officials returned to traditional sources of the moral inspiration they believed essential to rapid national progress (Kaji 1960: 51-2). In the 1890s, the new social reformers – particularly, Christian socialist intelligentsias and bourgeois reformers – called into question the ‘social problem’ which should be considered as distinct from economic questions, by highlighting the linkage of the plight of factory workers with the pervasive problem of urban poverty. They also jointly sponsored the formation of the first trade unions during the late 1890s (Kazuo 1958). In response to these reformative claims, Meiji bureaucrats, together with business circles, took aim at traditionalist arguments of
Confucian paternalism as a main principle of social policy, by downplaying the European experiences in the wake of industrial revolution as an irresponsible ‘Tory philanthropy’ which was not fit into the Japanese tradition.\textsuperscript{27} Accordingly, the labor issue constituted a major challenge to the state because the widening gap between rich and poor was liable to destroy the social order and damage the public peace.

Third, the private business sector was consolidated as a key industrial partner to the state. The use of Confucian ethical doctrines by the Meiji oligarchy to rally the nation to patriotic efforts and to bolster their own prestige as ministers of the Emperor served to reinforce traditional attitudes toward the pursuit of industrial advancement and the following private players. Government-directed factories were, then, transferred to the private sector on highly favorable terms becoming a vigorous stimulant to the consolidation of the economic bases from which Mitsubishi, Mitsui, and some other big merchant houses later developed into the large business conglomerates known as \textit{zaibatsu} (Oe 1973: 167-74). These conglomerates or holding companies were typically organized around one key bank, one key trading company, at least one representative of each of several key industries, and multiple subsidiary firms. In a nutshell, the Meiji Restoration provided an organizational background for such big companies, which were brought to the frontline of welfare capitalism in the domain of labor-management relations (Dore 2000).

\textsuperscript{27} Classically, Ruth Benedict (2005) advances the notion of ‘proper station’ as a typical mode of the Japanese traditional mechanism to maintain social order intact, by saying that “as long as ‘proper station’ is maintained the Japanese carry on without protest. They feel safe. They are of course often not ‘safe’ in the sense that their best good is protected but they are ‘safe’ because they have accepted hierarchy as legitimate. It is as characteristic of their judgment on life as trust in equality and free enterprise is of the American way of life” (Benedict 2005: 96).
3.1.2. Taishō Democracy

After the death of the emperor Meiji in 1912, the new reign of the Taishō emperor (1912-25) opened windows of opportunities for the liberal and democratic movement, which prompted the shift in political power from the old oligarchic group of elder statesmen (genrō) to the Diet of Japan and the democratic parties. The so-called Taishō democracy began as a political movement and later it became a system of rule. Japan’s continued moves toward broader representational government during the Taishō period resulted in the elimination of the tax qualification for voting and the enfranchisement of more voters in 1925, the flourish of party politics, and the enactment of labor laws (Allen 1940: 625-46). Such a democratic system of governance during the Taishō period was distinguished clearly from the preceding chaotic Meiji period and the following militarism-driven first part of the Shōwa period. This second phase of Japan’s state formation witnessed the following three changes in restructuring the corporatist pattern of industrial relations.

In the first place, the rapid rise of Japanese labor-management tensions – particularly, after the end of World War I – forced a reexamination of Japan’s alleged harmony between workers and owners (Apter and Sawa 1984; Beckmann 1968). The victory of the Allies over Germany boosted the prestige of democracy, liberalism and individualism, and offered the prospect of a new intellectual climate in Japan. Finally, labor became the dominant issue in the ideological conflicts of the 1920s and the emergence of a militant labor movement was evident. Industrial expansion nearly

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28 Instead of the term ‘Taishō democracy’, Andrew Gordon (1991) advances “Imperial democracy” as a more proper term for this democratizing interwar era in the sense that the phrase ‘Taishō democracy’ is not only chronologically inaccurate because it usually covers the broader dynamics of Japanese political history from 1905 to 1940, but also analytically empty because many Taishō democrats offered the support for imperialism, which cannot be interpreted as democratic activities.
doubled the number of workers in privately owned factories, from 950,000 in 1914 to
1,612,000 in 1919. Furthermore, the rapidly democratizing interwar era triggered civil
society in Japan to prosper with the increasing number of trade unions at workplaces,
which quadrupled between 1918 and 1923 (from 108 to 432). Amid wartime inflation, the
new demands for skills, and a disproportionate amount of the growth within heavy
industries, government-owned enterprises both of which employed large numbers of
skilled male workers, workmen incrementally turned to strikes and lockouts in order to
win higher wages. In addition, the rise in labor assertiveness coincided with another
acute exhibition of popular unrest – the rice riots of 1918. As figure 3–1 and 3–2
demonstrate, the number of workers engaging in work stoppages dramatically soared
from fewer than 9,000 in 1916 to 57,000 in 1917. The strike wave continued during 1918
and 1919, to the extent that strikes in large and vital enterprises became commonplace
throughout the Taishō period. In a nutshell, industrial relations could no longer be
persuasively represented as a private matter between paternalistic employers and grateful
workers within the traditional coffer of harmony.

29 With the outbreak of the First World War, heavy industry started to replace light industry as the
locomotive of the Japanese economy. Male workers outnumbered female workers even in light industry in
1914.  
30 The rice riots of 1918 were spurred by growing urban demand and speculation on rice prices which
doubled between early 1917 and June 1918, increasing another 50 percent during August 1918 alone. The
first commotion broke out in late July in a Toyama fishing village where women resisted the shipment of
scarce rice to Osaka. Rioting spread during the next fifty-three days throughout Japan from metropolitan
centers to remote farming villages. Angry consumers looted the shops of rice merchants and clashed with
police. They included more than 34,000 factory workers and miners who mounted strikes for better pay
during August and September 1918 (Inoue and Watanabe 1959-62).
Secondly, in response to the labor offensive, a progressive group of Taishō bureaucrats emerged as the state powerhouse of social engineering aimed to reorder the previous practice of the Meiji oligarchy (Garon 1987). By establishing the Bureau of

Social Affairs (or Social Bureau) in 1922, activist cliques of higher civil servants in the Home Ministry strove to bear direct responsibility to the people who were expected to support their policies obediently. Indeed, during the period of Taishō democracy, the Home Ministry primarily attempted to maintain social stabilization, reducing the appeal of Communism and other radical labor ideologies by improving public welfare, encouraging labor unions, and extending the franchise. However, we need to recall that such a state initiative for labor-friendly social policy was not a genuine and constant intention of the bureaucratic groupings to promote the social rights of workers, but a temporary makeshift neutralizing the potential of labor unrest and going on with the previously-invented tradition of industrial harmony. In this regard, Taishō bureaucrats’ liberal endeavors to enact labor legislations were often discolored or delegitimized by Janus-faced examples of conservative governance that the oligarchic government of Terauchi Masatake dispatched 92,000 troops to put down the disputes of the rice riots in 1918 or even liberal governments during Taishō democracy made use of the notorious Article 17 of the Police Regulations for arresting strike-related workers (see table 3.1).  

The third observation on the structure of Taishō-era politics presents the notion of bipartisan politics, whose political tensions with the agenda of labor unionizations were developed mainly between the kenseikai (later, the minseitō) and the seiyūkai (Scalapino 1953; Pyle 1974; Kimbara 1975). In 1924, political resistance against nonparty oligarchic cabinets led to the emergence of the majority seiyūkai-dominated party system and its opposite parties. The contemporary perception on programmatic differences between the parties in this period portrays the kenseikai/minseitō as the liberal party and the seiyūkai

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31 With regards to the sequential list of the Prime Minister, ministers of the Home Ministry and the Ministry of Agriculture and Commerce, and the majority parties, refer to appendix 1. The Terauchi cabinet, for instance, lasted during the time span of 1916 – 18.
as the conservative party. With respect to labor policy, typically the Labor Union Bills of 1926 and 1927, the division of cabinet posts among the government bureaucracy normally established a working alliance between the *kenseikai* and the Home Ministry’s social bureaucrats in order to pursue liberal approaches to industrial relations. On the other hand, a conservative alliance for keeping traditional paternalism on the front of labor-management relations took place between the *seiōkai* and the Ministry of Agriculture and Commerce. Nonetheless, we must not forget that the *minseitō*’s interest in a labor union law arose from a capitalistic desire to stabilize and rationalize industrial relations, rather than a genuine intention to uphold worker’s rights. Furthermore, it is also noteworthy that the initiative behind many of the most important democratizing reforms of the 1920s came not so much from the bourgeois parties but rather from higher civil elites in the Social Bureau.

### 3.1.3. Military Fascism

Civil society in Japan, which experienced a rapid democratization during the interwar era (1918-31), faced a dramatic death under Japan’s Fifteen Years War (1931-45) when the regime disbands nearly every autonomous body of workers’ associations and reorganizes the populace into state-run organizations. After the First World War, international disarmament by the acceptance of the London Naval Treaty of 1919 and a conciliatory China policy antagonized hawkish leaders in the military, the Privy Council, and the House of Peers. The onset of the Great Depression further discredited the Hamaguchi cabinet (1929-31)’s liberal blend of tight fiscal policy and social reform centered on the
legal recognition of labor unions. Alarmed at the growing incidence of rural poverty and failing small businesses, politicians and bureaucrats turned their attention away from labor problems to direct relief to farmers and shopkeepers, who formed well over half of the population. Consequently, the minseitō cabinets’ mild reform of social policy and cooperative diplomacy in a shaky parliamentary democracy induced the army supremacy and the advent of imperial statism under wars.

The predominance of military fascism needs to be counted as a greatly important historical juncture in terms of making initial settings for industrial peace in three senses. First, the advent of strong statism rooted in army supremacy brought about the termination of half-fledged democratic politics of party cabinets (Scalapino 1953). The Manchurian Incident, one that the Imperial Army occupied southern Manchuria in defiance of the minseitō’s Wakatsuki cabinet in September 1931, precipitated the fall of the Wakatsuki cabinet in December and ushered in a phase of military expansion and total war. Although the institution of party cabinets lingered on another five months in the form of a seiyūkai government headed by Inukai Tsuyoshi (1931-32), Inukai’s assassination by young naval officers in May 1932 forced party cabinets to give way to a series of nonparty cabinets consisting of military men, career bureaucrats, and a dwindling number of party politicians. The tumultuous events of 1931 and 1932 shattered not only the minseitō-led coalition that supported labor legislation, but also Hamaguchi’s plans to liberalize Japanese society in a short span of time (Gordon 1991).

Second, military conscription and war-related production resulted in an acute shortage of skilled labor, which was inevitably accompanied by longer working hours, absenteeism, intense inter-firm mobility, and rising wages (Kanda 1981: 590). In dealing
with the potential turmoil by not only workers’ protests but also the employer offensive, the military government intended to use the industrial patriotic units established by all plants to rally grass-roots support for its new ordinances to regulate wages, hours, employment, and dismissals. Such wartime mobilization, thus, justified the overriding presence of state intervention, thereby carving out a state-led invention of industrial peace, and forced moderate labor leaders to back away from the bourgeois parties whose political standing became already dead.

Third, military fascism lent credence to the invented harmonization of labor-management relations, which fabricated the initial contours of institutional apparatuses constituting state corporatism (Kinzley 1991). With the waning influence of the Home Ministry on domestic problems including labor questions, Prince Konoe’s wartime cabinets (1937-39; 1940-41) presided over the birth and growth of the industrial patriotic system, dreaming of creating a totalitarian and paternalistic order along with German Nazi and Italian Fascist lines (Fletcher 1982). Echoing European state-corporatist thinkers, advocates of this military order sought to mobilize national energies by reorganizing all private associations into pyramidal organizations demarcated by ‘function’, rather than class or interest. Given the actuality that the 1930s were a time of war and preparation of war, the new labor policy was decidedly statist for wartime mobilization of industrial labor, in the sense that officials asserted controls over a relationship that previously had been conducted between workers and managers on a relatively autonomous basis.
3.2. CONSTRUCTING THE SOCIAL ORIGINS OF STATE CORPORATISM

Under such historical backdrops described above, the three players – the state, labor, and management – galvanized their own ways for the making of industrial peace in associations with the other actors’ strategic maneuvers. The previous accounts for the origins of Japanese corporatism have been allegedly anchored in close and effective cooperation between the state bureaucracy and the advanced sectors of the economy in the provision of capital, as well as in the suppression of opposition, primarily from organized labor (Pempel and Tsunakawa 1979; Wilensky 2002). However, a closer investigation negates this hasty contention by underscoring the notion that corporatist arrangements, at least, prior to military statism in the later 1930s cannot be equated with state corporatism without labor’s engagements. Indeed, Taishō democracy triggered bureaucratic attempts to legislate pro-labor bills such as the legal recognition of all unions and the permission of unions’ political contributions, all of which were drafted by the minseitō’s Social Bureau of the Home Ministry (Dore 1969). The extension of electoral bases to workers in urban areas due to the passage of universal manhood suffrage in 1925, furthermore, kept Taishō-era parties alert to collective demands of labor unions, and prompted the state to enhance stabilization and rationalization of peaceful coexistence between labor and management. Even in the period of imperial fascism, the statist cabinet had kept a watchful eye on labor’s activities, even though the general social policies were imposed by the state. Accordingly, more precise presentations on the social origins of corporatist governance in Japan cannot be completed without tracking down
how the two other actors, management and labor, strategically responded to state intervention and vice versa. Assembling a mosaic of three fields contributes to understanding not only Japan’s original formation of state corporatism at the historical phase of state-building but also its later impacts on path dependence of institutional devices for industrial peace in postwar Japan.

3.2.1. The State: Tradition-Inventor for Industrial Peace

There is no doubt about the claim that the state in prewar Japan should be identified as the most decisive planner and controller in building up and cementing the peaceful relationship between workers and employers. However, rather than a simplistic, oppositional relationship, the state’s influence had typically been to shape, not necessarily always repress, civil society with a good degree of receptiveness to other sectors, albeit the oscillation of its intensity and width. The gist of state engagement is, therefore, characterized as a mixed bag of repressive paternalism and negative democracy, which resulted in producing an invented image of peaceful old tradition for a new industrial society. The state’s attempt to invent harmonious traditions at workplaces, by and large, proceeded in three dimensions: (i) ideological propagandas; (ii) legislative measures; and (iii) institutional devices. With these apparatuses being mutually linked, the state deliberately structured the rules of the game, which determined who would play and who would flourish in the formation of state corporatism.

In terms of the ideological drive that the state pursued for industrial harmony, the role of governments and political elites in prewar Japan can be reviewed as an act of
myth-making, creating normative ideals and forging a civil code for the new modern industrial society (Marshall 1967; Kinzley 1991; Gordon 1998a; Ranger 1983). While distinguishing Japan’s traditional values of labor-management relations from the Western tenets of the Anglo-American capitalist model, the social bureaucrats in the 1920s stressed the critical role of social policy embedded in the Confucian paternalism which rejected economic individualism popularized in Western societies, scaled down welfare responsibilities from the state to individuals or workplaces, and allowed state intervention in the ‘social question’ of labor-management relations. As early as 1902, Prime Minister Ōkuma Shigenobu (1914-16) declared Japan’s modern social policies to be firmly grounded in the Confucian ruling ideology of Japan’s preindustrial past. In this sense, the response of Andō Tarō, chief of the Commercial and Industrial Bureau within the Ministry of Agriculture and Commerce, to the new breed of social bureaucrats calling for the promotion of factory regulations was typical:

“It is true that moral fellowship (tokugiteki jōgi) between employers and employees existed in the household industries of the past. Nor can one doubt that these relations resembled those between master and disciple, or lord and retainer. However, of the factories which [today] employ hundreds, even thousands of workers, how many actually possess such harmonious, tranquil relations?” (Andō 1896: 57)

Moreover, in the wake of the Great Depression, democratic Hamaguchi’s statements to his cabinet’s Commission on Social Policy on 9 August 1929 aptly demonstrated the government’s ideological intention to bring temporary hardships for workers and other low-income groups:
“Viewing the state of society today, one is confronted by an accelerating gap between rich and poor in both city and village, and by mutual antagonism between Labor and Capital. Rising unemployment and tenant disputes have also inundated all areas of society as the “social question” grows daily in complexity and intensity. Our nation’s urgent task, as I see it, is to rectify and prevent [these problems]. We must bring about a spirit of harmony in our lives together, lay the foundations for peace and stability in actual living conditions in society, and induce all of the people to bear responsibility for the development of the country’s fortunes” (Hamaguchi 1929: 5).

During the period of army supremacy in wartime, the totalitarian discourse of industrial harmony culminated in “the New Order of Labor”, under which the social bureaucrats within the Home Ministry moved from the liberal system of tolerance for unions as a means of achieving social order to the fascist program of the Industrial Patriotic Association (sanpō) (Hazama 1964). Clearly, government bureaucrats indicated their sensitivity to the likelihood of industrial disorders by the labor offensive during the wartime. Thus, it became a widely accepted social norm on the issues of industrial relations in this period that unless the state intervened in some degree in the relations between employer and employee, there was no means of protecting the interests of the employees and hence there would bring about social evils, disturbances, and social disorder (Marshall 1967: 54).

It should be addressed that behind such ideological propagandas with the paternalistic values of state corporatism, some bureaucratic attempts to enact liberal reforms to protect workers against employers’ offensive should be counted as a democratic but limited engagement policy aimed to secure the peaceful coexistence of
labor and management, especially during the period of Taishō democracy. \(^{32}\) Ironically, the most comprehensive bureaucratic proposals for change in labor policies originated from the Social Bureau’s Labor Division within the powerful Home Ministry, whose police agencies had been associated with the suppression of socialist and labor movements before 1919 (Garon 1987; Kanda 1919). Afterwards, social policy cleavage between more reformative Home Ministry and more conservative Justice Ministry became even sharper as the rival parties of the minseitō and the seiyūkai joined this bureaucratic rivalry. \(^{33}\) By 1929, several progressive labor specialists from the Home Ministry had joined the minseitō, identifying with the party from within the bureaucracy. Officials of the Social Bureau deserve credit for fundamentally reformulating labor policy in a manner that went well beyond the initiatives of other elites in bureaucracy (primarily, the Ministry of Agriculture and Commerce), business, and the major political parties. Despite limits and failures of their autonomy, it is essential for us to consider their frequent uses of coercive legal measures as a strategic method to cushion organized labor and channel labor unions into paternalistic partners of labor legislation.

Modern Japan’s first major social legislation was the 1911 Factory Law whose underlying objective was to create a disciplined work force (Dore 1969). \(^{34}\) Rather than

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\(^{32}\) Despite the unquestioned importance of bureaucratic innovation in the postwar period, historians of the pre-1945 era have concentrated upon the political parties while generally dismissing the higher civil service as a bastion of conservative opposition to democratic and labor reform (Johnson 1982; Pyle 1974; Scalapino 1953). It has been clear that we lack an adequate understanding of the role played by career officials in the Home Ministry, particularly on their frequent use of coercive measures for labor laws.

\(^{33}\) In general, the notion of social policy in the political history of Japan is often referred to as labor policy, rather than welfare policy. Even in postwar Japan, labor and social policies have been interchangeably used by scholars (Takegawa 1999).

\(^{34}\) The law imposed minimum health and safety standards in factories employing fifteen or more workers, as well as in any other enterprise engaged in dangerous or unhealthy work. It also established a special factory inspectorate within the Ministry of Agriculture and Commerce. One important provision made employers liable in the case of job-related injuries. The minimum age of employment was set at twelve. With regard to women and youths under fifteen, the law generally established a twelve-hour day, in addition to prohibiting night work.
recognizing labor mobility as a characteristic of the marketplace, officials of the Industrial Bureau (Ministry of Agriculture and Commerce) sought to restrict workers’ freedom of movement on the grounds that frequent turnover discouraged factory owners from developing a skilled work force (Ikeda 1978: 92-93; Okochi 1958: 18-19). Insisting that Japan would not escape the problems earlier faced by the industrializing nations of the West, Japanese officials of the Commercial and Industrial Bureau promoted factory regulations as an effective means of preventing disputes before they occur and advancing uniform opposition to the suggestion that Japan should adopt labor laws patterned on those of the West (Marshall 1967: 52-54). In so doing, the specter of disruptive strikes and social unrest was repeatedly invoked in the effort to persuade business leaders to accept legislation aimed at enforcing minimum health and safety standards and limiting the working hours of women and children employed in factories. As appendix 2 shows, it is confirmed that the Ministry of Agriculture and Commerce and the business sector – Chambers of Commerce and employers’ federations – circulated to each other the respective draft of a factory law in order to ensure the mutual benefit of both management and labor by protecting the rights of both and making relations between employer and worker harmonious (Kazahaya 1947: 117). The underlying rationale of the 1911 Factory Act was set forth in the context of concern for not only the health of the skilled labor force at the enterprise level so critical to economic development, but also the establishment of peaceful and paternalistic harmony between workers and employers at workplaces.

Another important lawful attempt for enhancing the state’s ‘social engineering’ in the domain of industrial relations relates to the Peace Preservation Law of 1900, which
had been continuously sustained in the face of some efforts for its democratic reforms in the mid-1920s. The Peace Preservation Law, in itself, had a repressive anti-labor “poisonous” Article 17 that prohibited any violations (1) forcing anyone to participate in groups aimed at collective actions with regard to labor conditions and wages; (2) forcing strikes on workers; (3) forcing employers to concede demands concerning labor conditions and wages (Ando 1975: 83). Such a non-democratic law had been deliberately devised and manipulated by the state, even moderate democratic authorities of Katō’s coalition cabinet (1924-26), which ironically sponsored the Peace Preservation Law at the same time as universal manhood suffrage. The more ironic situation resulted from the fact that universal male suffrage did not begin in Japan until 1925 when the government accomplished the extension of the Peace Preservation Law and the creation of the Special Police Force, aimed at weakening radical organizations. As table 3-1 demonstrates, police extensively applied Article 17 against striking workers, in the sense that Article 17 also inspired other anti-labor laws by which the police commonly placed strike leaders under preventive detention for ‘incitement’ and other charges. In consequence, the overtly democratic reformism that both Katō’s coalition cabinet and the kenseikai advanced against the infamous Peace Preservation Law of 1925 came to be discolored as a phony gesture towards pro-labor reforms by their strategic maneuvers combining reformative and conservative measures (Mitchell 1976; Duus 1968). The established parties and the bureaucracy extended the voting rights to all men eligible to vote, while arming the state with new powers to check any truly democratic challenge that might result in anti-government turmoil (Shinobu 1952: 1179-81; Maruyama 1969).

35 Together with industrial relations, the two sectors of agriculture and the small business were controlled under the state’s cartelization through the Industrial Cooperative Law of 1931 and the Commercial Cooperative Law of 1932.
<table>
<thead>
<tr>
<th>Year</th>
<th>Strikes (participants)</th>
<th>Total arrests</th>
<th>Art. 17: “instigation, incitement”</th>
<th>Art. 17: “other clauses”</th>
<th>Sedition and other charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>7,904</td>
<td>32</td>
<td>18</td>
<td>–</td>
<td>14</td>
</tr>
<tr>
<td>1915</td>
<td>7,852</td>
<td>65</td>
<td>9</td>
<td>55</td>
<td>1</td>
</tr>
<tr>
<td>1916</td>
<td>8,413</td>
<td>59</td>
<td>30</td>
<td>10</td>
<td>19</td>
</tr>
<tr>
<td>1917</td>
<td>57,309</td>
<td>174</td>
<td>104</td>
<td>34</td>
<td>36</td>
</tr>
<tr>
<td>1918</td>
<td>66,457</td>
<td>1,965</td>
<td>159</td>
<td>197</td>
<td>1,609</td>
</tr>
<tr>
<td>1919</td>
<td>63,137</td>
<td>536</td>
<td>58</td>
<td>61</td>
<td>417</td>
</tr>
<tr>
<td>1920</td>
<td>36,371</td>
<td>378</td>
<td>131</td>
<td>54</td>
<td>193</td>
</tr>
<tr>
<td>1921</td>
<td>58,225</td>
<td>634</td>
<td>16</td>
<td>68</td>
<td>550</td>
</tr>
<tr>
<td>1922</td>
<td>41,503</td>
<td>213</td>
<td>6</td>
<td>37</td>
<td>170</td>
</tr>
<tr>
<td>1923</td>
<td>36,259</td>
<td>237</td>
<td>11</td>
<td>10</td>
<td>216</td>
</tr>
<tr>
<td>1924</td>
<td>54,526</td>
<td>383</td>
<td>26</td>
<td>54</td>
<td>303</td>
</tr>
</tbody>
</table>

Source: Kamii (1979: 172).

Army supremacy in wartime elicited the legal authorities of state corporatism by the creation of the Imperial Planning Board in 1937 and the National Mobilization Law in 1938, through which all resources, materials, prices, wages, trade and other economic matters came formally under government control (Pempel and Tsunekawa 1979: 257). Moreover, the Important Industries Association Ordinance of 1941 ordered the formation of control associations in each industrial sector. Given that these control associations, in practice, became little more than zaibatsu cartels under different names, the state shared the responsibility of mobilizing labor forces with employers at the enterprise level, thereby being never in a position completely to dominate the leading industrial sectors.
(Johnson 1978: 71-72). The strong statism with legislative measures, therefore, contributed to facilitating invented tradition of harmonious relations between workers and employers by scaling down corporatist governance at workplaces (Miwa 1979).

Finally, the effectiveness of state engagements with labor issues in this period further culminated in the mobilization of state-directed institutions. As Dean Kinzley (1991) argues, Japan’s unique culture of harmony in industrial relations was consciously invented and developed over the process of modern state-building by emphasizing “old ideas for a new society”, primarily with the focus on a semi-bureaucratic organization called kyōchōkai (the Cooperation and Harmony Society) which was established to meet the needs of an emerging industrial society. Inaugurated in December 1919, kyōchōkai’s central activities included the establishment of worker education programs, settlement houses and employment bureau as well as a forum for strike mediation. Kyōchōkai consisted primarily of senior officials, prominent businessmen, and academic specialists – without the participation of labor representatives. The kenseikai/minseitō’s association with the social policy initiatives of the Home Ministry and kyōchōkai evolved from the political realignments of the mid-1920s. Such an institutional collaboration between political parties, bureaucracy, and semi-governmental agencies took the lead in trying to define the values which would be suitable for a new Japanese-style industrial culture. Kyōchōkai and its related elites deemed reforms necessary to satisfy or at least accommodate popular demands, but they should be under control for economic growth and social stability (Rice 1979). Along with kyōchōkai, shingikai, which was the forerunner of Japan’s advisory councils on various agendas of public policies in postwar era, was established in 1893 as an extended arm of the government whose main function
was the consultation aimed to ensure the authorization of officials’ own initiatives to neutralize labor’s offensive and its associated social unrest (Schwartz 1998). Industrial relations and paternalistic idealism were at work in firmly rooting these consent-based institutions, and the resulting invented tradition has played an important role in the evolution and character of Japanese economic values and behavior, which were practically applied to the factory management by allowing the unionization at the enterprise level but blocking the horizontal expansion of unions (Ikeda 1978).

Such accommodative profiles of government-led institutions, however, remained stunted by wartime total mobilization; thereby, statist interventions forced unionism to become patriotic and submissive to the national call for industrial peace. Under the slogan of the ‘New Order of Labor’, the social bureaucrats of the Home Ministry transformed its tolerant approaches to labor unions into the repressive policies of the Industrial Patriotic Association (Gordon 1991: 321). The formation of the Central Alliance for the Mobilization of the National Spirit, and the creation of the Imperial Rule Assistance Association in 1940 culminated in Japan’s state corporatism to the extent that all autonomous interest associations were replaced by a monolithic organ of totalistic state control. By 1938, military and right-wing labor leaders had created the Industrial Patriotic Movement to help the war effort in China. In July 1940, existing labor unions and labor peak associations were dissolved and reorganized into the state-run Industrial Patriotic Association, which assumed control of about fifty-thousand industrial patriotic units through individual enterprises and their 4.5 million members (Hayashi 1966: 180-82). Nevertheless, this fascist coercion to harass unions into dissolution, then again,

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36 For more details about the structure and activities of shingikai, see chapter 3.
37 The case of the Tokyo Transportation Workers’ Union (Tōkyō kōtsū rōdō kumiai) is instructive (Kanda
came to an end in the chaos following the war defeat in the late 1940s, and the permissive state was remodeled by the American Occupation in the aftermath of the Pacific War.

3.2.2. Management: A Shadow Collaborator

Under the state’s strong penetration into industrial relations in prewar Japan, the business sector had acted as an essential collaborator for implementing the state-guided social programs, particularly at the plant level. However, it is also necessary to remember that troubled times encouraged the employer’s offensive, which brought the state and the business class in conflicts, unlike conventional knowledge on prewar Japan’s symbiotic coalition between the two actors.

In the late 19th century, the main tenets of Japanese business elite in terms of labor problems proceeded in the three traditional defense fronts, which were not incompatible with the basic stances of the Meiji authorities: (i) the demands for Western-style labor laws were premature; (ii) the lessons of Western history were not relevant to Japan; and (iii) competition with the West necessitated special sacrifices both from labor and management (Nakamura and Odaka 2003). With these alleged reasons, the Meiji business leaders avoided challenging the principles expressed in the reformative proposals, relying instead upon the argument that the time was not yet ripe to consider the problem of labor legislation. The crucial point in most discussions, according to the Tokyo Chamber of Commerce, was the contrast drawn between the indigenous ethic and norms of the

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1981: 589-99). The historically militant union organized one of the first industrial patriotic units in August 1938 to fend off pressures for outright dissolution from a growing faction supported by municipal authorities. One year later, when union leaders attempted to defend the union’s rights to exist alongside the unit, they were promptly visited by officials of the Metropolitan Police. The beleaguered labor activists announced their intention to disband in the near future, although it required direct threats from the police before the union finally dissolved itself on 7 July 1940.
workplace in Western countries (shakai seisaku gakkai 1908: 50). By relating the
traditional compassionate feelings (onjō) between the feudal lord and his retainer to the
rationale of harmonious labor-management relations, Japanese business leaders preserved
the paternalistic relation between worker and employer, familism (kazuko shugi), as the
key element in the Meiji approach to labor-management relationships (Kanda 1919: 5).
Characteristically, Meiji businessmen, such as Soeda Jūichi, president of the semi-
governmental kōgyō (Industrial) Bank in 1908, presented a statement showing a typical
interpretation of harmonious relations:\footnote{Furthermore, in the face of the threat of direct revolutionary action posed by the socialists, Meiji businessmen preserved traditional norms in labor relations by identifying their own views with those of such influential politicians as Itō Hirobumi, who wrote:

“In industry… in spite of the recent enormous developments of manufactures in our country, our laborers have not yet degenerated into spiritless machines and toiling beasts. There still survives the bond of patron and protégé between them and the capitalist employers. It is the moral and emotional factor which will, in the future, form a heavily barrier against the threatening advance of socialistic ideas” (Okuma 1909: 129).}

The master – the capitalist – is loving toward those below, and takes tender care of
them, while the employee – the worker – respects those above and will sacrifice
himself to his work. The spirit of loyalty and love of country…. are by no means
limited to the relationship between the sovereign and subject.” (tōyō keizai shimpō
1908: 254).

However, the sequences of historical contingencies set by wars resulted in
repositioning such an ideological symbiosis between the business leaders and the Meiji
oligarchy into frictions. The end of the Sino-Japanese War made it increasingly difficult
to argue that labor unrest was a problem that need not be dealt with until some future
stage of economic development could be secured. Particularly, the First World War
entailed the upsurge in labor strikes and trade unionism, the shortage of skilled labor, all
of which were quick to seize on labor disputes as evidence of the need for state
intervention as well as concessions from the business leaders. The death of the Meiji oligarchs, the development of parliamentary institutions, and the passage of the universal manhood suffrage law in 1925 accelerated prior divergences between the two major parties, *seiyykai* and *minseitō*, in the respective influence of big business (Scalapino 1953). The *seiyykai*’s veteran industrialists occupied a strong position in the Tanaka cabinet (1927-29) and among the party’s top executives. Seeking new sources to finance the soaring costs in appealing to the expanded electorate, the *seiyykai* intensified its efforts to recruit wealthy candidates from the business community, whereas the *minseitō* conversely came to be more attentive to the needs of the working class than ever before (Hishimoto 2003). From the late 1920s on, however, right-wing bureaucrats, encouraged by young military officers reduced some of the power that had been conferred to the *zaibatsu* (Rice 1979). By enacting the Important Industries Control Law, aimed at rationalizing the economy and overcoming the depression, some bureaucrats attempted to curtail *zaibatsu* influence and generate state corporatist institutions.

Such a changed situation involved in industrial relations placed employers on the defensive on the two opposite fronts. On the one hand, large business set in motion economic concessions to labor in the emerging forms of company welfare benefits at the enterprise level. The underlying rationale for this action, as Ronald Dore (1974: 420) explains in his seminal volume *British Factory—Japanese Factory*, was ingrained in employers’ conviction that it was necessary to work with unions from 1922, and they were able to shape and control union-management relations before unions became too strong. Indeed, during World War I, several large shipyards and steel mills began offering seniority-based bonuses and other fringe benefits in order to reward workers, which were
held up as models of good conduct (Gordon 1985: 100). Amid the strike wave of 1917-21 (see figure 3-1), these large firms attempted to mollify discontented workers by extending seniority bonuses to the strikers, and the personnel committees which zaibatsu launched sponsored various company welfare schemes to discourage workers from joining outside labor unions. Also, the expansion of heavy industry in the wake of World War I caused a shortage of skilled labor, and prompted large firms in shipbuilding, iron and steel to introduce various techniques designed to secure stable supplies of skilled labor, such as lifetime employment, seniority-based wages, and firm specific welfare (Shinkawa 2007: 64). In a nutshell, the nascent appearances of welfare concessions, which continue to remain as the employer’s accommodation strategy to neutralize labor unrest in postwar Japan, were institutionally prepared and developed around this period.

Alongside large firms’ moderate mollification at workplaces, on the other hand, they rather stepped up the employer’s offensive in two ways. First, the new strength of organized labor during and after World War I resulted in the materialization of several employer associations confronting Taishō bureaucrats (Garon 1987: 44). The most prominent association, the Japan Industrial Club (nihon kōgyō kurabu) founded in March 1917, firmly opposed any legislation that would recognize labor unions, and represented the major zaibatsu interests to thwart unionization within their plants. Such employer associations’ negative responses to labor unions had been deepened in the mid-1930s by a great deal of antipathy between Social Bureau bureaucrats and capitalists of the National Federation of Industrial Organizations (zenkoku sangyō dantai rengōkai), an employer

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39 The prolonged recession in the 1920s encouraged labor unions to call for government-sponsored unemployment insurance, but both the government and the majority of business leaders rejected the idea of unemployment insurance due to the fear that such a program might strengthen the sense of class solidarity and labor rights at the expense of firm loyalty.
association formed in 1931 for the specific purpose of fighting labor unions (Allen 1940). According to a statement of purpose issued by the National Federation of Industrial Organizations, it would be disastrous to make concessions to labor: “The danger steadily grows greater that the radical labor and social movements will destroy industry and block national progress” (Ouchi 1967: 240). In turn, the zaibatsu’s insistence on self-control prevailed and most associations ended up as cartels dominated by the zaibatsu members (Hashimoto 2003).

Second, despite positive developments of employers’ concessions at the enterprise level, Japanese business ideology underwent no substantial change. The business elite of the 1920s proved unreceptive to the wave of liberal ideas set in motion by the war, as well as the liberal move of the Social Bureau within the Home Ministry (Marshall 1967). Labor rights still received only negative remarks in discussions of business activity, while patriotic devotion of national development remained the only legitimate motive of any importance for the Japanese businessman. One of the most intriguing aspects of the persistence of traditional values in Japan was the failure of the business elite to promote a new social consensus better suited to support their role in an industrial society (Levine 1965). By denouncing the Western philosophy of economic individualism for its stress on the pursuit of personal profit and instead claiming patriotic devotion and a willingness to sacrifice for the common good, Japanese businessmen continued to justify a position of wealth and power for the modern business class in the same line with their stances in the Meiji period.40 However, the management’s stern position – neither the help of labor

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40 Characteristically, the Osaka Chamber of Commerce and Industry clarified employers’ united voices for the labor bill, with the demand that the bill should prohibit public-enterprise strikes, sympathy strikes, disputes with objects other than employment conditions, and strikes by minors. It should also restrict participation by ‘third parties’ and severely punish actions obstructing industry (Miwa 1979: 268).
organizations nor state intervention was necessary to promote the interests of the workers – had been becoming increasingly vulnerable to demands of the firm-based occupational welfare by granting the reductions in working hours, the increased wages, and the expanded welfare facilities, all of which union leaders requested (Abegglen 1973; Gordon 1998a). Management’s answer to these requests formed the argument which had been advanced against the labor movement of the 1920’s and early 1930’s – the claim that Japanese industry could not afford greater concessions to labor other than firm-based welfare and occupational benefits.

In a nutshell, the business reaction to the labor movement in the 1920s and 1930s was marked by its tenacious reluctance to demands for derailing from what it had been, during the campaign for factory legislation in the Meiji period, by not only appealing to traditional norms that could insulate Japan from other Western reforms but also allowing company-based concessions within large firms in return for labor’s loyalty. Consequently, the preservation of industrial peace, from the perspective of employers, requires the duality of their preemptive responsiveness to the potential labor unrest at workplaces, which were not always in tune with the general directions of the state’s social policies.

3.2.3. Labor: In Search of Realistic Adaptations

The overall agreement among many scholars on the issue of labor in the period of the Meiji Restoration is that organized labor did not yet pose a major challenge to industrial production or public order (Kaji 1960; Kazuo 1958; Mantale 1967; Evans 1970). Although some scholars (Hazama 1976; Hirakubo 1999) criticize the notion of workers’
loyalty to the firms as a wrong interpretation of Japanese style of industrial cooperation, there was little of any disagreement on its major attributes and its functions to mobilize harmonious relations between labor and management, thereby creating familial sentiments. Notwithstanding, such a firmly fixed belief in a relationship of affection, harmony, and loyalty easily misses the other side of the truth on workers’ roles, which has been long considered powerless passive collaborators under the alleged premise of ‘corporatism-without-labor.’ Rather than a passive taker of decisions made by the state-business coalition, organized labor in prewar Japan needs to be reassessed as a ‘reactive’ collaborator in search of the realistic adaptations to the changing sociopolitical milieus. In other words, the prevalence of state corporatism in promoting the paternalistic properties of industrial relations could not be rightly maintained without voluntarily (but strategically) cooperative assistance from workers.

Labor in the period of Japan’s modern state-building had not always remained a weak player, rather turning into a crucial factor in labor-management relations. From the early twentieth century to the First World War, an increasing number of riots contributed to boosting the formation of labor movement in prewar Japan (see figure 3-1/3-2). The first move of unionization in Japan was undertaken after the Sino-Japanese War, following further development after the Russo-Japanese War. The expansion of socialism in the 1920s triggered the rise of a new, more militant labor movement because the rapid industrial expansion and the inflation, which had accompanied the war boom, had brought hardship for wage earners (Scalapino 1953: 297-345; Swearingen and Langer 1952: 3-58). The victory of the Western democracies and the initial success of the Russian Revolution had also encouraged political agitators and radical labor leaders, who
resumed their attempts to organize a labor union movement dedicated to far-reaching social reform. As a result, twice as many industrial disputes took place in 1916 as had occurred in 1915, and by 1917 this number had tripled. The struggle for the legal recognition of labor unions had been positively allowed by the kenseikai/minseitō’s party interests, at least, until the employer’s offensive emerged and nonparty-military cabinets came up to power in late 1930, as we discussed in the state section.

However, such a development of organized labor was destined to encounter the penetration of the strong state, due to labor’s internal restraints. First of all, one of main labor problems contains the stunted development of union density. As shown in table 3-2, the number of labor unions increased from 107 in 1918 to 488 in 1926, reaching a peak of 973 in 1936. However, even at labor’s prewar highpoint in 1936, the 420,000 workers organized represented only 6.9 percent of the total workforce (Ando 1975: 129). In 1941, labor organizations gained formal organizational status and recognition by the state, but this status came at the expense of institutional and sectoral autonomy – renamed in the form of industrial patriotic units – for the purpose of the state’s cooptation of labor into Japan’s war efforts, thereby marking the lowest membership ratio (around 0.1 percent). In this regard, despite certain levels of success, labor unions in pre-World War II Japan never became powerful enough to command autonomous legitimacy and recognition by the state.

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41 It is much easier to understand to what extent the size of organized labor and its membership in prewar Japan had been marginalized, if we compare it with that of union density in postwar Japan: 35.1 percent in 1970, 31.1 in 1980, and 25.4 in 1990 (see table 3-1).
### Table 3-2. Labor Unions and Union Membership, 1918-41

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of unions</th>
<th>Union membership</th>
<th>% of industrial work force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918</td>
<td>107</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1919</td>
<td>187</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1920</td>
<td>273</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1921</td>
<td>300</td>
<td>103,442</td>
<td>–</td>
</tr>
<tr>
<td>1922</td>
<td>389</td>
<td>137,381</td>
<td>–</td>
</tr>
<tr>
<td>1923</td>
<td>432</td>
<td>125,551</td>
<td>–</td>
</tr>
<tr>
<td>1924</td>
<td>469</td>
<td>228,278</td>
<td>5.3</td>
</tr>
<tr>
<td>1925</td>
<td>457</td>
<td>254,262</td>
<td>5.6</td>
</tr>
<tr>
<td>1926</td>
<td>488</td>
<td>284,739</td>
<td>6.1</td>
</tr>
<tr>
<td>1927</td>
<td>505</td>
<td>309,493</td>
<td>6.5</td>
</tr>
<tr>
<td>1928</td>
<td>502</td>
<td>308,900</td>
<td>6.3</td>
</tr>
<tr>
<td>1929</td>
<td>630</td>
<td>330,985</td>
<td>6.8</td>
</tr>
<tr>
<td>1930</td>
<td>712</td>
<td>354,312</td>
<td>7.5</td>
</tr>
<tr>
<td>1931</td>
<td>818</td>
<td>368,975</td>
<td>7.9</td>
</tr>
<tr>
<td>1932</td>
<td>932</td>
<td>377,625</td>
<td>7.8</td>
</tr>
<tr>
<td>1933</td>
<td>942</td>
<td>384,613</td>
<td>7.5</td>
</tr>
<tr>
<td>1934</td>
<td>965</td>
<td>387,964</td>
<td>6.7</td>
</tr>
<tr>
<td>1935</td>
<td>993</td>
<td>408,662</td>
<td>6.9</td>
</tr>
<tr>
<td>1936</td>
<td>973</td>
<td>420,589</td>
<td>6.9</td>
</tr>
<tr>
<td>1937</td>
<td>837</td>
<td>395,290</td>
<td>6.2</td>
</tr>
<tr>
<td>1938</td>
<td>731</td>
<td>375,191</td>
<td>5.5</td>
</tr>
<tr>
<td>1939</td>
<td>517</td>
<td>365,804</td>
<td>5.3</td>
</tr>
<tr>
<td>1940</td>
<td>49</td>
<td>9,455</td>
<td>0.1</td>
</tr>
<tr>
<td>1941</td>
<td>11</td>
<td>895</td>
<td>–</td>
</tr>
</tbody>
</table>


Another drawback derives from the fact that Japanese labor organizations in this period appeared negatively correlated with factory size. While union organizers did best in small and medium enterprises, companies with over five hundred employees successfully broke most horizontal unions during the recession of the early 1920s (Sumiya 1955; Kōji 1968). As late as 1928, over 42 percent of the industrial workers in
Japan still labored in factories employing a hundred workers or less (International Labor Office 1933: 23). Obviously, large firms retained more resources than small and medium-sized companies to be mobilized for securing better job conditions, primarily based upon lifetime employment and seniority-based wages, which contributed to retarding workers’ strong demand for organizing unions. From the standpoint of labor, however, the failure of unionism in large firms would be a fatal blow to labor leaders’ intention to multiply the number of horizontal unions at and across workplaces. In tandem with the limitation of small factory workers, the larger proportion of adult females and the difficulty of organizing women workers remained an additional critical obstacle to the development of a broad-based labor movement despite the increasing numerical strength of the labor class. The vast majority of Japanese factory workers until the First World War were employed in textile industry whose largest part of employees had been women workers (see table 3-3), and the percentage of women in average factories remained high – over 50 per cent – throughout the 1920s (Lockwood 1968: 33).42

When the three factors of labor’s internal weakness – the small number of unionized workers in the average plant, the large proportion of women, and the marginalization of unionized workers in larger firms – are considered altogether, it becomes possible to understand why labor union leaders had little success in their attempt to organize workers, despite the restiveness of Japanese labor movements in the 1920s and early 1930s. Likewise, it also becomes possible to figure out why Japanese managers

42 Ironically, even in those enterprises where the size of the factories and the proportion of adult male workers were larger, union leaders too suffered frustration in their efforts to organize workers. The main reason for this was rooted in workers’ tendency for job relocations that skilled workers would leave workplaces at will if a better wage was secured by other firms (Garon 1987). The high degree of job transfers, as discussed earlier, had been caused by the rapid rise of mechanized industry from an agrarian base, which naturally created an enormous demand for labor by the mid-1890s, as well as the shortage of skilled labor in the aftermath of World War I.
and state bureaucrats confidently expected and received a positive response to ideological appeals that stressed traditional norms of paternalism in relations between superior and subordinate (Marshall 1967: 63-65).

Table 3-3. Industrial Workers by Industry, 1902-19

<table>
<thead>
<tr>
<th>Industry</th>
<th>1902</th>
<th>1907</th>
<th>1914</th>
<th>1919</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>269</td>
<td>355</td>
<td>536</td>
<td>794</td>
</tr>
<tr>
<td>Machine &amp; Tool</td>
<td>34</td>
<td>62</td>
<td>88</td>
<td>226</td>
</tr>
<tr>
<td>Chemical</td>
<td>82</td>
<td>65</td>
<td>84</td>
<td>162</td>
</tr>
<tr>
<td>Food &amp; Drink</td>
<td>30</td>
<td>48</td>
<td>58</td>
<td>162</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>32</td>
<td>53</td>
<td>79</td>
<td>110</td>
</tr>
<tr>
<td>Electrical, Metal Refining, Mining</td>
<td>51</td>
<td>60</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>499</strong></td>
<td><strong>643</strong></td>
<td><strong>854</strong></td>
<td><strong>1,391</strong></td>
</tr>
</tbody>
</table>


It is notable that countering their inner shortcomings in the face of the business offensive and bureaucratic interferences, trade unionist officials strategically enfeebled the labor movement’s left-wing fringe, and carried out the course correction of unionism from the Communist militancy to the self-styled ‘realists’ moderating the labor movement and adapting themselves to official labor policy (Garon 1987: 102-4). Led by the realist labor leaders, such as Suzuki Bunji, the social democrats of the labor movement attacked the Communists for utopian theories. The realists instead desired to push forward the public recognition of labor unions as accountable organizations utilizing collective bargaining to minimize, not instigate, damaging strikes at the enterprise level.
(Beckmann and Okubo 1968: 87). This realist approach resulted in institutional effects on labor organizations, which became compatible with the corporatist traditions invented by the state – harmonious cooperation. Therefore, we now know that the cooperative or apolitical stance of labor unions towards employers as well as the Home Ministry was not necessarily an involuntary outgrowth imposed by the state-business coalition, but a strategic decision that workers went for in dealing with their own problems.

The first and principal consequence of such a realist institutionalization, according to Byron Marshall (1967: 78), ensued in the formation of yūaikai (Friendly Society), a loosely structured labor association that owed its continued existence in part to the support it received from some within the business community. Yūaikai was founded in 1912 by being modeled after the British friendly societies, which had similarly served British workers when unions were illegal in the early nineteenth century. By dedicating themselves to harmony and cooperation between labor and management, yūaikai leaders adroitly evaded legal repression. Even labor union opposed the individualistic views of the West, arguing that society is a collective body (kyōdō dantai): “The progress of industry depends upon cooperation and harmony between capital and labor” (Nakamura 1959: 144-145). Eventually, yūaikai endorsed the paternalistic philosophy of Japanese management:

“The capitalist works and creates the facilities that promote the happiness and well-being of the workers. He not only provides facilities for the education, health, and recreation of the workers, but also for death, sickness, and old age. He provides housing and encourages [the habit of] saving. In doing all this he is like a kind and loving parent and loves his children: between them there is no discord, no [problem of] obligation, but rather there is a spirit of mutual trust. On this basis the factory becomes exactly like a family.” (Suzuki 1931: 191).
However, the spread of militant labor union movements during and after the First World War caused yūaikai to issue its declaration of principles coupling its appeal for harmony and compromise with an assertion of the basic equality of management and labor and the necessity that each recognizes the other’s rights (Nimura 1975: 106-7). While Suzuki had committed his yūaikai to a cautious policy of harmony between labor and capital, local branches of the embryonic labor federation spearheaded many of the major strikes during 1917 and 1918. Despite massive dismissals by the government, yūaikai attracted thousands of new members from among skilled workmen, and transformed its original foundation of craft unions into a genuine labor union federation, thereby being renamed dai nihon rōdō sōdōmei – yūaikai (Greater Japan General Federation of Labor and the Friendly Society) in 1919, and simply much more autonomous sōdōmei (Japan General Federation of Labor) in 1921.\(^43\) Its offensive movement against vicious labor laws notwithstanding, sōdōmei itself continued to stick with the shared motto of “harmony between Labor and Capital” as the backbone of its organizational adaptations to the state and the business sector. In May 1925, sōdōmei’s realists – Nishio Suehiro and Matsuoka Komakichi – steered the central committee to isolate Communist elements within sōdōmei by expelling twenty-five unions that backed the Communist group (Scalapino 1983: 216-17).\(^44\) In turn, throughout the 1920s, governmental officials considered the trade unionist activities of these realistic labor

\(^{43}\) In response to the labor disputes of 1917-19, led by yūaikai, industrialists, particularly the conservative Terauchi government, retaliated by dismissing yūaikai members and smashing several locals under Article 17 of the Police Regulations and other repressive laws (Kamii 1979: 170).

\(^{44}\) The purged unions by sōdōmei immediately formed nihon rōdō kumiai hyōgikai or hyōgikai in short [Japan Council of Labor Unions]. In line with Comintern policy, hyōgikai organized workers as part of a political class struggle, committing the federation to forming a united proletarian party in anticipation of universal manhood suffrage.
organizations a welcome alternative to the politicized tactics of the radical left-wing unions (Naimushō 1971: 22-23).

Indeed, the realist (or moderate) labor’s drive to implement social democracy via the state made symbiotic relations between the state and labor for maintaining industrial harmony and improving workers’ welfare (Beckmann and Okubo 1968). The labor movement’s turn to the state responsively stimulated governmental policy towards organized labor to keep on the traditional tenets of paternalistic harmony between management and labor, without any dramatic changes or forced dismissals of unions in the mid-1930s, despite increasing military authoritarianism. By 1934, representatives of the Social Bureau regularly attended the annual conventions of sōdōmei, and the Home Minister and the director of the Social Bureau sent warm messages of greeting ahead to these conventions (Naimushō shakaikyuku rōdōbu 1934: 285). Such a self-adjusting profile of prewar Japanese labor gratified the social bureaucrats, particularly with the public commitment of most federations to minimize strikes following the Manchuria Incident. In return for this realistic adaptation, labor was able to take what really mattered, job stability, in the form of lifetime employment systems and other welfare benefits at the enterprise level, at least, prior to the dismissals of labor unions by the military fascism of army supremacy in wartime. All in all, it can be stated that Japanese workers in revolution and wars had not been an absolutely stunted player under the strong dominance of state-business coalition, but a rational realist in search of survival and protections through either self-adaptation or symbiosis with the counterparts.

Characteristically, Suzuki’s collaboration with the Home Ministry, in the wake of the Kantō earthquake of 1923, marked the beginning of close relations between Social Bureau officials and moderate labor unionists. The Social Bureau’s Labor Division subsequently nominated Suzuki to be the first labor representative to serve with businessmen, scholars, and officials on the Social Bureau’s advisory council (Totten 1966: 47). This did not prevent Suzuki from cleverly playing upon sōdōmei’s new legitimacy in bureaucratic circles to demand official recognition of unions in the selection of the ILO workers’ delegate.
3.3. THE CHARACTERISTICS OF JAPAN’S STATE CORPORATISM

The social origins of Japanese corporatism reflect the logical outgrowth of the mutual construction – among the state, management and labor – of state corporatism, despite the imbalanced structure of power distributions. Such results became the initial sets and later the backbone of Japanese corporatist governance designed for the making of industrial harmony. With the analytical sequences of a path dependent approach, antecedent historical conditions define a range of options available to actors standing at a key choice point (Mahoney 2000; Pierson 2004; Ebbinghaus 2005). Thus, the awareness of the initial characteristics of antecedent conditions during the period of Japan’s state-building is a necessary element to discover how to distinguish the past experiences that are going to shape future – diffusion and developmental pathways – in postwar Japan. Indeed, we cannot understand postwar changes without appreciating the persistent influence of prewar and wartime labor policy and political intervention of the state.

As we discussed above, Japan’s state corporatism was a mosaic evolving from the complex interplay of numerous factors, which can be subsumed under the four focal characteristics: (i) the central role of the social bureaucrats; (ii) rise and fall of the bourgeois liberal alternative; (iii) the emergence of the realistic labor leaders; and (iv) the tensions between business and the state. This complex picture within which all three players interacted with each other in their own ways to forge industrial peace, eventually, ended up with a converging effect institutionalizing ‘corporate welfarism’ at the enterprise level as a realistic solution to neutralize the labor claims and maximize paternalistic interests of the state and management (Kim 2008a). The three pillars of
Japan’s postwar industrial systems – enterprise unionism, lifetime employment and seniority-based waging system – originated from these antecedent historical conditions that later on serve institutional foundations by which the self-enforcing positive feedback engendering path dependence are constantly delivered to enterprise-based micro-corporatism. In this regard, the main features of state corporatism in prewar Japan can be described by the three following highlights.

3.3.1. The State as the Core of Corporatist Governance

As the core of corporatist governance, Japan’s prewar governments – more precisely, the Home Ministry – had directed dual policies for the purpose of one common objective: constructing industrial harmony embedded in paternalistic cooperation between management and labor at workplaces. Since the 1890s, the Home Ministry’s social bureaucrats endeavored to persuade industrialists and economic bureaucrats that the state had an obligation to protect workers from exploitative employers and the uncertainties of life, thereby marshalling the legislative measures of the Social Bureau’s progressive labor bills between 1925 and 1931. By contrast, the dark shadow of repressive measures of state corporatism forced the social bureaucrats to regard liberal labor policy as instrumental means to preserve public order and advance state objectives. By 1940, imperial officials switched to the policy of eliminating all unions after convincing themselves that state-sponsored industrial patriotic units would better advance wartime mobilization.

The state’s underlying aim of acting upon such dual policies was to depoliticize
organized labor, primarily by not only taking preventive engagement with the latent labor unrest before it actually broke out, but also limiting job-related economic concessions to the factory-based unionism, rather than horizontal federations. Under antecedent historical conditions, the emergence of the labor movement and social policy aimed to respond to it had always been equilibrated on the middle ground between economic concessions assuring job stability including other fringe benefits and political concessions bestowing credentials of political partners on unions. By prioritizing Japan’s economic and military prowess as the top national project, the state treated social policy problems as a secondary concern, and reified the state’s paternalistic control of the labor movement as a conventional wisdom of the effective governance. Mainstreaming welfare paternalism as a critical solution of negotiating harmonious cooperation between management and labor resulted in locking workers in large firms in enterprise-based concessions, and holding them to reduce the diffusion of their choices out of welfare benefits to political challenges. The centrality of the state as a rule-setter in terms of corporatist governance has been continuously sustained so that both employers and employees allowed government intervention in labor disputes in postwar Japan, despite varying degrees of the state’s influence.

3.3.2. Institutionalizing Foundations for Self-enforcing Returns

The most important heritage that antecedent conditions bequeathed to later historical junctures in postwar Japan is the introduction of lifetime employment at the plant level, which has been one of the most distinctive and controversial aspects of Japanese labor-
management relations since the Meiji period. Other employment practices, such as seniority-based wages, slow evaluation and promotion, collective responsibility, and cross-training, could be feasible only in conjunction with lifetime employment (Koshiro 1984). Indeed, lifetime employment was at the center of institutional foundations to generate positive feedback on corporate welfarism, in which each increment added to the line of activity for lifetime employment yielded much larger rather than smaller benefits that workers could earn out of workplaces.

The initial formation of the lifetime employment system originated in large firms around 1910. The promise of lifetime employment, previously limited largely to the white-collar workers, was increasingly extended to production workers after the First World War. With this came a wage structure based primarily upon length of service, and an elaborate system of family allowances, welfare provisions, and other fringe benefits (Levine 1965: 645-51). Although the adoption of these policies represented significant changes in the sphere of actual practice, they did not entail any substantial changes in the traditional master-retainer paternalism of business ideology and workers needed to develop a long-term commitment and loyalty to the firm, rather than a short stay in a factory.

Moving along with the two following objectives, lifetime employment contributed to maintaining paternalistic cooperation between labor and management, which the social bureaucrats and the business leaders all were eager to sustain. First of all, it was greatly useful to reduce job separation rates. Factory owners in the pre-1945 Japanese society were preoccupied with the problem of workers leaving their jobs at will (Hazama 1976: 23-4). Given that the early industrial workers inherited the traits of the Tokugawa-era
artisan, particularly the tendency of many journeymen to wander from master to master for seeking the better pay for the fewer hours, its contemporary validity during the period of Stage I hardly conveys the image of assiduousness and loyalty (Gordon 1985: 28-9). Also, World War I brought about a rapid growth of heavy industries and a shortage of skilled labor workers; moreover, as the mechanization advanced rapidly and firms grew larger, production technology and work organization became increasingly firm-specific. Accordingly, major employers began introducing lifetime employment with other associated fringe benefits in order to train and retain skilled workers, who were known for lacking corporate loyalty, at the firm level (Moriguchi and Ono 2006). As figure 3-3 well describes, the separation rate of manufacturing workers declined considerably from 81 percent in 1923 to 41 in 1940, with some upward trends during this period, and surprisingly, remained low thereafter in postwar Japan up to 2000s, unlike many scholars’ prediction of its demise (Cole 1971; Beck and Beck 1994). In this vein, it can be stated that the Japanese lifetime employment has been steadily path-dependent with self-reinforcing returns of positive feedback from old institutions.

Second, the promise of a long-term employment and its entailing job security resulted in the emergence of ‘factory as moral community’ that could be matched with the notion of stakeholderism in postwar Japan (Han 1994). Given that Japan’s Relief Regulation (jukkyu kisoku) excluded the working poor completely from its coverage, in stark contrast to the poor relief law in Britain, workplaces, from the perspective of the poor, were perceived as an alternative haven where extra welfare benefits, other than the wages, could be guaranteed for their poor relief by company employers (Kinzley 1991). Together with the emphasis upon the role and identity of factory communities, wealthy
large firms were greatly able to weather strikes and lockouts via the introduction of lifetime employment securing job stability for more than 10 years (Moriguchi 2000). Big companies could also afford to lure workers away from unions by offering improved benefits, better working conditions, and attentive personnel or labor sections. Moreover, managers routed the horizontal unions by instituting works councils, company unions, and other vertical organizations constituting direct channels of harmonious communications between employers and employees. In consequence, workers were bound to show their loyalties to factory communities organized by economic concessions that managers prepared in coalition with the government in many cases.

Figure 3-3. Annual Separation Rates of Manufacturing Workers, 1923-2001 (%)

3.3.3. The Level of Corporatism: Varieties of Micro-Corporatism

The introduction of lifetime employment turned out to be so politically influential as to dissuade workers from the nation-level federations but to instead incorporate them at the plant level. The resultant upshot was to encourage both workers and managers to reach a peaceful solution to labor conflicts via a variety of institutional arrangements within factories, instead of resting on the power of the third party from outside the workplace (Pempel and Tsunekawa 1979: 254). In other words, enterprise unionism was seen as important to the task of weakening the potentially disruptive capacity of labor on the existing political economy. A significant policy for the enterprise-level incorporation of workers firstly started with the National Railways in 1906, and then spread out to the private sector, particularly among large-scaled enterprises (Sumiya 1955). In the rhetoric of management, workers should give total loyalty to their employer in exchange for paternalistic benefits such as family sickness allowances that the employer would grant them. The level of corporatism in this period, therefore, boiled down to the micro-level corporatist governance that scaled down the effects of state corporatism into the plant level. Japanese micro-corporatism in the prewar period also plays a significant role in sustaining industrial harmony thereafter in postwar Japan by not only triggering positive feedback to the enterprise level of corporatism but also deactivating the labor’s collective actions to develop a peak federation representing labor unions.

There were various modes of micro-corporatist institutions at work, which were set by the state or its alliance with employers of large companies. The first case was found in the establishment of ‘mutual aid societies’ designed to protect employees from
injuries, sickness, and disabilities within factories (Shinkawa 2007: 64). The government and business leaders encouraged the establishment of mutual aid societies: 26 mutual aid societies, between 1890 and 1904, were launched in the private sector, particularly large firms; the number dramatically rose to 97 between 1905 and 1911 and 263 between 1912 and 1917, respectively. Mutual aid societies, financed by employees’ large contributions and employers’ subsidies, organized the consultation bodies where employees could consult or negotiate the problems of the poor relief with managers. Business and political elites regarded the mutual aid society as a means by which to promote firm loyalty among employees, maintain labor-management harmony, and prevent employees from organizing themselves and acting collectively.46

Second, the Social Bureau, by law, advised companies to accept the governmental administration of a health-and-accident-insurance program or set up their own health insurance associations consisting of an equal number of workers and employers (Garon 1987: 111). Going into effect in 1926, the 1923 revisions to the Factory Law directed company managers to pay ill or injured workers up to 60 percent of their wages for six months and 40 percent thereafter; they increased from 50 percent for three months and 33 percent subsequently. Moreover, the Health Insurance Law of 1922 – fully enforced in 1927 – provided a new forum for face-to-face negotiations between worker representatives and employers. These social policies significantly secured positive implementations of employment practices and harmonious relations between labor and capital at the enterprise level.

46 Regarding the practicability of the mutual aid society, a prominent business leader, Sanji Muto, president of a major textile company of the time, contended that relief should be provided in such a fashion that employees would appreciate generosity and paternity of their employers at the workplace (Shibata 1998: 123).
Table 3-4. The Growth of Works Council, 1925-36

<table>
<thead>
<tr>
<th></th>
<th>Number of councils</th>
<th>Format of deliberations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Decision-making</td>
<td>Informal discussion</td>
</tr>
<tr>
<td>1925</td>
<td>168</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>1928</td>
<td>171</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>1933</td>
<td>196</td>
<td>126</td>
<td>70</td>
</tr>
<tr>
<td>1936</td>
<td>274</td>
<td>63</td>
<td>211</td>
</tr>
</tbody>
</table>


The third and the most salient pattern of enterprise corporatism in prewar Japan culminated in works councils (rōdō iinkai) spearheaded by the Home Ministry in the 1920s (Totten 1967; Gordon 1985: 130). Due to the modest role of kyōchōkai in dealing with the labor offensive in 1919, Home Minister Tokonami Takejiō of the Hara cabinet (1918-21) devised more direct methods of not only establishing vertical unions at the firm level but also staving off the development of horizontal labor unions at the national level. For this matter, Tokonami offered legislation that would establish works councils, which grouped workers and managers, in all enterprises employing a minimum of fifty workers. Tokonami’s draft bill gave factory owners the full right to select the council president, and it further stipulated that new employees could neither elect nor serve as workers’ representatives to the councils. Works councils were set up first within the National Railways in May 1920, and other governmental employers as well as several zaibatsu leaders were forced to set up similar councils over the next few years. As shown in table 3-4, the number of works councils had been on the increase from 168 in 1925 to 274 in 1936. Although the formation of works councils on a nationwide basis eventually ended in failure, works councils contributed to considering micro-corporatist governance
a concrete effective solution to labor problems, and guiding both sides of labor and management to allow state intervention for the purpose of helping define a new system of industrial relations (Nishinarita 1985).

Finally, in August 1938, the Home and Welfare Ministries specifically instructed prefectural officials to promote the universal mandatory formation of plant-level industrial patriotic units, which would consist of the employer and all employees (Notar 1985; Kanda 1981). To give meaning to the spirit of industrial patriotism, the joint directive of the two ministries insisted that each unit create labor-management discussion councils with powers to engage in various labor-related matters, including wages, hours, and working conditions. A semi-governmental Industrial Patriotic Federation had already been established for the purpose of coordinating activities among the enterprise units. Prior to the cessation of World War II in August 1945, such an extremely fascist apparatus of enterprise corporatism run rampant across all the Japanese big business, and continued to lay institutional foundations of micro-corporatism which were taken over by the subsequent political authorities in postwar Japan, even with a new democratic form of corporatist governance.
It is not surprising that the end of the Second World War in August 1945 and the following Allied Occupation (1945-1952) would mark a sea change in institutional domains of Japan’s postwar industrial relations. It is rather surprising that the Supreme Commander for the Allied Powers (SCAP) rolled back its reformative actions for democratizing labor policy in the face of changing international circumstances, particularly the deepening of the Cold War. Given the fact that the SCAP failed to sever Japan’s prewar statist machination in the postwar period, the postwar democratization as a critical juncture has been losing a momentum to roll out a genuine institutional change for a more labor-centered democratic governance in postwar industrial relations.

The advent of the two oil crises in the 1970s is seen as another historical juncture in the sense that high-ceilinged inflation and soaring unemployment would result in bringing about institutional changes in labor-management relations from the relative quiescence of labor to the confrontational labor offensive. Counter to this assumption, labor opted mostly for the collaboration with management to increase productivity in return for its fair share of the profits and its participation in company policymaking
(Kume 1988; Carlile 2006). The successful formation of industrial peace following such detrimental oil crises is graphically verified by a simple indicator showing that days lost in strikes per 1,000 workers per year dramatically declined from 219.9 in 1975 to 3.8 in 1988. It is therefore fair to state that the external shock and its resulting crises in domestic terrains were not an effective medium to transform the Japanese mode of path dependence embedded in enterprise-centered traditions of labor politics.

Having said that, what are the emerging differences between the Japanese industrial relations systems throughout the postwar years from the 1950s to the 1980s? Have the essential elements of the industrial system been preserved, or has the system been transformed into even somewhat a different domain? Interestingly, every economic recession in the postwar period led to speculations about the end of the Japanese employment system. As many scholars argue, crisis years put systems under stress, leading to the collapse of old relationships and the emergence of critical periods of flux during which new relationships and institutions have to be constructed (Gourevitch 1986; Skowronek 1982; Haggard 2000). With the benefit of hindsight, such speculations appear to be under a delusion, although painful adjustments had to be made to preserve the system. Subsequently, every time recessionary pressures were felt, after the 1974 First Oil Shock, the 1979 Second Oil Shock and the 1985 yen appreciation following the Plaza Accord, business raised an alarm, but the crisis mentality of all three actors – the government, labor and management – led to pooling together of resources to overcome problems. Nevertheless, the 1990s’ lost decade would witness something totally different from economic recessions during Stage II, in terms of its intensity on the transformation of Japanese industrial relations system. This chapter will discuss the magnitude of path
durability in managing industrial harmony on the basis of enterprise-based micro-
corporatism in postwar Japan, prior to the 1990s, which will be investigated in the next
chapter.

Hence, the ultimate task ahead that we are going to tackle in this chapter is to
detect whether postwar changes were not so sufficient to generate a new set of social
institutions that would be flexible enough to allow all three industrial actors to weather
and adapt to its current pressing challenges. Obviously, it requires the examination of
transwar continuities which places contemporary Japan within its historical context. We
cannot hope to understand postwar changes without appreciating the persistent influence
of prewar and wartime labor policy and political behavior. Any discussion of the Japanese
government’s policies toward the labor movement after World War II can be further
developed on top of what we considered the complex legacy of these earlier programs
and relationships in chapter 2.

Stage II encompasses the two analytical fronts of postwar Japan’s formation and
maintenance of industrial peace in the wake of the succeeding historical contingencies,
such as democratization as a result of war defeat, high economic growth, and the external
shocks of the two Oil Crises. First, it focuses on the ‘trodden trail’ of path dependence,
indicating that institutional change for path shaping of labor-management relations ended
in failures (Ebbinghaus 2005). With regards to path dependence in cases of institutional
change in countries experiencing frequent and deep national crises (Higgs 1987), it is
essential for us to pay attention to how typically transaction costs – the costs of defining,
measuring, and enforcing a transaction – associated with institutional change serve as
impediments to rapid or jolting change (Williamson 1994; North 1987; Buchanan and
Second, it uncovers the sources of ‘increasing feedbacks’ to promote the durability of past institutional vestiges in postwar institutional arrangements of the Japanese labor politics. Such positive returns are self-reinforcing by emphasizing the protection of employment security and economic concessions at the enterprise level as the very fabric of Japan’s industrial harmony. The strong presence of the state has been still there, as it were in the prewar society, in the form of developmental state (Johnson 1982), but the way of its engagement and the weight of overarching impacts shifted from the state-dominated corporatism to voluntary consultations/ negotiations between capital and management. Indeed, harmonious enterprise-based paternalism with state intervention in the prewar industrial relations had been further deliberately transformed into the stakeholder-community-based micro-corporatism in postwar Japan. At the center of Japan’s industrial peace formation is the incremental consolidation of stakeholderism, as many scholars commonly argue (Dore 2000; Jackson 2006; Tiberghien 2007, Aoki et al. 2008). Stakeholder economic systems effectively integrated a complementary set of industrial organizational features (cross-shareholding), stable employment practices, bank-centered corporate finance, and welfare corporatism that set them apart from the more liberal systems in the United States and the Great Britain. It is also important to note that increasing contributions of stakeholderism at workplace are viewed as a social construct that the tripartite industrial actors of labor, management, and the government came up with on the basis of mutual consensus, via scaling down the level of interactions to enterprises, rather than organized labor at the national level.
4.1. HISTORICAL DEVELOPMENT OF CRITICAL JUNCTURES

There is little question that Japan’s postwar industrial relations have hardly experienced any drastic institutional changes in responses to international and domestic crises (Cole 1971a). In some respects, the Japanese political economy of industrial relations has seemed remarkably stable by Western standards. Nevertheless, institutional requirements for nurturing the stability in postwar Japan were possibly higher to restrict what constitutes unwanted political change than has prevailed elsewhere in the industrialized world (Calder 1988: 14). As a first step to understand the stability requirements, it is necessary to explore the historical evolution of critical junctures where past choices for the stability of industrial relations encountered new challenges to transform them. Historical contingencies affecting strategic activities of all corporatist players in postwar Japan consist of the three sub-junctures: (i) limited democratization by the American military occupation; (ii) the high growth period; and (iii) the two Oil Shocks in the 1970s.

4.1.1. The American Occupation and the Rollback of Democratization

Immediately after Japan’s surrender in August 1945, the nation’s labor politics was placed under the SCAP’s indirect governance. Its main aims in the postwar labor issues were undertaken to incorporate Japanese labor into the free world of democracies (Nakakita 2008; Reischauer and Jansen 2003; Gordon 1993). The American military occupation of Japan played a significant role as an effective shaper of change with broad policy directives for sweeping reforms to stop the Japanese militarists in postwar Japan.
Along with the demilitarization of Japan\textsuperscript{47}, the Occupation further carried out political reforms, primarily the democratization policy of Japanese society and the economy, which had been done in various domains. Indeed, it appeared as if the ratchet effect of the past institutions was not in full operation, as the American occupiers orchestrated the adoption of a new Japanese constitution, dissolved zaibatsu, purged some members of the bureaucracy directly associated with the war, implemented extensive agricultural land reform, and instituted new labor laws promoting the right of labor to bargain and act collectively.\textsuperscript{48} Particularly, the Occupation’s attempt to liberate labor from the prewar

\textsuperscript{47}The Allied Occupation’s actions for the demilitarization of Japan entailed the punishment of seven war criminals including General Tojo, the destruction of military ships and weapons, the demobilization of the army and navy, and a new constitution (Article 9) renouncing war and the maintenance of any war potential forever.

\textsuperscript{48}Austrian school economist Robert Higgs (1987) used the term of \textit{the ratchet effect} to describe the seemingly irreversible expansion of government in times of crisis. Governments or leading players have difficulty in rolling back huge bureaucratic organizations created initially for temporary needs – for example, at times of war, natural or economic crisis. The effect may likewise afflict large business
military rule resulted in an explosion of the labor movement led by Japanese workers under the slogan of ‘democratization of management.’ Accordingly, union density (the percentage of union membership in the total labor force) rose to 52 percent by 1949, compared to the prewar peak of 8 percent (see figure 4-1).

However, Such a great effort of the Occupation’s programs for dismantling wartime institutions was interrupted by the well-known “reverse course” in US policy from 1947 to 1948, which culminated in the outbreak of the Korean War in 1950. Rolling back democratic reforms was essential to keep Japan, with her strategic location, large population and considerable industrial power within the free world, in order to help contain the Soviet Union and Communist China. Following the outbreak of the Korean War on 25 June 1950, Japanese rearmament began in accordance with General MacArthur’s instructions, while the San Francisco Peace Treaty and the US-Japan Security Treaty signed on 8 September 1951 linked Japan to US military strategy (Calder 2004). Due to the fact that Japan was the centerpiece of US strategy in East Asia, Japan regained its sovereignty in September 1951, and many of the wartime institutions were still in place without being severely affected by the Occupation’s democratization policy. As Carol Gluck (1993) aptly evaluates the reformative actions in postwar Japan as ‘the past in the present’, it seems rather pointless to continue to treat prewar and postwar Japan as if they were two different societies. For all the changes introduced by the Occupation, the Americans maintained the prewar civilian elites in large part, relying on the bureaucracy in particular to implement reforms on behalf of the Occupation authorities. General MacArthur’s enthusiasm for a democratized Japan did not so much
create new political forces reshuffling the power balance between existing groups of Japanese politics. The return of past power elites quickly resurfaced to affect relations among the bureaucracy, the parties, the business community, and organized labor. In a nutshell, it is not exaggerated to stress the impressive continuities in policies and politics between pre-1945 and postwar Japan.

Notwithstanding the specter of past institutions in postwar Japan, it is also worthwhile to note that there were significant progresses of trade unionism following SCAP’s announcement of its support for unions in October 1945. SCAP reformers took away ownership and control from holding companies dominated by the zaibatsu families (Mitsui, Sumitomo, Yasuda, Iwasaki, Asano, and others), and they went beyond redesigning the basic direction of labor-management relations by encouraging and advising unions and at first even welcoming the extraordinary drive of organizing and strikes (Gordon 1998: 7-9). The resulting militancy of labor activists created their radical tactics and goals, which made 157,000 newly organized workers engaging in 233 instances of ‘production control’ by challenging fundamental capitalist notions of private property and managerial authority (Moore 1983: 104). A socialist revolution as their ultimate political goal triggered the unionist project of democracy and equality, thereby resulting in organizing the sanbetsu federation (Japan Council of Industrial Labor Unions) which was dominated by the Japanese Communist Party and whose drive culminated in the 1946 ‘October Struggle’ of over 100 strikes involving 180,000 workers nationwide. When sanbetsu collapsed, the radical unionists joined in creating the sōhyō federation (General Council of Trade Unions of Japan) in 1950, and further, together with

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after the German Reichs-bank law of 1939. Both were designed to mobilize resources for the national government in wartime. The Diet left the Central Bank law intact until 1990.
another union federation but conservative one, sōdōmei (Japan Federation of Labor),
developed the labor offensive via shuntō (annual spring offensives) launched first in 1955
(Takanashi 2002). Under these historical circumstances, the industrial progression,
underlying the first serious calls for institutional change and setting forth the process by
which such change would proceed in Japan’s postwar society, seemed to quickly require
large-scale economic concessions at the national level.

### Table 4-1. Corporate Welfare Programs in 1949 (%)

<table>
<thead>
<tr>
<th>Welfare program</th>
<th>All firms</th>
<th>500 or more workers</th>
<th>100-499 workers</th>
<th>30-99 workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company housing</td>
<td>58.7</td>
<td>96.3</td>
<td>82.4</td>
<td>54.8</td>
</tr>
<tr>
<td>Dining facilities</td>
<td>21.5</td>
<td>72.2</td>
<td>37.6</td>
<td>14.7</td>
</tr>
<tr>
<td>Company loan</td>
<td>9.4</td>
<td>31.9</td>
<td>14.6</td>
<td>6.8</td>
</tr>
<tr>
<td>Medical clinic</td>
<td>18.4</td>
<td>96.6</td>
<td>43.5</td>
<td>7.6</td>
</tr>
<tr>
<td>Health and safety</td>
<td>50.1</td>
<td>94.6</td>
<td>75.4</td>
<td>41.0</td>
</tr>
<tr>
<td>Recreation programs</td>
<td>26.4</td>
<td>77.4</td>
<td>50.4</td>
<td>17.3</td>
</tr>
<tr>
<td>Athletic facilities</td>
<td>22.0</td>
<td>87.7</td>
<td>46.9</td>
<td>11.8</td>
</tr>
</tbody>
</table>


Indeed, newly established unions under postwar Occupational reforms
successfully demanded the equal treatment of all employees, a contractual employment
guarantee, and direct participation in management in order to improve their status,

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50 The basic organizational direction of sōdōmei, founded in 1919, contained the message of the cooperative
wing of the prewar labor movement into the postwar era. In ideology, sōdōmei resembled the mainstream
of the postwar union movement in the United States. Its member unions accepted the basic framework of a
capitalist society and saw their role as the defense of workers within it. This conventional labor view
carried the principle that labor and management had a common general interest in making a capitalist
system viable, but predictable differences separated the two sides, though these differences could normally
be settled through good-faith bargaining.
welfare and bargaining power (Moriguchi and Ono 2006: 159). The labor movement was quickly radicalized, often resorting to collective violence against managers during labor disputes. While management was paralyzed by economic disorder and political turmoil, many employee unions won extremely favorable contracts during 1945-49 that stipulated generous wage increases, a variety of welfare benefits, and employment security (Gordon 1985: 345). By 1950, a substantial majority of large firms (500 or more employees) had instituted major corporate welfare programs (see table 4-1).

However, labor’s initial victory was soon discolored by management’s counteroffensive coming out of the American sudden turn from agent of anti-feudal revolution to supporter of capitalist recovery. In July 1948, General MacArthur advised the Japanese government to revise its labor laws and the Yoshida cabinet eagerly responded with a new law designed to deny public sector unions the right to strike. In 1949, SCAP pursued the Dodge plan to promote recovery through an extremely austere fiscal and monetary policy. Tight money and state pressure on firms to restrain wage costs led enterprises nationwide to dismiss thousands of workers, thereby posing a serious challenge to long-term employment and provoking numerous unsuccessful acts of union resistance. Such rationalization plans of management bought about the most violent labor disputes in Japanese history which took place between 1949 and 1954, involving major companies, such as Toshiba, Hitachi, Toyota and Nissan, with an unprecedented 14 million days lost by strikes (see figure 1-1). In response to assertive labor strikes, management sought the employer’s offensive prevailing over labor by establishing the ‘second union (daini kumiai)’ at the workplace (Yamamoto 1991). Management concluded an agreement with the second union in order to expel the radical union leaders
and undertake dismissals by a familiar method of voluntary retirement and augmented dismissal compensation. Management’s strategic moves to the labor offensive had been symbiotically supported by the American Occupation in the sense that Americans in June 1950 directed the Japanese government to fire over 12,000 union activists identified as Community Party members or any sympathizers, and the Yoshida administration complied with this directive. As a result, by the end of 1950, the number of union members had kept falling from 6.7 million to 5.8 million, and the unionized proportion of the work force had dropped by nearly 10 percent (Ohara shakai mondai kenkyushō 1959: 138).

At this critical juncture of democratization in postwar Japan, unions learned a hard but important lesson that their unrestrained demands might be unsustainable in the face of economic reality and the business offensive combined with the SCAP’s rollback policies. Employers also learned that rationalization measures could provoke costly labor disputes. The second unions became institutionally the underpinning for enterprise unionism, which was characterized by labor-management cooperation in pursuit of corporate goals embedded in most large Japanese firms in the following decades (Shirai 1992). In a nutshell, the Japanese idiom of “sleeping together but dreaming separately” might be aptly analogizing uncomfortable but realistic symbiosis between labor and management in the early postwar years of Japanese society.

4.1.2. The High-Growth Period and the Developmental State

The 1960s and the first half of the 1970s in postwar Japan are known as the ‘high-growth
period.’ The period kick-started from the ‘Income Doubling Plan’ launched by the Ikeda cabinet in 1960, under which economic goals were set to more than double Japan’s GNP in the course of the next decade (Murakami 1987). Actual results exceeded this, as it took less than seven years to double average personal incomes (see table 4-2). The real GNP growth rate during 1960-73 averaged 10 percent, and this unprecedented achievement propelled Japan into the ranks of industrially-advanced countries in such a short period of time. This successful story of economic growth has implanted the idea that there is a confident ‘Japanese model,’ which is broadly characteristic of and accepted by all Japanese society, ignoring much conflict and tension within this positive delusion.

In the wake of the high-growth period in the 1960s onwards, it would be natural to assume that the policy urgency of labor problems, from the perspective of the Japanese governments and the business sector alike, would be demoted to a secondary concern of the national priority, due to imminent weight of rapid economic development. The real historical observation at workplace, however, tells us different accounts less of solutions than of debates, some of which began long before 1945 and are unlikely ever to be resolved (Hein 1993). First of all, labor forces during this high-growth period had never been completely controlled by management planning or state-business coalitions. As evidence, Ikeda Hayato’s cabinet (1960-64) abandoned Kishi’s confrontational tactics against the Japan Socialist Party (JSP) and sōhyō, which had climaxed in the riotous events surrounding the revision of the US-Japan Security Treaty in 1960. No event forced a change in the Liberal Democratic Party (LDP)’s labor policy more than the heated labor dispute at Mitsui’s Miike Coal Mine in 1959-60 (Gordon 1998b).51 The lessons of

51 As oil incrementally replaced coal as Japan’s primary energy source, the MITI and the mine owners formulated plans to reduce the labor force and rationalize production lines of the coal industry including
Miike’s labor offensive, despite its negative impacts on the death of a truly autonomous labor movement in the postwar era, prompted the government to play a much more active role in not only maintaining employment and job security at the enterprise level but also launching several forums for tripartite deliberations on labor policy during the late 1950s (Taira and Levine 1985: 259; Garon and Mochizuki 1993: 161). Also, state intervention resulted in restraining the laid-off miners and identified labor and management as two main actors for dispute settlements in cooperation with the government.

**Table 4-2. Per Capita GNP and its Annual Rate of Growth, 1955-1980**

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita GNP (1,000¥)</th>
<th>Growth rate (%)</th>
<th>Year</th>
<th>Per capita GNP (1,000¥)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>312</td>
<td>–</td>
<td>1970</td>
<td>1,123</td>
<td>9.8</td>
</tr>
<tr>
<td>1960</td>
<td>455</td>
<td>7.8</td>
<td>1975</td>
<td>1,319</td>
<td>3.3</td>
</tr>
<tr>
<td>1965</td>
<td>702</td>
<td>10.1</td>
<td>1980</td>
<td>1,621</td>
<td>4.2</td>
</tr>
</tbody>
</table>


The labor offensive during the high-speed growth had been, for the most part, stabilized by the annual wage negotiation of *shuntō* through which the number of strikes increased but they became shorter in duration than those of the previous period. This change took place as a result of the development of the institutionalized wage bargaining pattern, thereby making labor-management relations more predictable and

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Mitsui’s Miike Coal Mine. The *sōhyō*-backed miners’ union at Miike resisted the massive dismissals, and management responded with a lockout in January 1960. In the most dramatic confrontation in postwar Japanese labor history, twenty thousand *sōhyō* activists joined Mitsui’s strikers to face ten thousand police in early July of 1960. With the initiative of the progressive labor minister Ishida Hirohide, the Central Labor Relations Commission eventually mediated this labor struggle and the dispute ended in September (Shinzō 1982: 447-70).
institutionalized (Kume 1998: 15). The consolidation of shuntō could be seen as a new societal backbone of institutional change through which labor derailed itself from the influence or legacies of the past governance pattern of industrial relations; but the possibility of path-shaping effects on a new path of industrial harmony will be discussed in later parts of this chapter.

In contrast, the government’s methodical engagement in labor issues for its sake of the high postwar growth essentially combined the effects of the severe disruption of Japanese civil society with the persistence of wartime institutions for resource mobilization (Olson 1982; Gluck 1993). Japan’s economy not only caught up to its prewar growth path but also greatly surpassed previous growth rates for another 25 years. Industrial policy marshaled by the bureaucratic authorities – particularly, the MITI – had been effectively functioned as a linchpin holding together Japan’s system of consensual policymaking entrenched in the structural stability of Japanese industrial organizations (Okimoto 1989). The discussion over the developmental state, therefore, took place in line with the weakening of civil society in Japan, which left space for nationalistic bureaucrats to implement policies designed to reconstruct the economy without significant opposition from losing organizations (Johnson 1999; Woo-Cummings 1999). As old and new interest groups began to organize in this fashion, they would ultimately produce less institutional change and such an institutional rigidity would be bound to lower rates of economic growth later, which would also develop into the ‘lost decade’ of the 1990s (Lincoln 2001; Katz 2003).

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52 According to Daniel Okimoto (1989), MITI’s capacity to implement a comparatively effective set of industrial policies for high technology has been due to a combination of distinctive factors: the LDP’s long dominance of the Diet: the relative weakness of labor-based, socialist parties; the light burden of military expenditures; Japan’s large and homogeneous population; structural features of Japanese industrial organization; adaptable sociocultural endowments; and, MITI’s capacity to aggregate contending private-sector interests and the dynamism of the private sector.
During the high-growth period, positive intersections between labor movements and the developmental state were possibly encompassed by management’s capacity for consolidating the firm-based accommodation of labor demands at workplace. In fact, corporate profits soared under continuous periods of double-digit growth. Rapid business expansion depleted the supply of labor available in urban centers, and large corporations aggressively recruited workers from rural areas. These companies constructed dormitories and various housing facilities to accommodate the influx of the new workforce from rural areas. Their employees began to develop the mentality that their jobs would be secure and their earnings would automatically increase with length of service. Indeed, job security at workplace was assured as the main managerial concern focused upon how to recruit and preserve the workforce so that dismissal became a remote concept. Such a long-term employment practice flourished among large firms in the 1960s, and among smaller establishments in the 1970s. Accordingly, separation rates of manufacturing workers – job mobility – declined considerably (see figure 3-3). Given that a critical concern of both workers and employers commonly converged on employment security, long-term employment turned to become the social norm governing labor-management relations during the period of high-speed growth, developing further into a basic foundation of corporate governance (Inoki 2000).

The oscillation of dispute density between labor and management notwithstanding, Japan in the course of high-speed growth was able to achieve not only strong economic performance, supported by high-wage and high-quality production for export industries, but also low levels of income inequality and a good standard of social welfare (Kim 2008a). Particularly, although Nakagawa Yatsuhiro (1979) overstated Japan
as a “welfare superpower” equal to any in the West, social welfare provisions were added to the policy agenda after labor unions teased out a new economic justification for reincorporating redistribution of wealth into discussions of the economy and the actual process of service provisions was normally settled at the enterprise level with firm-based welfare benefits in lieu of the state’s direct delivery. As a result, the high-growth period, when compared with the previous years, did not result in any serious changes in institutional or relational patterns of shaping corporatist governance to deal with organized labor (Bronfenbrenner and Yasuba 1987; Takegawa 1999). Further discussion about the underlying mechanism of such relatively stable labor-management relations will continue in the next section 4.2.

4.1.3. The Two Oil Crises

The stability of Japanese labor-management relations was seriously challenged with the First Oil Shock in 1973, followed by the Second Oil Shock in 1979. A number of negative indicators became worse in the 1970s to bring an end to high-speed growth and, for a short time, to stop economic growth altogether. Real GNP growth averaged 4.7 percent between 1975 and 1980, and kept decreasing into 3.7 between 1980 and 1985. For the first time in its postwar history, the Japanese economy suffered a recession in 1974 to the extent that the real GNP growth rate became negative, -0.2 percent, and heavy manufacturing industries such as fertilizer production were becoming less competitive internationally (Hein 1993). During December 1973 and February 1978, more than one million regular workers lost their jobs, which triggered an initial surge of
labor disputes in 1974-75 inciting more than 5,000 strikes afterwards that are the largest number of labor disputes throughout the Japanese labor history (see figure 4-2). While workers’ most acute economic grievances in the 1960s had been redressed as wages, household goods, and social services, the possibility for profound contention over the low rate of wage increase and social inequality in the 1970s, on the contrary, took on new immediacy when economic growth dramatically slowed. Indeed, the two oil crises sternly put Japan’s longstanding path of industrial relations on the chopping block, concerning the leeway of path modification.

It is often argued that Japan survived the oil crisis much better than their Western counterparts. Such views rooted in Japan’s cultural uniqueness should not overlook the considerable measures undertaken by government, management, and labor to minimize the extent of the external shocks triggered by the crisis. Employers initially responded to the double shocks by upholding their renewed commitment to employment stability: prescribing layoff as the last resort, whereas reducing overtime, transferring workers within the firm, reducing new recruits, selling corporate assets, and cutting executive bonuses and salaries (Shimada 1979). The management priority on employment stability established during the 1970s formed a main pillar of the Japanese employment system in subsequent decades (i.e. lifetime employment, which is the best scheme to secure job stability at workplace, has been sustained in the face of economic bubble crises in the 1990s) (Shimada 1992). In response to the management’s serious approach to overcome the oil crises, most enterprise unions eventually approved employment adjustment plans and cooperated with management to carry them out. In a labor move reflecting the high priority accorded to employment security, organized labor accepted a substantial
Figure 4-2. Number of Strikes & Participants in the Period of Stage II

Source: Shōwa kokusei sōran (various years). Participants mean average number of workers involved per strike.

Figure 4-3. Union Demands during Strikes (%) in the Period of Stage II

reduction in real wages in the wake of the 1980 shuntō immediately following the Second Oil Shock, thereby leaving shuntō undermined for its sake of job stability (Sako 2008). Under the new normal of industrial circumstances, the state deliberately pursued a dual strategy to neutralize some potential challenges from both business and labor.\footnote{Beyond the sector of industrial relations, Japan in depression waited long to undertake reforms in the domain of monetary and fiscal policies. One obvious reason is that their wealth and high per capita income provide individuals and firms with a hedge against hard times (Gourevitch 1986). Prolonged economic stagnation is less likely to cause a precipitous crisis that could force policymakers to undertake major reforms. This means that Japanese policymakers viewed most economic downturns as the product of unexpected, temporary, negative shocks – such as higher oil prices – and believed their impact could be minimized with timely, expansionary monetary and fiscal policies. During both economic stagnations in the wake of the first (1973-75) and second (1979-81) OPEC oil shocks, the Japanese government used expansionary monetary and fiscal policies to stimulate the economy after higher oil prices had reduced growth rates. However, since the late 1980s, Japan’s use of monetary and fiscal policy has been dismal.}

The government first justified its strategic move for deactivating shuntō-centered annual wage negotiations by emphasizing a more realistic excuse of economic emergencies coming from the two oil crises. In return for labor’s acquiescence on the withered profile of shuntō, the government, instead, entitled organized labor to participate in other governmental channel of consultations or advisory committees in order to appease the increasing political demands (Schwartz 1998; Kim 2008a). As figure 4-2 demonstrates, the explosion of labor strikes ignited by the two oil shocks, ironically, was not accompanied by massive involvement of workers. This observation indicates that a small number of workers organized a large number of strikes and lockouts, which inevitably led labor challenges to become more militant but failed to gain supports from the majority of workers. In addition, figure 4-3 shows the fact that the ratio of unions’ wage demands during strikes have been on the downward path, while that of their political demands on the upward since 1972. This reverse association reflects that the majority of organized labor increasingly agreed with the reduction of wage demands to share a dire sense of economic crisis, by replacing them with non-wage political claims,
primarily the protection of job security. In dealing with such political demands, the
government institutionalized several forums for tripartite deliberations on labor policy in
the 1970s (i.e. the Temporary Measures for Workers Displaced from Specific Depressed
Areas and the Temporary Relief Law for Workers Displaced from Specific Depressed
Industries in 1977), thereby incorporating some key unions into government-initiated
statutory consultation processes (Koshiro 1986: 46). Many scholars viewed this
incorporation policy as a fundamental path shifting from micro-corporatism to macro-
corporatism, even highlighting it as the critical achievement of the ‘social contract’
(Kume 1998; Garon and Mochizuki 1993). Therefore, increasing potential gains from a
new institutional coalition would be made possible by the state’s reactive introduction of
macro-level tripartite negotiations and its impacts for the expansion of labor’s political
participations.

However, it is not necessarily accurate to conclude that the stabilization of Japan’s
industrial relations in the wake of the two oil crises relied solely upon tripartite
deliberations designed to lock labor into a centralized control tower. The state’s tripartite
attempts are not relevant to account for the decreasing degree of union density (see figure
4-1), because the stretched opportunities for labor participation might be predicted to fuel
workers’ greater motivation to join unions. Against this simple premise for the emerging
path shift towards macro-corporatism, the following three factors, which will be
discussed later more deeply, need to be decisively taken into account as the root causes of
positive feedback to sustain the traditional pattern of labor-management relations in a
stable manner.

First, the consolidation of micro-corporatism by corporate governance anchored in
‘stakeholderism’ at the enterprise level equipped employers with superior organizing abilities to enhance job security, which would meet employees’ top priority during the economic recession (Aoki 2001). Thus, enterprise-based corporatism still mattered, indeed. Second, diverse sets of tripartite deliberations, sanrokōn, at the government level were not a new institutional device at all; rather, the government manipulated already existing advisory committees – for example, singikai – as an allegedly new institutional arrangement, which had been normally put in operation since the late 1940s (Schwartz 1998). Thus, the presence of tripartite systems during the oil shocks lacked the qualitative transformation of corporatism in Japanese labor-management relations. Third, the birth of rengō (Japan Trade Union Confederation), the organization that has been the dominant national center for the Japanese labor movement since its formation in 1989, revealed that labor required itself to end up complicated multiple channels of labor union development and promote a single route to compete with the state (see figure 4-7). If state engagement through macro-corporatism had been an effective option for all corporatist actors, workers might not have undertaken an immediate task to integrate all different labor unions into rengō (Shinoda 1997).

All these factors lead us to doubt the overriding argument of government-led tripartite deliberations successful in dealing with industrial relations following the oil shocks. They are also vital foundations aimed to verify that there was no big alternation in institutional paths to stabilize industrial relations even in the face of the two oil crises. The path-dependent effect still was in operation.
4.2. ENTRENCHING MICRO-CORPORATISM AS A LINCHPIN FOR INDUSTRIAL PEACE

As John Dower (1999) intuitively signifies, Japan has hardly ever experienced a successful civic revolution from the grassroots movement throughout the Japanese modern history. As such, the state power and its governance effectiveness have long been greater than influences of labor and other civic sectors in planning and implementing economic and social policies. The primacy of the state in controlling organized labor in the prewar years, however, has been incrementally replaced by institutional effects of micro-corporatism at the enterprise level where employers deliberately designed in hopes of peaceful workplaces for more profitable economic production in postwar Japan. The state, despite its retreat from state corporatism, still deliberately guides the Japanese society into a specific direction for industrial harmony. The state’s role for ‘social engineering’ in the postwar years culminated in its supports for economic development not only in the form of the developmental state but also by identifying both labor and management as the actors directly involved (Garon 1997). Under the aforementioned historical backdrops, we now explore how each tripartite player – the government, management, and labor – interacted for its sake of strategic concerns over the making of industrial peace during Stage II.
4.2.1. The State: Dual Strategy for Downscaling Labor Negotiations to the Enterprise Level

Chalmers Johnson (1982: 308) in his seminal volume, MITI and the Japanese Miracle, argues that there are striking continuities among the Japanese state’s various policy tools over the prewar and postwar years. For the most part, economic development to which the Japanese state has given its first national priority stood at the center of state intervention where the development orientation, rather than the regulatory role shown in the American state, predominated. The institutions and organizations put in place in the 1930s and 1940s to direct resources towards the war mobilization were also employed by the Japanese government to mobilize resources for the reconstruction and modernization of Japan’s infrastructure and housing stock for three decades following World War II. During the high-growth period, the crucial role of administrators within the government was found in both defining the fine print of policy options and orchestrating policy implementation (Kosai 1987; Hein 1993). The overall economic development planning spearheaded by governments in postwar Japan is illustrated by the following table 4-3.

The Japanese myth of rapid economic growth was both internationally constructed and ‘made in Japan.’ For example, Yoshihisa Ojimi, vice minister of the MITI, proclaimed in a 1970 speech that:

The Ministry of International Trade and Industry decided to establish in Japan industries which require intensive employment of capital and technology,… industries such as steel, oil refining, petro-chemicals, automobiles, aircraft, industrial machinery of all sorts, and electronics including electronic computers… According to Napoleon and Clausewitz, the secret of a successful strategy is the concentration
of fighting power on the main battle grounds; fortunately, owing to good luck and wisdom spawned by necessity, Japan has been able to concentrate its scant capital in strategic industries (Ojimi 1972: 15).

Such a development orientation generated the *proactive* features of Japanese industrial policy in the following four practices (Murakami 1987; Hayami 1996). First, the MITI intervened with promotional measures and license controls (Sohn 2004). The Firm Rationalization Promotion Act of 1952 authorized the MITI to use policy instruments such as tariffs or tax exemptions, including favorable depreciation rules; besides, the MITI controlled import authorization and other, more technical, licensing up until the early 1960s. Second, the MITI interfered with new entries in such leading industries as steel, oil refining, petrochemicals, synthetic fibers, and automobiles. In each of these industries except steel, the number of firms did increase during the rapid growth period, but the MITI was influential enough to select and delay new entries. Third, each firm’s investment in the leading industries was controlled, albeit loosely, by MITI’s guidelines, which were based upon quotas proportional to market shares or on equal quota in some cases. MITI’s investment guidance had the character of a fixed rule rather than of discretion, although the guidance was only loosely obeyed by the firms. Fourth, MITI-guided recession cartels, during each of the intermittent and short recessions, were introduced in many industries. Evidence suggests that these recession cartels were, in the leading industries, short-lived because of strong pressures from excessive competition (Miyajima and Aoki 2002). All these proactive measures had worked effectively prior to the outbreak of the oil shocks, being safely insulated from societal and labor challenges.

Along with industrial rationalization policy, some policy reactions to social issues such as labor and welfare had been *reactively* orchestrated as secondary concerns under
Table 4-3. Selected Features of Economic Plans in Postwar Japan

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<td>Cabinet at the time of plan approval</td>
<td>Hatoyama</td>
<td>Kishi</td>
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<td>Economic rate</td>
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<td>Method of projection</td>
<td>Calm method (labor × productivity)</td>
<td>Desirable balance chosen from 3 cases with different growth rates</td>
<td>Growth rate previously decided</td>
<td>Econometric model</td>
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<td>Plan objectives</td>
<td>Self-support of the economy; full employment</td>
<td>Maximize growth; improve national life; full employment</td>
<td>Maximize growth; improve national life; full employment</td>
<td>Rectify imbalances</td>
<td>Attain balanced and steady economic development</td>
<td>Construct an admirable society through balanced economic growth</td>
<td>Promote national welfare; international cooperation</td>
<td>Realize a richer national life and stable development of the country’s</td>
<td>Shift to a stable growth path; enrich quality of national life; contribute to development</td>
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### Major policy objectives

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<td>Modernize production facilities; promote international trade; reduce dependence on imports; encourage savings</td>
<td>Improve infrastructure; heavy industrialization; promote exports; encourage savings</td>
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<tr>
<td>Improve infrastructure; heavy industrialization; promote exports; encourage savings</td>
<td>Improve social overhead capital; improve industrial structure; rectify the dual structure of the economy; improve social stability</td>
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<tr>
<td>Improve social overhead capital; improve industrial structure; rectify the dual structure of the economy; improve social stability</td>
<td>Moderate low-productivity sectors; make efficient use of labor force; improve quality of national life</td>
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<td>Moderate low-productivity sectors; make efficient use of labor force; improve quality of national life</td>
<td>Stabilize prices; improve economic efficiency; promote social development</td>
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<td>Stabilize prices; improve economic efficiency; promote social development</td>
<td>Improve economic efficiency from an international viewpoint; stabilize prices; promote social development; maintain adequate economic growth; cultivate foundations of development</td>
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<tr>
<td>Improve economic efficiency from an international viewpoint; stabilize prices; promote social development; maintain adequate economic growth; cultivate foundations of development</td>
<td>Create a comfortable environment; secure a stable and comfortable life; stabilize prices; promote international cooperation</td>
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<tr>
<td>Create a comfortable environment; secure a stable and comfortable life; stabilize prices; promote international cooperation</td>
<td>Stabilize prices and secure full employment; stabilize life and create favorable living environment; cooperate with and contribute to development of world economy; foster grounds for long-term development</td>
</tr>
<tr>
<td>Stabilize prices and secure full employment; stabilize life and create favorable living environment; cooperate with and contribute to development of world economy; foster grounds for long-term development</td>
<td>Attain full employment and price stabilization; stabilize and enrich national life; cooperate in and contribute to development of world economy and society; ensure economic security and foster the foundations of long-term development; reconstruct public finance and new monetary responses</td>
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Sources: Planning Bureau of Economic Planning Agency (various years).
the national project of economic growth (Boyd 1987). The Japanese labor politics have been embedded in ‘the politics of productivity’ where labor and management accepted a principle of high wage increases based on high productivity increases, which can be seen as a neoliberal version of developmentalism (Maier 1978). Characteristically, a major economic initiative of 1960, the Ikeda administration’s Income Doubling Plan, championed the redistribution of economic benefits within the context of a celebration of economic growth (see table 4-3). The Income Doubling Plan, despite its intention to quiet political protest after mass demonstrations against the government’s foreign policy, reaffirmed government responsibility for social welfare, vocational training, and education and increasing spending considerably in these areas. Such statutory concerns on social development were officially materialized in tune with economic development plans, triggering to link social welfare agendas with the developmental state (Calder 1990). Even the oil crisis of 1973, which is widely known as the first year of the welfare state in the government’s efforts to promote national welfare (Takegawa 1999), witnessed that the adoption of the Basic Economic and Social Plan, initiated by the Tanaka cabinet in February 1973, was a strategic measure to save itself in the face of a bearish economy and labor challenge by not only creating a comfortable economic environment but securing a stable life at workplace.

The prevalence of developmentalism in the terrain of labor policy, however, was frequently at stake due to the societal backlash against the state’s weak labor policies, spawned by centralized labor movements in the wake of early postwar democratization in the 1950s and the oil shocks in the 1970s. In dealing with the negative impact of labor conflicts, the state wielded a dual strategy as a methodical apparatus to incorporate labor
under developmentalism and saddle both employers and employees at workplace with the primary liability for peaceful negotiations; thus, this dual policy included (1) providing governmental channels for tripartite consultations at the national level, and (2) steering labor issues to be mainly handled at the enterprise level.

On the front of enterprise negotiations, the LDP government intended to advance employment stability as the prime strategy to the maximum. The Ministry of Labor (MOL) and the LDP cooperated to win the enactment of a number of laws designed to assist workers in moving into rapidly expanding sectors of the economy. The 1963 revision of the Unemployment Insurance Law granted financial support for training technical workers, subsidized housing to encourage workers to move to new jobs, and expanded employment programs for workers aged forty-five years or older (rödōshō 1973). Against the social fallout of the Oil Shock in the 1970s, the Miki cabinet launched the Employment Stability Project in 1977. The MOL and the MITI were both determined to preserve employment security as top priority of labor policy, because they and the business community reached a consensus that job stability at the workplace was the key to industrial and social harmony (Cole 1979).

The objectives of the 1977 Project were twofold. The first aim was to stabilize employment by transferring workers from declining industries to new, more profitable lines of business. Employers who were forced to temporarily lay off workers due to business fluctuations were offered rebates to transfer workers, often into newly established affiliates (Lincoln and Nakata 1997: 34-35). Second, the 1977 Project provided incentives for employers to keep their workers employed, by subsidizing the

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54 For example, the major shipbuilding firm, Ishikawajima Harima Heavy Industries established a new affiliated firm specializing in designing sound reduction construction machinery. Other manufacturing firms also ventured into real estate and other service sector industries (Cole 1979).
costs involved with retraining workers in the skills necessary for new lines of business.

Subsidies were also provided in circumstances where employers wished to implement short-time schedules, including those who were working zero hours or temporarily staying at home (Genda and Rebick 2000). Such a government-led employment stabilization movement resulted in reducing employment sensitivity to the business circle, thereby leading employers to responding to the external shocks mainly through adjustment of work hours and places rather than employment-related measures like massive layoffs (Hashimoto 1993). In line with the conventional way of state corporatism in prewar Japan, micro-corporatism still in the postwar years remained as a crucial pillar for the state to scale down an immediate solution to labor conflicts to the enterprises level.

In parallel with the firm-level negotiations, sanrokōn – the evolving tripartite patterns of consultations among government, business, and organized labor – became explicit in response to a shared sense of economic crisis in the 1970s and its resulting industrial disputes (Fuchs 1987; Kume 1998; Nakayama 1975). Indeed, the government did not take incomes policy seriously and instead routinized social consultation by utilizing the meetings of sanrokōn that the MOL had had with leaders of unions, 55

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55 Japanese social actors routinized social consultation, facilitating cooperation among them. Social consultation was scheduled in the context of spring offensive, and the social actors were able to coordinate wage negotiation. In the process of social consultation, participants were able to share a picture of yearly national economic situations and make a common understanding of the needed wage restraints before spring offensive. This shared understanding was respected during the spring offensive, which produced wage restraints. In 1975, the average wage rates of major private companies went down to 13%, from over 30% in the previous year. After 1976, the wage rates seldom went up to 10 percent, which stayed within productivity growth, consumer price rates, and economic growth. It was said that “the first oil crisis in the early 1970s led Japan to strengthen its international competitiveness by encouraging energy conservation and the development of microelectronic technologies, and by prompting unions to accept wage restraint. Japan was also able to maintain better economic performance than other industrial nations during the second oil crisis in the late 1970s by applying those lessons learned in the first oil crisis4” (Koshiro 2000). This Japanese social consultation received high recognition from domestic and abroad and continued its activities.
employers, and academia to share information and improve mutual understandings (Lim 2004). Leaders of union movement also did not go further to institutionalize an official incomes policy even though they set a principle of wage increases compatible with the stability of the national economy. The government compensated the lack of institutionalization of the meetings by letting the prime minister and the related diet members sit chairs with the social actors. In the meetings, the participants did not make any official agreements, which required no official promise and evaluation of agreement implementation. Given that the introduction of tripartite negotiations contributed to minimizing wage demands driven by *shuntō* and accommodating the newly rising political demands in the wake of the two oil crises, the state’s tripartite engagement in labor-management relations was, more often than not, evaluated as its genuine efforts to institutionalize joint consultations as a statutory expression of the social contract for the making of industrial peace (Taira and Levine 1985). However, a logical rebuttal to this hasty assessment needs to be presented with the following two underlying intentions of state intervention.

First, joint planning with labor and business was not a new institutional apparatus that the state initially introduced for the purpose of incorporating labor into the Japanese political economy of the Oil Shocks. Overtly, the principle of tripartitism was not a corollary of the oil crisis in the 1970s, but just an advisory mechanism established by even early postwar governments.\(^5\) In the late 1940s, Occupation authorities established

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\(^5\) The forerunner of contemporary advisory bodies dated back to 1893, even during the period of the Meiji Restoration, but contemporary commissions differ from their prewar cousins in nomenclature, legal basis, membership and function (Abe 1978). In most of the postwar era, it has been necessary to establish advisory bodies by law; although prewar authorities did establish several councils by law, they generally bypassed the Diet by means of imperial edicts or cabinet orders. In compliance with Occupation policy, *shingikai* was initially intended to be ad hoc, but most councils have been standing bodies that deal with a subject on a continuing basis.
the current system of consultative councils in order to limit bureaucratic power, open up and better integrate state administration, and pluralize participation in government policymaking (Harari 1988: 149). Afterward, the Japanese government continued to institutionalizing several forums for tripartite deliberations on labor policy during the late 1950s and 1960s. Comprised of equal numbers of labor and employer representatives, the Labor Ministry’s deliberative and advisory councils proved crucial to devising the decade’s employment programs and the important 1968 revision of the Minimum Wage Law (Sugeno 1992).

Such tripartite deliberations were mostly outfitted with the *shingikai* system, which has been working as advisory bodies facilitating interest adjustment between labor and capital in terms of industry-related agendas (Abe 1978; Schwartz 1998). The creation of the Central Labor Standard Council (*chūō rōdō kijun shingikai* or *chūkishin* in short), established in September 1947, was a typical pattern of the tripartite *shingikai* composed of public-interest, employer, and worker representatives.\(^{57}\) Although the MOL was bound by law to consult its formal advisory body, *chūkishin*, on revision of the act, it was not obliged to follow that *shingikai’s* advice at all. The fundamental function of the *shingikai* system was limited to accessory facilities seeking outside support for the government’s labor policy and ensuring the authorization of officials’ own initiatives.\(^{58}\) It was, thus, remote from the genuine sense of the social contract that had been hastily predicted by noting that tripartite commissions serve as a locus for extraparliamentary bargaining among peak associations. The Japanese governments already overused *shingikai* in the

\(^{57}\) In addition to *chūkishin*, there were the Labor Problems Roundtable Conference in 1955, Employment Deliberative Council in 1957, Central Vocational Training Deliberative Council in 1958, Central Minimum Wage Deliberative Council in 1959, and Labor Problems Discussion Group in 1961.

\(^{58}\) Interview with Professor Kenji Horiguchi of Waseda University (1 October 2010).
1950s when an expansion of administrative duties inevitably accompanied economic growth; a high of 277 statutory shingikai was reached in 1965 (Yamada 1972: 16).

Interestingly, the Asahi newspaper (1952) observed this expansive move of the tripartite advisory agencies in the sardonic way: “If left alone, it seems as if shingikai would soon multiply like bacteria…We can say that ‘shingikai inflation’ is one of the distinguishing features of postwar administration.” Therefore, the birth and expansion of joint consultations in the form of shingikai after the two oil crises failed to show their clear relatedness to a real transformation of corporatist governance from enterprise-centered negotiations to tripartite deliberations at the national level. Rather, a new reflection that the government deliberately manipulated the already-existing shingikai system as its extended arms to neutralize the labor offensive becomes more precise.

Second, electoral considerations influenced the LDP’s newly favorable attitudes toward labor issues and the labor movement (Garon and Mochizuki 1993: 160). In 1966, the LDP adopted Ishida’s proposed ‘Labor Charter,’ which committed the ruling party to full employment, improved working conditions, and the promotion of social security, thereby pressing the LDP-based government to develop tripartite meetings with workers and employers. As mentioned in chapter 1, one of influential accounts for postwar Japanese politics postulates that the bureaucracy has shared power with the LDP and big business to form an interdependent triumvirate, namely, a power elite coalition that effectively controls most decision-making process of labor policy (Yanaga 1968). Such a triangular coalition aimed for electoral interests as well as the effectiveness of governance triggered the government to launch joint consultations dealing with labor-management relations. Tripartitism, from the perspective of the triangular coalition, could

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be seen as an effective political scheme of cooptation, rather than a proactive institution of the social contract.

The underlying intention of the state’s dual strategy, ultimately, ended up as the strategic emphasis upon micro-corporatism in which enterprise-level negotiations would be the primary method of effective governance on industrial relations in postwar Japan. While the inflation of tripartite deliberations came up with not only the diminishing influence of *shuntō* in the redistributive systems of the nation’s fast-growing wealth but also the incorporation of organized labor into the government’s guidance, they had an innate defect in their ability to hold macro-corporatism accountable to the social demands of labor unions. Limiting joint consultations at the national level to a political stopgap, the state thereby sought for a fine solution from micro-corporatism which Japanese governments had conventionally relied on. However, it is important to note that the creation of *rengō* in 1989 and the advent of bubble economies in the 1990s signaled another severe bout of labor’s thrust to change the institutional path shaping the social contract.

4.2.2. Management: Stakeholderism, Lean Production, and Institutional Complementarity

Along with the state’s dual policy, it is absolutely necessary for us to investigate how management in practice responded to the labor offensive and orchestrated managerial workplace control for harmonious relations with employees in postwar Japan. Iron-clad evidences on Japan’s unique success in industrial harmony have been largely considered
a mixed bag wrapped by enterprise unionism, lifetime employment and seniority payment. These three pillars, according to an OECD (1977) report, were fortified with a fourth pillar – the social norms within the enterprise, such as a strong identification of employees with the firm. The consideration of the firm as community was a logical outgrowth of proactive corporate governance and innovative production systems, both of which could be developed at the plant level by mutual cooperation between employees and employers. An analysis on the fourth pillar, thus, is a critical element to understand the source of path dependence in sustaining the stable relationship between labor and management. The fourth pillar involved the following three vital components: stakeholderism-based corporate governance; lean production systems; and institutional complementarity.

**Corporate Governance: ‘Stakeholderism’**

The formation of the Japanese corporate governance on the basis of stakeholderism was closely connected with the consideration of the firm as a community and its associated strengthening of employment stability. In fact, stakeholderism created the notion that the firm is not a unique property of shareholders but a community in which regular workers are treated as full members of workplace (Dore 1987; Aoki 1994a). Managers are senior employees who have been internally promoted, rather than appointed agents who act on behalf of shareholders. Accordingly, managers identify more with junior employees than with shareholders. A sense of community is reinforced by a relative absence of status distinction and differences in terms and conditions of employment between managers and workers, and between white-collar and blue-collar workers. Management and labor have
a shared goal to make the firm prosper in the long run, based on mutual expectations of distributing benefits between job security and loyalty to the firm. The shared sense of common interest is reinforced by the corporate governance structure restricting shareholders’ control, the internal promotion and reward system specific to the firm, and the enterprise-based union structure. The comparison of welfare capitalism between shareholder and stakeholder, therefore, clearly confirms the fact that the latter is better option for both workers and managers to give more weight on job security and harmonious relations in the face of the economic crisis (Ebbinghaus and Manow 2001; Dore 2001).

Indeed, the Japanese way of corporate governance has developed its distinctive profiles in comparison to Anglo-Saxon shareholder model (Dore 2000; Locke et al. 1995; Allen and Galen 2000). Anglo-American firms target shareholder profit maximization as the principal goal of corporate law and governance because the pursuit of this objective helps ensure that management is able to add value to the enterprise (Milhaupt 2006). This model is about how management as agents can be mobilized to act properly on behalf of their principal, the shareholders. The owners of the Anglo-American model want the managers to buy as much high-quality labor as they need, at as cheap a price as possible. The main internal governance system for this neoliberal model is the board of directors; the main external governance system is the market for corporate control; banks and other institutions are marshaled as monitors to regulate financial exchanges among firms.

In Japanese firms, by contrast, stakeholder capitalism does not give a great deal of weightiness to the owners and firms are not seen as anybody’s property. Shareholders tend not to be vocal in governing Japanese corporations, which are in effect run by
managers who are senior employees rather than agents working on behalf of shareholders. In this regard, the Japanese pattern of corporate governance in the postwar years, as Peter Gourevitch and James Shinn (2007: 167-177) aptly describe, can be defined as ‘cross-class coalition’ where workers and managers dominate owners, concentrating greater competitiveness without owners. This stakeholderism of Japanese firms, nevertheless, was bound to tackle neoliberal demands for modification in the face of economic bubble crises in the 1990s (Jackson 2003).

More importantly, a fundamental rationale in forming the Japanese stakeholder capitalism converges on how to secure employment stability at the plant level, particularly how the workplace is governed for the welfare of its members by identifying the mechanisms, such as bargaining and consultation, through which various stakeholders interact (Tiberghien 2007; Miyajima and Kuroki 2008). The stakeholder corporate governance for job security was further consolidated by ‘welfare capitalism,’ the provision of welfare benefits by the firm in the sense that it is the firm’s responsibility to guarantee the livelihood of the employers (Dore 1973). Employment security was a critical issue in terms of this managerial ideology, and the firm’s holistic concern for individual employees, including family circumstances and life outside work, was a natural extension of this ideology (Sako 2008). Also, the presence of this mechanism undoubtedly contributed to maintaining lifetime employment serving as a decisive keystone to make labor-management relations more stable and accountable.

However, the firm as a community was not a perfect commune but a hierarchical organization in which there were junior and senior members whose interests did not match perfectly. Hence, negotiations and give-and-take compromises were common in
Japanese firms. Characteristically, employment security or lifetime employment was offered in return for workers agreeing to commit themselves to the firm; the promise of no layoffs was negotiated in return for flexible job assignments whenever restructuring of the firm would become necessary. Employment security, which protected workers until a mandatory retirement age, was a principle which both workers and employers valued most, and which would be offered by management as a *quid pro quo* for wage restraint or corporate rationalization as long as the moral contract was deemed unbroken (Inagami 1995). The firm’s ultimate objective to remain competitive by controlling the costs was not achieved by treating workers as disposable resources to be hired and fired at owner’s will, but by other means, such as investment in training or just-in-time stock management (see figure 4-4). In a nutshell, such management institutions reduced monitoring of management by shareholders and prevented them from breaking the wage bargain.

From the viewpoint of management, the main reason for its agreement on job stability and lifetime employment stemmed from its long-term objectives to promote workers equipped with diverse expertise for more competitive productions. The practice of recruiting workers straight from university for employment until retirement, in this regard, necessitated taking a long-term view in human resource management. Management invested substantial resources into the business of recruiting the best workers, emphasizing not only initial training but also continuous further training so that the skills for older workers whom they must retain do not atrophy. Workers were also willing to experience a broad range of knowledge and skills formation, to engage in problem-solving and quality improvements, and to work in teams (Nakamura 1997). These features of work organization in Japan were in contrast to the job demarcation and
functional specialization found in many Anglo-American workplaces, and contributed to the efficiency and flexibility of production in Japanese factories (Watanabe 2000; Estevez-Abe et al. 2001).

Workers’ incentive to be flexible for their betterment by showing their loyalty to the firm was further underpinned by a system of pay and internal promotion based on the *nenko* principle which consists of seniority (*nen*) and merit (*ko*) (Kawakita 1997; Lincoln and Nakata 1997). Regular employees were promoted on seniority initially so that those in the same cohort experienced promotion at equal pace. It is not until after 10 to 15 years of service, that some employees began to be promoted faster than others, on merit. This late timing of decisive selection gave management a long time-span to screen for more capable employees. On the other hand, the initial prolonged period of promotion on seniority provided greater motivation for all workers to develop and improve their capability than if they were evaluated from the start into a faster track or a slower track. Therefore, internal promotion of the stakeholder capitalism typically concerned the dual hierarchies within organizations. One was the ordinary-timeline hierarchy of seniority with such job positions such as team leader, section manager, and departmental manager. The other, known as *shokuno shikaku tokyu*, was a kind of qualification system in which employees are placed along the hierarchy of grades (*tokyu*) according to skill qualifications (*shokuno shikaku*), as determined by their levels of knowledge, proficiency, experience, skill, general capabilities and seniority (Price 1997: 169). Merit, together with seniority, also was seen as an important element to sustain the process of internal promotion which ultimately remained as an institutional buttress of lifetime employment.
**Figure 4-4. Production & Labor Management Systems of the Japanese Mode in the 1970s–80s**

<table>
<thead>
<tr>
<th>The Production System</th>
<th>The Labor Management System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultimate goal</td>
<td>Objectives</td>
</tr>
<tr>
<td>Effects</td>
<td>Means</td>
</tr>
</tbody>
</table>

**Greater Competitiveness**
- Inventory Cost Saving
- Fixed Capital Cost Saving
- Quality Improvements
- Better Environment
- Reduced Workforce

**KAIZEN Improvement**
- Smooth Operation of JIT
- Regularization of Work Flow
- Preventive Maintenance
- Team Work
- QC Circles & Suggestion Schemes
- Multi-process/Machine Handling

**LABOR-MANAGEMENT COLLABORATION**
- Workers' Motivation

**JOB SECURITY**
- Internal Promotion
- Life-time Training
- Job Rotation & Intra-firm Transfer
- Performance Appraisal

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union

**LIFETIME EMPLOYMENT SYSTEMS & RETIREMENT SYSTEMS**

**JOB SECURITY**
- Internal Promotion
- Life-time Training
- Job Rotation & Intra-firm Transfer
- Performance Appraisal

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union

**LIFETIME EMPLOYMENT SYSTEMS & RETIREMENT SYSTEMS**

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union

**LIFETIME EMPLOYMENT SYSTEMS & RETIREMENT SYSTEMS**

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union

**LIFETIME EMPLOYMENT SYSTEMS & RETIREMENT SYSTEMS**

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union

**LIFETIME EMPLOYMENT SYSTEMS & RETIREMENT SYSTEMS**

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union

**LIFETIME EMPLOYMENT SYSTEMS & RETIREMENT SYSTEMS**

**SENIORITY PAYMENT**
- Lifetime Employment Systems & Retirement Systems
- Firm-Based Trade Union
These labor-management systems at the plant level, as figure 4–4 demonstrates in detail, were systematically interconnected with Japan’s production systems characterizing the Japanese way of high flexibility in maximizing the firm’s competitiveness. The objective of labor-management cooperation at workplace was deliberately designed to enhance the production capacity of the firm to the maximum. We then discuss how the production system could incorporate workers’ participation in the production processes.

**Lean Production**

The stakeholder pattern of corporate governance described above acted as midwife to the birth of the lean production system – also known as the Toyota system – which many scholars herald as the next generation in production management (Womack *et al.* 1990; Price 1995). Various facets of lean production were founded in its core distinctiveness such as employee involvement programs, team work, just-in-time (JIT), and Total Quality Management (TQM) or Continuous Quality Improvement (CQI), all based upon the Toyota model (Kennedy and Florida 1995). As table 4–4 shows, Japan’s lean/flexible system was catapulted into the public as an alternative model of the production system promoting workers’ participation in the production process, which was expected to work as an alternative to the traditional American style of the rigid mass production, often known as Fordism. Japan’s production regime, as Martin Kennedy and Richard Florida (1988: 122) nicely summarize, “replaces the task fragmentation, functional specialization, mechanization, and assembly-line principles of Fordism with a social organization of production based on work teams, job rotation, learning by doing, flexible production, and integrated production complexes.” Indeed, lean production represented a new, progressive phase
of capitalism in which workers would be finally empowered to use their brains as well as their brawn.

### Table 4-4. Two modes of Production Systems

<table>
<thead>
<tr>
<th>The Lean/Flexible System (new Japanese style)</th>
<th>The Buffered/Rigid System (traditional American style)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Can be profitable making small batches of products.</td>
<td>• Profitable only when making large batches.</td>
</tr>
<tr>
<td>• The product and process for making it are designed concurrently.</td>
<td>• The process is designed after the product has been designed.</td>
</tr>
<tr>
<td>• The lean inventory turns over fast.</td>
<td>• The fact inventory turns over slowly.</td>
</tr>
<tr>
<td>• Suppliers are helped, informed and kept close.</td>
<td>• Suppliers are kept at arm’s length.</td>
</tr>
<tr>
<td>• Engineers search widely for ideas and technology.</td>
<td>• Engineers are insular, don’t welcome outside ideas.</td>
</tr>
<tr>
<td>• Employers learn several skills, work well in teams.</td>
<td>• Employers are compartmentalized.</td>
</tr>
<tr>
<td>• The company stresses continuous small improvements.</td>
<td>• The company looks for the big breakthroughs.</td>
</tr>
<tr>
<td>• The customers’ orders pull the products through the factory.</td>
<td>• The system pushes through to the customers.</td>
</tr>
</tbody>
</table>


The politics of production lines at workplace has been evolving properly in accordance with changing external environments in order to keep labor-management collaborations stable and augment the firm’s competitiveness. At the center of the lean/flexible production systems in postwar Japan was the ultimate achievement of *kaizen* (continuous improvement) for better production performances (see figure 4-4). Companies started to provide considerable education and training to their workers, and developed sophisticated human resource management systems for evaluation, promotion, and compensation. Typically, on-the-job training (OJT) was widely
introduced and became common practice among manufacturing firms in the late 1950s and 1960s (Koike 1997). A long-term perspective shared by both labor and management was crucial for OJT to be successful, because multi-skills formation would be interrupted if the workers moved. The bonus payment system, which covered white-collar and blue-collar employees in almost all job categories, also spread during the same period, primarily as an effective instrument to adjust wage levels in response to labor market and firm-specific conditions (Ohashi 1989). The further development of lean production in the late 1970s and 1980s when the two oil crises slowed down Japan’s high growth, as figure 4-5 illustrates, consolidated diversified quality and low-cost production as its final goal by means of multi-skilling, flexible job assignment and worker participation (Ogawa 1984: 127-128).

**Figure 4-5. Japanese Production Model of the 1980s**

![Diagram of Japanese Production Model of the 1980s]


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60 The bonus system in Japan dates back to the prewar period, but its beneficiaries were limited to mostly high-ranking white-collar employees. By 1985, 97 percent of firms with 30 employees or more paid half-yearly bonuses to their workers (MOL Statistics, recited from Ohashi 1989).

61 Ogawa Eiji (1984) in his assessment of the Toyota system emphasizes the following features: supermarket-style demand-pull processing; small-lot production and transport; automated quality checking; education regarding constant waste reduction; conservative automation measures; the kanban system of production and inventory control; visual control systems; and autonomous management.
Unfortunately, all aforementioned explanations on lean production in postwar Japan used what indeed may be positive features of this new production paradigm in order to dismiss the negative features. According to the Massachusetts Institute of Technology’s study on the future of the automobile, the International Motor Vehicle Program (IMVP), it is admitted that the work pace is harder in lean production plants such as Toyota’s Takaoka plant than at GM’s Framingham plant (Womack et al. 1990: 80). Even proponents of lean production make similar admissions: “life on the Japanese assembly line is stressful, difficult, and at times even unhealthy” (Kenny and Florida 1993: 10). The Japanese lean/flexible system indeed required workers to become multitasking and keep paying loyalty to the firm in the face of high-degree labor intensity. Why, we have to ask, should workers have to work harder if the system is more efficient? Why could worker participation in Japan occur without transforming the system into a worker-friendly environment?

While it can be said that the stakeholder corporate governance at the enterprise level was deliberately designed for worker participation and empowerment, the lean production system could not necessarily be understood as a genuine commitment for protecting workers’ rights and providing better working conditions. It can be, rather, interpreted that the Japanese way of a new lean production regime was fundamentally about regulation in the workplace and how employers came to exercise control in ways that differed from those that became institutionalized in the United States or Great Britain (Price 1997; Shimada 1983). Further extreme critiques mark the notion of the extensive control under the lean production regime that employers enjoyed over work and workers has never gone unchallenged against. In this sense, the postwar compromise ended in a lopsided affair with employers exercising powers at workplace with an alluring reward of employment security (Brinton 1993; Koike
1988). This established control contributed to preventing the potential of labor coalition beyond the enterprise level due to its effective production control to secure job stability and worker participation. The upshot of lean production, from the perspective of employers, resulted in an effective tool to govern workplaces, whereas workers inevitably needed to admit managers’ production control in order to secure the benefits associated with employment security. This is an obvious source of reproducing the harmonious nexus of labor-management relations in postwar Japan, which played a significant role in stabilizing workplaces at the plant level.

**Institutional Complementarities**

The stakeholder corporate governance and the lean production system can be both operated on the basis of institutional complementarities between workers and employers. Such an institutional complementarity framework normally included an amalgamation of interconnected institutions, such as lifetime employment for male workers at major manufacturing and service corporations, corporate governance institutions that emphasized the role of main bank monitoring of managerial performance and deemphasized monitoring by equity holders, cross-shareholding to prevent hostile takeovers, and extensive government intervention in the financial sector to ensure that capital was allocated to infrastructure projects and industries favored by the government (Aoki 1994a; Doi and Hoshi 2003; Hall and Gingerich 2009; Calder 1993; Moriguchi and Ono 2006). Complementarities of institutions occurred within an institutional framework that coalesced between 1952 and 1962 and would remain in place for another 25 years (La Croix and Kawaura 2006). This multilayered structure of institutional complementarities came up with the two main purposes of (1) reducing monitoring of management by shareholders, and (2)
preventing them from breaking the wage bargain.

Japan’s successful achievement in the making of industrial peace was embedded in the positive impacts of institutional complementarities between capital and labor. Indeed, the commitments of stable stakeholders and banks to long-term capital investments helped foster a stable core of highly skilled employees with participation rights in company decisions (Aoki 1994b). Such beneficial constraints on short-term market rationality allowed managers to learn to cultivate long-term organizational capacities (Streeck 1997; Soskice 1999). In this regard, the Japanese model is often viewed as a ‘coordinated market economy (CME)’, whereby firms coordinate their investments with other stakeholders in ways that foster mutual investments in firm-specific assets which are entrenched in strong sectoral business associations and the network based inter-firm relationships (Yamamura and Streeck 2003; Aoki 2010). While the main bank played a main role in checking management behavior (Aoki and Patrick 1994), employees and their representative organizations at workplace have exercised checks on management in such a way as to defend the long-term viability of the firm and employment. Corporations were successful in high-skill and high-quality markets through their dynamic efficiency in production and incremental innovation in products and process. In so doing, the Japanese reality contributes to the awareness that complementarities of institutions constructed a great industrial legacy of interlocking labor and management into further development of mutual understanding based on mutual strategic interests at the plant level.

4.2.3. Labor: From Confrontation to Compromise

The overall comment on the evolving landscape of labor movements in postwar Japan
can be described as labor’s reactions in the mixed bag of confrontation and compromise with management. Away from the conventional futile debates on week or strong labor, more analytical focus needs to be put on how to track down labor’s strategic moves aimed for its rational responses to the external contingencies such as state engagement and the employer offensive.\textsuperscript{62} As discussed above, union influence in Japan derived more from labor’s cooperation in production at the plant level in the context of the stakeholder position of enterprise unions within the firm, rather than from its centralized collective bargaining that German industrial relations have traditionally rested on (Thelen and Kume 2003). However, workers’ rational actions, despite the constraints they faced, contributed to not only making employers assure employment security at workplace and its associated worker participation in corporate governance but also stretching out the level of their negotiation beyond the enterprise, particularly centering on the front of shuntō. This extended interpretation of labor influence enables a group of scholars to reject the hitherto widely-accepted notion of the weak labor thesis and argue Japan’s successful expansion of labor unionism (Kume 1998; McNamara 1996; Carlile 2006).

Such a convincing denial of weak labor, however, is also entrapped by the logical flaws that occur in relations to the state’s dual strategy and firms’ corporate governance structure. The increasing opportunities of labor’s involvement in national deliberations, in the wake of the two oil crises, were not necessarily positive results verifying the presence of strong labor, but rather negative outcomes holding the diminishing influence of shuntō and the government’s strategic cooptation of the organized labor. Given the fact that the governmental channel incorporating the

\textsuperscript{62} Against the culturalist interpretation which treated the Japanese situation as unique, much research, influenced by the functionalist perspective of John Dunlop’s (1958) and Clark Kerr et al.’s (1960), was conducted to show that Japanese workers were behaving in an economically rational manner given the constraints they faced (Marsh and Mannari 1976).
Table 4-5. Union Density, 1970-90, in Percent

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>23.5</td>
<td>19.5</td>
<td>15.5</td>
<td>-2.5</td>
<td>-4.0</td>
<td>-6.5</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>31.6</td>
<td>34.7</td>
<td>32.9</td>
<td>3.3</td>
<td>-1.8</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>50.2</td>
<td>49.5</td>
<td>40.5</td>
<td>-0.7</td>
<td>-9.0</td>
<td>-9.7</td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>55.2</td>
<td>69.1</td>
<td>51.0</td>
<td>13.9</td>
<td>-18.1</td>
<td>-4.2</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>35.1</td>
<td>31.1</td>
<td>25.4</td>
<td>-4.0</td>
<td>-5.8</td>
<td>-9.8</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>12.6</td>
<td>14.7</td>
<td>17.6</td>
<td>2.0</td>
<td>3.0</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td>37.8</td>
<td>39.7</td>
<td>33.1</td>
<td>1.9</td>
<td>-6.7</td>
<td>-4.8</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>32.0</td>
<td>34.9</td>
<td>31.2</td>
<td>2.9</td>
<td>-3.7</td>
<td>-0.8</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>21.7</td>
<td>18.3</td>
<td>10.1</td>
<td>-3.4</td>
<td>-8.1</td>
<td>-11.5</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>37.0</td>
<td>49.6</td>
<td>38.8</td>
<td>12.6</td>
<td>-10.8</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>44.8</td>
<td>50.7</td>
<td>39.3</td>
<td>5.9</td>
<td>-11.4</td>
<td>-5.5</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>53.2</td>
<td>57.1</td>
<td>51.1</td>
<td>3.9</td>
<td>-6.1</td>
<td>-2.2</td>
<td></td>
</tr>
<tr>
<td>Finland</td>
<td>51.3</td>
<td>69.4</td>
<td>72.5</td>
<td>18.1</td>
<td>2.9</td>
<td>21.0</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>67.7</td>
<td>78.0</td>
<td>80.8</td>
<td>10.3</td>
<td>2.8</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>56.8</td>
<td>58.3</td>
<td>58.5</td>
<td>1.5</td>
<td>0.2</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>60.3</td>
<td>78.6</td>
<td>75.3</td>
<td>18.3</td>
<td>-3.3</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>36.5</td>
<td>34.8</td>
<td>24.3</td>
<td>-1.7</td>
<td>-10.4</td>
<td>-12.1</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>42.1</td>
<td>54.1</td>
<td>53.9</td>
<td>12.0</td>
<td>-0.2</td>
<td>11.8</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>-</td>
<td>12.9</td>
<td>12.5</td>
<td>-</td>
<td>-0.3</td>
<td>-0.3</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>28.9</td>
<td>31.1</td>
<td>24.3</td>
<td>2.2</td>
<td>-6.8</td>
<td>-4.6</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>62.8</td>
<td>56.7</td>
<td>46.9</td>
<td>-6.0</td>
<td>-9.8</td>
<td>-15.8</td>
<td></td>
</tr>
</tbody>
</table>


Figure 4-6. Average Rate of Wage Increase (%)

organized labor remained just as advisory bodies, mainly in the old form of shingikai, controlled by government agencies, workers participation in national negotiations became eventually further limited. In a nutshell, it can be argued that labor – voluntarily or involuntarily – lost its organized capacity for collective coalitions in return for a very limited reward of the invitation to titular statutory bodies. As a result, the diminishing annual rate of wage increase, particularly right after the Oil Shock (figure 4-6), and the declining degree of union density (table 4-5) both confirm the drift of the weak labor thesis that was once denied by the revisionist scholarship. Thus, it is hardly acceptable to argue that the rise of neo-corporatist negotiations at the national level was a clear signal of the advent of strong labor. It is reconfirmed that the mainstream of labor-management relations in postwar Japan was still found in micro-corporatism at the enterprise level. Our task to review labor’s trajectories needs to be, accordingly, not about how to certify weak or strong labor, but about how to identify the path of labor’s reactions to external interventions by tracking down its movement from confrontation at the national level to compromise at workplace.

**Limited Confrontation**

The early period of postwar Japan witnessed a series of the labor offensive mobilized at the nation level, which created a number of strikes and established the national centers to mobilize them (see figure 4-7). Japanese workers were granted labor’s three major rights – the rights to organize, to collectively bargain and to take industrial action – when the SCAP encouraged the growth of unions after the war by enacting the 1945 Trade Union Law. With the rapid unionization, sanbetsu, composed primarily of radical public sector unions, led the production control movement, which was exploded in the form of the 1946 October Struggle (Gordon 1998: 9). Sanbetsu
was in virtually complete control of the Japan Communist Party (JCP) whereas sōdōmei, to which moderate private sector unions were affiliated, became linked to the Japan Socialist Party (JSP). However, sanbetsu failed to go on general strikes aimed at overthrowing the anti-labor Yoshida government in 1947, and radical criticism from within sanbetsu led to its split and disorganization, while sōdōmei, with support from the SCAP, formed sōhyō in 1950 as a new national center of the organized labor. Sōhyō was expected to support anti-communist labor movements and to pursue its affiliation with the US-controlled International Confederation of Free Trade Union (ICFTU) (Shinoda 1997: 192).

However, the issues of the US-Japan Security Treaty changed sōhyō’s organizational ideology from the anti-communist to an anti-American stance, given that sōhyō opposed a separate peace treaty with Western countries and strongly supported the left-wing JSP’s insistence on an overall peace treaty. Accordingly, sōhyō, in the spirit of class struggle, stirred up a series of strikes against dismissals of its opposition to America’s intervention. It drew together the main forces in the political campaigns opposing the internal and foreign affairs of the government along with those aimed at toppling down the government. These campaigns continued until the end of the struggle against the Japan-US Security Treaty and the defeat of the Mitsui-Miike strikes in the coalmining industry in 1960 (Shimizu 1982: 317-340).

The radicalization of sōhyō brought about splits within the organization: in 1950, a part of sōdōmei rejected joining sōhyō; in 1952, shinsanbetsu withdrew from sōhyō as a result of different views on labor politics; in 1953, the right-wing unions within sōhyō criticized its decision on the peace treaty and left to form zenrō (Japanese Trade Union Congress); and in 1962, zenrō and sōdōmei combined to form dōmeikaigi (Congress of the Japanese Confederation of Labor), which was further transformed
into dōmei in 1964. In the process of sōhyō’s internal rifts and mixing, those executives within sōhyō who had shown commitment to the political struggle were replaced by a group which favored neutrality and economic concessions. With the establishment of churitsurōken, which the unaffiliated unions formed in 1956 and was shortly thereafter renamed churitsurōren (Federation of Independent Unions of Japan), churitsurōren was the fourth national center of labor movements, together with sōhyō, sōdōmei, and zenō.

The pattern of labor confrontation during the high-growth period had been shifting from such multiple centers of labor unionism to a unified peak association at the national level. The labor unification movement, aimed to create the new national umbrellas, began in the mid-1960s when the deadlock in the labor movement became severe due to the state’s development-first strategy and its strong intervention into enterprise unionism. The formation of the Japanese Council of the International Metalworkers’ Federation (IMF-JC) in 1964 was the starting point of the labor unification movement in postwar Japan (Ishizuka 1996). The metalworkers’ unions, which affiliated separately into four national federations or remained unaffiliated, sought the realignment of the national centers to adapt to the new environment which found them confronting the internationalization and readjustment of key industries. The formation of the IMF-JC and its organizational emphasis on the autonomy of unions in their political activities prompted sōhyō and dōmei to find a way in unifying different segments of labor movements, and the JSP’s crushing defeat and the LDP’s supremacy in the 1969 general election further fueled union leaders’ political

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63 The IMF-JC presented a new view of labor politics in that it stressed the necessity of unions to engage in political activities, not in the normal sense of ideological politics but in the sense of interest politics (Tsutsui 1998). The IMF-JC further emphasized the autonomy of unions in their political activities and declared the critical linkages for the development of more realistic opposition parties and the support of such parties on all these points. This policy principle was adopted by rengō in the late 1980s.
struggles to set off the Conference of Twenty-Two Unions for Unification in 1972, which was, however, dissolved in the same year (rōdōshō 1973).

The economic fallout of the oil crisis in 1973 ended in the reshuffling of the sōhyō-JSP alliance bloc. Opposition parties began to realign at the defeat of the LDP in the 1976 general election and the LDP government appeased the organized labor by inviting main union leaders into the government-organized tripartite deliberations. In the meanwhile, after sōhyō’s defeat in 1975 to win the public sector workers’ right to strike, it lost its hegemony in shuntō to the IMF-JC, thereby looking for realistic ways to approach private sector unions. In 1980, six unions of the four national umbrellas formed the Conference for the Promotion of Unification which proclaimed the Basic Plan for Unification, and following heated debates on the Conference’s aims, sōhyō allowed each affiliated union to decide whether to affiliate itself with the new unified national center (Nitta 1988). Consequently, zenminrōkyō (Japanese Private Sector Trade Union Council) was founded in 1982, and furthermore the Private renō (Japanese Private Sector Trade Union Confederation) was established in 1987 when dōmei and churitsurōren were disbanded, followed by shinbetsu in the next year. After the formation of Private renō, the remaining task to be accomplished was further unification with the public sector unions. Despite harsh oppositions from some public sector unions, the convention marking the final unification of Private renō and the public sector unions was eventually held in 1989 and renō was officially inaugurated, with sōhyō disbanded on the same day.64

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64 The JCP faction of jichiro (National Prefectural and Municipal Workers’ Union), along with nikkyōsō (Japan Teachers’ Union), expressed their opposition to unification by boycotting the conventions (Shinoda 1997: 198).
Figure 4-7. The Historical Evolution of Postwar Labor Organizations in Japan

1947 Zenroren
1949 Shin-sanbetsu
1950 Sōhyō
1951 Sōdōmei
1952 Shin-sanbetsu
1954 Zenrō
1956 Churitsu-u-rōren
1956 Dōmei
1956 Churitsu-rokon

The historical evolution of labor’s confrontation against the management of industrial relations during the stage II can be recapitulated by the three underlying aspects. First, from *sanbetsu* to *rengō*, almost over 40 years, all labor unification movements have been closely connected with the power shifts of political parties, in particular opposition parties (Shinoda 2008; Tsujinaka 1987). On the frontline of the leftist movement, *sōhyō* considered political parties its strategic arm in the Diet and kept its deliberate intimacy with the left-wing JSP in order to realize a socialist society by extending the JSP membership, supporting the JSP in the elections, and competing with the JCP which *sanbetsu* supported (Shirai 1983: 339-342). An increasing number of former *sōhyō*-affiliated union officials turned into JSP candidates in national elections; by the mid-1960s, they represented more than 50 percent of JSP members standing for election (Yoshimura 1977: 55). On the other hand, *sōdōmei* and *zenrō* supported the right-wing factions within the JSP and together became committed to the formation of a new party, the Democratic Socialist Party (DSP) in 1960. *Zenrō* took responsibilities for the DSP’s administration and set up the Liaison Conference for Diet Activity with *sōdōmei*’s support whereas *dōmei* specified strengthening the DSP in its principles for union actions. In this regard, the fluctuation of political power among opposition parties severely influenced the changing contours of national labor centers, and the mainstream of the Japanese labor movements intrinsically depended upon the political muscles of party politics. Such an increasing dependency on political affairs inevitably resulted in politicizing labor issues with no serious consideration of how to link unions’ political involvements with the promotion of workers’ rights and wage increase. The labor

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65 The formation of the *sōhyō*-JSP Membership Council (SJMC) in 1956 was politically intended to acquire JSP members, establish JSP workshops, master socialist theories, teach Marxism-Leninism classes, and compete with the JCP (Yoshimura 1977: 51-57).
coalition for confrontation, thus, had been easily split up and reshuffled for another forms of coalition, due to its susceptibility to political contingencies.

Second, the weak connection between national centers and enterprise unions at the plant level degenerated the magnitude of labor coalitions to confront with management and the LDP government. While the main national umbrellas put more weights on the ways to unify labor movements at the national level, the classical enterprise unions normally ignored the higher levels of unionism and the unification movements of the higher level in the 1970s was nothing worth emulating (Shinoda 1997). It is because the prevalence of the stakeholder corporate governance at workplace contributed to keeping workers’ concerns on harmonious relations to the managers for the purpose of stabilizing employment security at the plant level. As figure 4-2 and table 4-5 demonstrate, the increasing political demands for strikes after the oil crises in the 1970s, ironically, failed to mobilize a large number of workers participants in strikes and thereby even union density also continued to drop off up to -9.8 percent from 1970 to 1990. The low degree of national centers’ control over enterprise unions was directly connected with lack of the representation of the local-level workers, particularly failures in the vertical coalition of internally fragmented unions, which rengō, highlighted as an official integration of all labor unions, suffered from.

Third, shuntō, Japan’s yearly wage setting institution though a nationwide confrontation, has been over time downgraded from an aggressive display of consensus building for the standardization of wage increase demands and settlements to a sort of good-natured labor festival featured by low membership and little bargaining power over management (Takanashi 2002; Weathers 2008). During the high growth period, shuntō
became an important means of redistributing the rapidly accumulating national wealth, and thereby sizable wage increases determined by the negotiations led to larger membership, with respect to both the number of firms and workers. Member companies exchanged information to minimize wage dispersion, believing that harmonious labor relations were beneficial for labor and management (Koshiro 2000). Indeed, shuntō played an important role in linking wage increase for low-end earners to those of major firm employees, thus promoting social equity. However, the state’s enticement of the main participants in shuntō into the government-organized deliberation channels in the wake of the oil crisis in 1973 dampened down its wage linking mechanisms. By the end of the 1990s, its value to low-end wage earners was practically nil, as reflected in rising income differentials and falling wages for most of the work force, and eventually, shuntō broke down completely by 2002, when unions essentially ceased even to demand wage increases.66 Following the breakdown of wage linking mechanisms around 2002, unions sought to revive shuntō by pursuing a variety of new approaches – campaigns on behalf of small-firm and non-regular workers, and efforts to make wage demands more flexible – but failed to generate significant upward wage pressure to restore wage linkage

66 While critical observers have lamented managers’ ability to steadily undermine aggressive wage bargaining unions and the steady ascendance of cooperation-oriented union leaders, other groups praise unions for their fundamental flexibility. Unions made reasonable wage demands that enabled managers to maintain heavy investment, eventually gaining high wages and living standards for members without serious disputes. In a similar sense, Toshio Chiba (1998), a Steelworker Federation official and the leading architect of moderate wage strategies in Japan Institute of Labor (JIL), argues that cooperative unionists gained more than leftist unions by emphasizing cooperation and a rational approach to wage negotiations. Indeed, the Steelworkers and most other major unions in Japan’s strategic metalworking industries have placed strong importance on helping employers to raise productivity and maintain international competitiveness (Chiba 1998; Koshiro 2000). These organizations established the IMF-JC in 1964 in order to consolidate their influence within the labor movement, and to counter the political unionism of militant or left-wing unions. In the mid-1970s, as high growth came to an end and foreign competition became more threatening, IMF-JC unions worked with government and business leaders to engineer a shift toward emphasizing wage restraint. The IMF-JC and other cooperative unions stayed as non-rengō members, seeking to use policymaking participation rather than large wage demands to protect worker interests and raise living standards.
Realistic Compromise

In parallel with the confrontational moves at the national level, despite internal limits of national centers and their efforts to unify the labor movements, enterprise unions at factories mostly recognized realistic approaches to harmonious relations between employers and employees as a main strategy to position them under more favorable situations. On the matter of the realistic compromise of enterprise unionism, Japanese labor union analysts and industrial sociologists, since the second half of the 1970s, have tended to give a positive evaluation of the state of internal union democracy in postwar Japan (Shirai 1983; Benson 1994). In particular, the approval of workers participation in the process of democratic deliberations at workplace, as a result of the stakeholder corporate governance, was seen as a typical evidence of internal union democracy. In consequence, a certain systematic relationship between the development of labor flexibility and institutional change in the political economy of industrial harmony has been positively formed over time (Dore 2000; Carlile 2006; Kume 1998).

Against the aforementioned positive interpretation on the function of enterprise unionism, it is important to note that the pursuit of realistic compromise at the enterprise level was involuntarily undertaken due to the lack of internal union democracy (Seifert 1988). At some places of work, the union exercises forms of totalitarian control over members on the shop floor, according to a group of the Japanese labor sociologists (Kumazawa 1996; Saga 1984). The reality of enterprise unionism in this conclusion on the suppression of non-conformist views by the union was based upon a detailed report

(Shinoda 2008).
on shokuba hachibu [expulsion from the workplace community], the case of a worker at the Toshiba plant in Fuchu who was practically driven out by his fellow-workers, which evokes the older traditional punishment of the expulsion from the village community (Kawanishi 1981). Where the trade union leadership and the majority of the members did not allow expression of a variety of views on policies and strategy within the enterprise union, the minority cannot but build up its own union. The limitation of internal democracy in many of the enterprise unions was shown to be an important reason for organizational splits and workers’ job vulnerability in the face of the employer offensive. Accordingly, management strategies for the takeover of a union leadership through the skilful nurturing of innovative production systems locking employees into multiple-skilled workers as well as the internal promotion structure of corporate governance became more salient and swaying. The question is how the parallel structure of enterprise and union hierarchies affected a labor union’s autonomous interest representation as well as internal union democracy.

Furthermore, on the structure of the Japanese enterprise union, its most frequent type is the so-called ‘all-worker-entry-type’ in which all regular employees of a firm or enterprise are union members, primarily all (male) blue- and white-collar workers below the level of department. In the majority of the over 74,183 enterprise unions in 1986, joining the unions occurred automatically or quasi-automatically upon being hired

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67 The worker’s offence was that he publicly expressed doubts about the level of wage increase demanded by the enterprise union at a staff meeting. Similar instances can be found at Nissan, particularly the case of two workers at Nissan-Diesel in Kawaguchi near Tokyo (Yamamoto 1981). For the same reason as in the Toshiba-Fuchu case, for months the two workers were put under moral pressure and physically pressured by other union members to give up their membership, and thereby their job. Another example is about the working and company atmosphere at a plant in the electrical industry supplying parts to a producer of nuclear power plants: not only are employees not allowed to speak critically of the purpose and safety of nuclear power plants, but they are also forced to make public declarations of their positive, and what is more, enthusiastic, attitude towards nuclear energy even if this went against their own beliefs. It was the union that tried to enforce such declarations.
(Seifert 1998: 375). Even where no union-shop agreement exists, quasi-automatic union membership for a new employee seems to be the rule at large firms. Discussion of the pros and cons of membership rarely seems to occur so that the new employee could not speak of a conscious decision on the part of the individual in favor of membership. This was not a particularly favorable starting point for a member’s active participation in union activities. In this sense, the manager’s kind support for worker participation in negotiation deliberations at workplace is considered not its positive reflection over worker’s will for harmonious relations with management, but a deliberate arrangement to elicit involuntary cooperation from employees on the basis of union-shop agreements.

The organizational form of enterprise unionism has certain drawbacks for autonomous interest representation, which inevitably led to labor’s realistic compromise with management (Tokita 1976). The intimate connection of the enterprise union with the internal organization of the management created union’s dependency on the management’s production control. The management’s controllability brought about, with relative ease, a split in the union by offering financial and organizational support to members that promise cooperation. Therefore, enterprise unionism had the serious difficulties in waging industry-wide united struggle, as well as political battles in coalitions with other enterprise unions. In fact, there was the Union Identity Movement that took off in the late 1970s as a response by leading enterprise unions to put a stop to union decline (Fujimura 1997). Both membership decline and the difficulty in recruiting union officers led individual unions to look for ways of increasing the attractiveness of unions to their members. The Movement took the enterprise structure of the unions as given, addressing first the issue of union democracy (for instance, better communication
between union leaders and members) and, second, the issue of union participation in managerial decision-making. Nevertheless, achieving both objectives should have required the genuine cooperation from management in order to transform the structural hitches of enterprise unionism.

In consequence, the realistic compromise of enterprise unions came up with a reflexive outgrowth of trade-offs between employment security and their loyalty to the firm. Enterprise unions did not intend to extend their statutory regulations on membership beyond factories in order to exclude the negative effects of changes in their organizational basis and the deterioration of the workers’ position that would result from a change of workplace within the same firms. The reason behind the failure in the union density, to some degree, would have been due more to the lack of interest on the part of employees to organize unions than to employers’ opposition (Sako 1997). Indeed, employees were not attracted to unions because they looked to unions for instrumental ends, namely a union mark-up on wages which was quite small in Japan. Workers’ reluctance to marshal the union-based negotiations could be seen as a logical response to economic concessions from management within the firms, particularly job security characterized as lifetime employment and seniority-based wage system.68

All in all, we need to confirm, even partly, that the neo-corporatist arrangement of shuntō combined with a series of leading union leaders’ trials for national centers – including rengō’s policy of participation – has overcome some of the limitations of enterprise unionism. Nevertheless, the challenge for unions at the enterprise level

68 The total reward package in return for employees’ loyalty to the company consisted of basic pay, bonus, and fringe benefits (Kim 2008a). A component of basic pay was directly linked to seniority, measured by the length of service within the firm. Pay was also linked to merit via a pay component which depends upon the qualification grade and another component which relates to job responsibilities.
remained how to cope with diverse membership when they have been used to homogenous regular worker membership, and how to redefine their roles at the workplace in such a way which was realistically compromised with corporate governance structure that management used for relational harmony at workplace. Accordingly, the overall pattern of workers’ responses to demands for industrial peace during Stage II can be encapsulated as entrenching micro-corporatism as a linchpin of the making of industrial peace in the face of the union movements unifying unions at the national level.

4.3. THE PATH OF CORPORATISM IN POSTWAR JAPAN:

MAINSTREAMING MICRO-CORPORATISM

The landscape of industrial politics in the period of Stage II marked the two competing fronts of labor-management relations: the emergence of macro-corporatism based on neo-corporatist tripartite deliberations; and the further consolidation of micro-corporatism anchored in enterprise unionism and the stakeholder corporate governance. Paralleling the two dimensions, however, the overriding path of corporatism in postwar war has been paved more for micro-corporatism at the factories, rather than for macroscopic approaches to national centers unifying labor movements. In the wake of the two oil crises in the 1970s, labor’s involvement in national wage negations through shuntō had been retarded not only because the government began to focus on the cooptation policy concerning how to neutralize national labor movements, but also because national centers lacked supportive assistances from enterprise unions due to internal fragmentations. As discussed above, micro-corporatism has been mainstreamed as a control mechanism for
the stable production and harmonious partnerships at the factories, whereas macro-
corporatism had been fluctuated according to external contingencies even though rengō,
the unified national labor umbrella, was safely established in 1989.

Secondly, it is worthwhile to recognize the vital function of corporate governance
at the enterprise level, which significantly contributed to incorporating employees into
the firm-based community. It is also important to note that the weight of power balances
in the terrain of industrial relations shifted from the state-business nexus in the prewar
Japan to business-labor relations in postwar Japan – however, still the state, of course,
mattered. In a nutshell, enterprise unionism stood at the center of path dependence in
sustaining industrial peace at workplace in the sense that the transformation of
corporatism from micro to macro requires high transaction costs of giving up
employment security in return for inter-union solidarity. The main features of the path
formation for industrial peace in this period can be reassessed by the three aspects of
corporatist governance as follows.

4.3.1. The Corporate Governance Structure and Lifetime Employment

The first and primary distinctive contributor for industrial harmony during Stage II is the
development of the stakeholder corporate governance, based mainly on its strategic
emphasis on employment security, which came to fruition under the favorable economic
conditions of the high-growth period (Shimada 1983; Koike 1987; Koshiro 1986; Lincoln
and Nakata 1997; Dore 2000; Tiberghien 2007). Sustained period of economic growth
allowed companies to project much longer time horizons as economic conditions became
more predictable. For employers, stable employment relationships enhanced the concept of investments in human capital, which means their recognition that workers are an important asset, or an investment with real returns. It is remarkable to note that employers’ strategic interests in pursuing stakeholderism could be commonly identified with both the state’s deliberate emphasis on the positive impacts of enterprise negotiations and the organized labor’s assertive requests of job stability. It is also important to note that the institutional change of complementarities in managing the production system and its associated effects on the elongation of workers’ employment was one of the most critical factors to make the corporate governance structure more effective and accountable (Vogel 2006; Osano and Serita 1994). Accordingly, we now know that the stakeholder corporate governance in postwar Japan became a decisive institutional source to retain the Japanese industrial harmony in a path-dependent fashion on the basis of micro-corporatism that had been inherited from the prewar pattern of labor-management relations.

The promise of employment security, undoubtedly, was integral to the Japanese corporate governance structure. The provision of lifetime employment, in turn, was fundamental to employment security. Contrary to the scholarly predictions on the demise of Japanese lifetime employment (Cole 1971), empirical studies have so far detected no major changes in the practices of lifetime employment pertaining to core employees in

69 According to the scholarly skepticism on lifetime employment in the period of Stage II, lifelong employment was not sustainable under high economic growth, as chronic labor shortages would raise employees’ outside options and they would then be tempted to move from one job to another (Cole 1971). Particularly, the pay system worked against lifetime employment. The post-oil crisis years from the late 1970s to 1980s saw the introduction and the diffusion of ability-based pay (shokuno kyu), although an element of seniority tended to creep into this pay component via promotion in the qualification rank (Tsutsui 1998: 174). Recessionary pressures and the need for restructuring gave businesses an incentive to link pay to performance in order to increase the overall efficiency of their operations. Accordingly, a majority of firms adopted hybrid wages or ‘seniority-plus-merit’ pay that combined seniority with a prominent merit component based on performance evaluation by supervisors.
large companies (Moriguchi and Ono 2006). Rather, it can be fairly stated that lifetime employment at the enterprise level has been established and consolidated as a main institution of human resource management and economic concessions. Ten-year job retention rates of core male employees (age 30 to 44) changed little from 1977-1987 to 1987-1997 (Kato 2001). It is also documented that the ratios of long-term male employees to the total workforce increased in the 1980s and remained stable throughout the 1990s in firms of all sizes (Tsuru 2002). Labor turnover data confirm these observations. As figure 4-8 demonstrates, the separation rates of manufacturing workers declined considerably during the high-growth period (1960-1975) and maintained low stability thereafter. These data turn out to be more convincing in the sense that they cover smaller establishments (employing 30 or more workers) as well as female employees, for whom lifetime employment has been less prevalent. Moreover, it should be noted that separations in the data include intra-firm transfers of employees across establishments, which were used as a common employment adjustment method to avoid dismissals.

In a historical context, Japanese lifetime employment is a product of dynamic interactions and adaptations, which enabled it to be socially constructed by management, labor and government in response to the changing environments. The firm-level practices were reinforced by the endogenous formation of macro-level institutions, such as labor laws, state welfare policies, and social norms. The lifetime employment principle, which might, at first sight, be a centrifugal force externalizing non-homogenous elements of the labor force, was actually a centripetal force binding diversified subsidiaries and affiliates to be part of the same community. In the case of the chemical textiles industry in the late 1970s and early 1980s, newly created affiliated companies in such areas as chemicals and
plastics, rather than bringing in expertise from outside, were mostly manned by transferred workers from within each factory. Working conditions, particularly including
wages, did not diverge much between the old and newly created operations in diverse sectors partly due to tighter corporate group-wide coordination among enterprise unions (Nitta 1997). As a consequence, the development of lifetime employment has been deeply embedded into complementary practices and institutions, resulting in its resilience and stability.\(^7\)

It is also important to note that lifetime employment incurred social costs in the sense that sanctions for deviating from the social norm of lifelong employment were met with certain social penalties, the stigma attached to those who changed jobs, which hampered their chances of reemployment, resulting in lower wages and job instability (Dore 1983). In fact, empirical studies of the Japanese labor market have found a negative correlation between the number of job changes and earnings of workers (Ono 2004; Kato and Rockel 1992). Social pressures to conform to the norm thus functioned as a powerful enforcement mechanism for long-term employment. Beyond the notion of social costs, lifetime employment can be seen as the rationalization of workers’ thoughts and demands because they afforded the material security and stability of permanent employment that they needed and desired. Therefore, even modifications of the frame of lifetime employment in the face of globalization and liberalization remained as a marginal impact on workers’ job separations (Abegglen and Stalk 1985: 286).\(^7\)

\(^{70}\) In fact, the following complementary characteristics of human resource management are found critical in supporting lifetime employment in Japanese firms (Koike 1987; Sako and Sato 1997; Tachibanaki and Noda 2000; Kato 2001): (1) human capital development that raises an employee’s productivity over his tenure and provides managerial incentives to retain the employee – for example, corporate training, job rotations, small group activities such as quality circles; (2) compensation system that provides incentives for employees to exert effort, acquire desirable human capital, and remain with the firm – primarily, seniority-based wage, internal promotion, bonuses, corporate pensions; (3) internal enforcement and coordination mechanisms that facilitate information sharing, enable employees to monitor management, and encourage labor-management cooperation – particularly, enterprise unions, joint labor-management committees, workplace socialization.

\(^{71}\) Employers were able to modify the frame of the lifetime employment system at their will. There was no statutory law that guaranteed lifetime employment in Japan (Moriguchi and Ono 2006: 160-161). The
context, it might not be too bold to claim that the lifetime employment system in large corporations is the defining characteristics of the Japanese management system and can be regarded as the core institution of the Japanese firm.  

4.3.2. Enterprise Unionism as the Institutional Underpinning of Corporatist Governance

Enterprise unionism is the more comprehensive self-reinforcing firm-level institution encompassing both corporate governance and lifetime employment in postwar Japan. The traditional pattern of labor-management consultation, formed in the prewar years of Japan, has always had an enterprise focus, and its postwar pattern also mostly remained at the enterprise level. The MOL’s surveys on labor-management communication show that labor-management consultation systems – including Joint Consultative Committees (JCCs: rōshi keiei kyōgikai) – have spread from 72.4 percent in 1977 to 84.1 percent in 1989 of unionized establishments, and from 37.5 in 1977 to 55.2 in 1989 of non-union establishments (rōdōshō 1992: 112). Despite the fact that JCCs are not legally mandated, JCCs over time spread with relatively little legal backing, in part due to management’s lifetime employment strategy which predisposes both management and labor to talk.

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Japanese Civil Code stipulated that either party, under an employment contract with no fixed duration, can terminate the contract at any time with a two-week advance notice (Article 627(1)). The Labor Standard Law of 1947 obliged employers to pay the equivalent of thirty days’ wages when dismissing an employee (Article 20). Except for those restrictions, the legal codes supported the employers’ rights to dismiss employees. However, it was common, by the early 1960s, for Japanese employers to circumvent dismissals by using other means, such as a reduction of working hours, relocation of regular employees, separation of non-regular employees, and the suspension of hiring new workers (Tsuda 1968: 174; Sugeno 1992: 408).

In this vein, James Abegglen (1973: 30), from the somehow cultural perspective, asserts that the lifetime employment system “taps first the very basic motives involved in group-centred, non-contractual, and hierarchy-oriented society.” He claims that the comparative advantage of the Japanese corporation lay in its high level of social integration around the lifetime employment system which itself is rooted in Japan’s premodern Confucian values and the view of the traditional Japanese family as a model for nation and organization.

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through problems in order to safeguard their top priority objective of employment
security. In so doing, JCCs played a critical role in facilitating information sharing and
joint consultation and establishing mutual trust between labor and management.

The basic unit for organizing labor is the enterprise, and even macro- or meso-
corporatist arrangements in Japan were grounded in the decentralized micro-corporatism
at the enterprise level. Indeed, the structure of enterprise unions reinforced the principle
of the firm as community because the union did not constitute an alternative dimension to
the firm that might compete for workers’ loyalty and identification. In the eyes of those
with the Anglo-American model in mind, the union’s fortunes are too closely tied to the
fortunes of the enterprise. However, the Japanese model asserts that the enterprise
structure of unions fundamentally alters the implicit definition of what the union is for.

The viability of the enterprise union depends on the viability of the firm as community,
which in turn depends on the defense of the employment security principle. Both
management and the enterprise union representing the lower ranks in the community
shared an incentive to broaden the scope of discussion, through collective bargaining and
joint consultation, in order to preserve job stability for workers and stable production
systems for employers. The union’s access to sensitive managerial information in the
process of such discussion constitutes a significant source of power for enterprise unions.

Examining the path dependence of Japan’s postwar enterprise corporatism is
deeply involved in a longstanding conundrum: despite modest government social
spending and benefit levels, for decades Japan achieved an egalitarian form of capitalism
(Esping-Andersen 1997; Dore 2000; Estevez-Abe 2002). The odd combination of

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73 Although there is no legal restriction on having more than one union at a workplace, the predominant
mode is one union per enterprise. Blue-collar and white-collar workers belong to the same union.
equality, meager redistributive social spending, and extensive protection from market risk without heavy taxes and massive government expenditures, therefore, brings our attentions to the potential sources of welfare provisions other than the state welfare. The corresponding supplier would be identified with enterprise-based welfare provisions covering a wide range of fringe benefits, as well as lifetime employment for large-firm workers. Even in times of economic stress and waves of institutional reform in the late 1970s, the public regime of social protection remained in place protecting citizens, organizations, and communities, all of which were excluded from the welfare coverage of the workplace or marketplace.\textsuperscript{74}

Still, it is fair to state that enterprise unionism had its intrinsic weaknesses. Conceptually, the Anglo-American model would regard union participation in management and harmonious enterprise unions as susceptible to cooptation, which was more significant particularly for Japanese unions due to their enterprise structure such as the union shop provision (Price 1997).\textsuperscript{75} The career development of union leaders, many of whom returned to the firm as top managers, is often cited as evidence of management’s incorporation of labor. In the Japanese model, in which unions were enterprise-based and workers did not exercise the threat to exit, unions were also judged by their strength in influencing managerial decision making on behalf of their workers. Also, the main power resource of enterprise unions was their access to confidential management information, not their ability to mobilize resources outside the firm. In short, viewed through the

\textsuperscript{74} An extreme nationalistic interpretation identifies Japanese pattern of welfare in the late 1970s as the ‘welfare super-power’ in the sense that the success of high economic growth enabled Japan known as a welfare laggard to outstrip the advanced welfare states in the West (Nakagawa 1979).

\textsuperscript{75} By 1950, many unions won a union shop provision that required every regular employee of a company to be a union member, and in exchange for that, management won a clause requiring every union member to be an employee of the company. This exclusive employee membership later became a hallmark of enterprise unionism (Koike 1988).
Anglo-American lens, all Japanese enterprise unions suffer structurally from weak bargaining power, managerial interference, and the inability to organize peripheral and retired workers.

Despite these weaknesses of enterprise unionism, at least union leaders themselves feel that the effectiveness in participating in strategic managerial decision-making has increased from the 1970s to the 1990s, according to Takeshi Inagami’s survey (1995). Part of this increase in worker participation is due to the mixed bag of the state’s guideline and the manager’s deliberate cooptation. In the wake of the Oil Crisis in the 1970s, the government pursued the dual labor policy including its emphasis on the downscaling of negotiation deliberations at the firm level. Given that the cost of exit is high for both workers and the firm, management has been willing to allow employees to exercise voice so as to avoid layoffs. Another reason for the perceived effectiveness of worker participation is that it has spread as part of a system of participation at all levels down to the workshop level in the form of quality control circles (Nakamura 1997). Although greater union participation in managerial decisions was good for furthering industrial democracy in so far as union leaders were concerned, however, these leaders might face a rift from rank-and-file who did not see the process of negotiation between top management and union leaders over confidential managerial matters. Workers would have no choice but to look for solidarities with other unions beyond enterprise unionism unless employment security, which they regarded as top priority in return for their cooperation with managers, could be sustained within the firms. Institutional sources to maintain harmonious relations between labor and capital would, however, be bound to increase possibilities of reassuring micro-corporatism as a key solution.
4.3.3. The Level of Corporatism: Beyond Enterprise Unionism? Or Ratchet Effect?

The emergence of macro-corporatist unionism at the national level in postwar Japan, which has developed from sanbetsu to rengō, is another remarkable observation on Japanese history of labor politics. For sure, as Ikuo Kume (1998) emphasizes, the new formation of centralized labor federations contributed to realizing successful moves for the protection of workers’ rights through shuntō and other diverse channels of tripartite deliberations (shingikai). As a result, the making of industrial peace would be possibly achieved and retained by labor’s critical coalitions beyond enterprise unionism that has been conventionally mainstreamed at workplace.

While there have undoubtedly been some structural modifications resulting in the increasing importance of external national negotiation mechanisms, most of this change, in many aspects, has occurred only at the margins of the system. First and most importantly, national umbrellas of trade unions, despite various attempts at creating a functional equivalent of industrial unions by strengthening coordination at higher levels, have ended up consolidating more along the lines of corporate groupings grounded in enterprise unions (Sako 1997; Nitta 1997). Typically, enterprise unions at Toyota and its suppliers, particularly Matsushita, have formed a federation (rōren), which in turn affiliates to the industry-level body, the Confederation of Japan Automobile Workers’ Unions.76 One change from the 1970s and 1990s was the proliferation of union organization along the lines of corporate groupings, which paralleled the extension of the boundary of the firm as community. In this regard, the Japanese industrial relations,

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76 Around a third of unions formed such corporate group-based federations before 1973, and another third between 1973 and 1992 (Inagami 1995).
characterized by a decentralized labor structure based on enterprise unionism, present an anomaly to the conventional understanding of labor politics, which proclaims that only a unified and centralized union movement can promote workers’ interests against employers and the state (Korpi 1978; Thompson 1963).

Secondly, substantial increasing feedback for macro-level tripartitism failed to be sustained. It is, indeed, hard to conclude that neo-corporatism at the national level became explicit in the postwar Japanese labor-management relations. A decisive reason for this negative conclusion comes from the fact that the LDP governments incessantly intervened into the organized labor with the offer to invite leading union leaders of national centers to shingikai-based tripartite consultation processes, which had no entitlements to make any legally binding decisions. Management also actively designed a stakeholderism-based pattern of corporate governance securing employment security, despite no statutory protection for it, which mitigated the incentive of workers’ participation in national centers beyond enterprise unions. There was no clear evidence to say that labor successfully championed social contracts at the national level, as Sheldon Garon and Mike Mochizuki (1993) contest. Macro-corporatist negotiation apparatuses were not still an effective instrument for workers at factories, compared with enterprise unionism.

Last but not least, although Kume (1998) strongly argues that Japanese labor forces successfully entered the political society and participated in the process of governments’ decision making, we now know the long-term predominance of the LDP governments closely identified with higher-income groups, in a nation where labor-affiliated parties have almost never participated in government during this period of the
high growth up to the outbreak of the bubble economy (Shinoda 1997; Kim 2008a). Even the LDP governments, which had no positive records of advocating labor unions and proactive welfare policies, have developed a strategic frame of crisis management. At every critical juncture of political and economic crises, they, more often than not, deliberately carried out a series of welfare-oriented public policy aiming at redistributive equality of welfare benefits and the expansion of universalistic social protection (Calder 1988: 389). It is in this regard that the government agencies attempted to incorporate the organized labor into shingikai (Schwartz 1999) and the emerging pragmatic economic unionism in the post-1975 period was engaged in steadily intensifying contact with the ruling conservatives (Kōsaka 1981).

In a nutshell, the emergence of macro-corporatism in postwar Japan was overshadowed by the overriding presence of micro-corporatism embedded in enterprise unionism and other sectors (state and business)’ strategic maneuvering for it. The ‘ratchet effect’ intended for path dependence has been so strongly established to preserve the institutional environment of shift parameters for changes intact (Pierson 2008; Williamson 1994). Given the durability of previous institutional choices by workers at factories, labor’s current choices in postwar Japan could be constrained by the heritage of institutions accumulated from the past. As Douglas North (2005: 51) clearly articulated, “path dependence stems from the presence of numerous organizations whose survival depends on the perpetuation of those past institutions and which hence will devote resources to preventing any alteration that threatens their survival.” From North’s notion,

77 The only exceptions are the Katayama and Ashida coalition cabinets of 1947-48; the first led by the Japan Socialist Party, with the Democratic Party as coalition partner, and the second with the reverse situation. Also, in 1993, the Hosokawa cabinet broke down for the first time the long domination of the LDP by achieving the coalition with other small opposition parties. Remarkably, in August 2009, the successful victory of the DPJ’s Hatoyama cabinet on the basis of the rengō is worth noting in this regard.
we can draw an implication of the ratchet effect of micro-corporatism, which involved
the considerable measures undertaken by the state, management, and labor not only to
minimize the extent of the external shocks triggered by historical contingencies at critical
junctures, but also to maximize harmonious relations between employers and employees.
At the core of industrial peace was the presence of enterprise unionism, rather than any
centralized labor influences on the government and political parties. However, the
durability of ratchet effects during Stage II was at stake in the face of Japan’s lost-decade
bubble economy in the next historical junctures.
Chapter 5

STAEGE III: THE BUBBLE ECONOMY AND MOVING BEYOND MICRO-CORPORATISM?

The emergence of the bubble economic crisis in the late 1980s triggered the encompassing demands for institutional changes in the Japanese economic system and labor-management relations. This historical contingency became, indeed, the most critical juncture threatening the conventional harmony of Japan’s industrial relations. It is in the sense that the neoliberal pressures for restructuring adjustments were severely imposed on Japanese large firms for the sake of their own international competitiveness. Given Japan’s dismal economic performance after 1990, many Japanese opinion leaders concluded that the Japanese economic model was no longer viable (Ishizuka 1996; Tsuru 2002). Japan would have to abandon its outmoded institutions – including the main bank system, lifetime employment, inter-firm networks (keiretsu), and close government-industry ties – and embrace the liberal market restructuring of Anglo-American model. Yet Japan has not done so as expected.

The politics of liberal reforms, thus, reflected changing interests and coalitions among various stakeholders, such as state actors, the investment community, corporations, and trade unions. However, political resistance remained severe given not only the interests of corporate management in preserving its own autonomy but also
workers’ concerns over the social and distributional consequences of shareholder value which would by definition preclude any direct political challenge for the rights of workers. The resulting reforms prompted firms to adopt many new capital market-oriented practices while retaining significant national differences in the powers of corporate boards and labor participation (Jackson 2003; Vogel 2006; Jackson and Miyajima 2008). Indeed, Japan was willing to support its discourse change only without deeply affecting its actual structure on the matter of corporate restructuring (Tiberghien 2007). Preexisting institutions left a heavy imprint on the trajectory of change due to the institutional weights of enduring core values in the political and industrial systems.

As Steven Vogel (2005: 145) aptly argues, “for Japan to shift toward the liberal market model, it would not simply have to dismantle existing institutions, but also create new ones.” Indeed, a full conversion of a particular political economy would involve great transformations at all levels of its system: laws, practices, institutions, and norms (Polayni 1944; Fligstein 2001). For Japan to become a full-fledged liberal market economy, the transition would entail a complex process of building market economy, but it would not be as fundamental because Japan already has the basic institutions of a market system in place. Therefore, the Japanese society during the period of Stage III (bubble economy) stood at a historical crossroads where external pressures for institutional change intersected with the path-dependent resistance of preexisting stakeholder-oriented practices in labor-management relations. On the one hand, the infusion of managerial incentives and necessity of rationalization in corporate governance

78 According to Yves Tiberghien (2007)’s analysis on the reform of corporate governance in France, Japan, and Korea, such a Japanese path rooted in failure of the actual introduction of its reformative actions is in stark contrast to the French case showing the implementation of some deep changes without changes in its discourse.
would lead Japanese firms to promote Anglo-American corporate practices – namely, shareholderism – such as layoffs, performance-based pay, and mid-career hiring, all of which would result in undermining the precarious equilibrium of industrial harmony between workers and employers. On the other hand, those Japanese workers who have enjoyed lifetime employment guarantees were not easily commodified in the face of the fact that employers were able to buy and sell their employees on the free market (Beck and Beck 1994).

On the changing landscape of triangular relations between government, business, and labor, all actors have endeavored to stabilize industrial relations in the aftermath of the bubble crisis, even though they allowed Japan to weather and adapt to its current pressing challenges (La Croix and Kawaura 2006; Dore 2000; Kim 2008). The state, despite incremental change, kept its statutory intervention into corporate governance; management generated a new set of corporate arrangements by reforming boards of directors and the distribution of shares, alongside some safeguards against the damaging shocks of neoliberal globalization; and union influence derived more from labor’s indispensable cooperation in production at the plant level, thereby maintaining the stakeholder position of enterprise unions within the firm. Overall, careful observation in this period relates to the social construction of ‘voice’ strategy (rather than exit) embedded in the organizational reshuffle of corporate governance and micro-corporatism within companies. In this regard, this chapter offers a new interpretation of the liberalization pressures and responses in Japan’s labor-management relations at the critical juncture of the bubble crisis by examining not just the rise of new investors, but
also the independent roles of politics, labor institutions, and the changing social world and interests of top management in corporate strategy.

5.1. HISTORICAL DEVELOPMENT OF CRITICAL JUNCTURES

Even at the height of the bubble period during the latter 1980s, the Anglo-Saxon-West still praised the Japanese economy with previous tributes such as “Japan as Number One” (Vogel 1979). Only a few years later, at the beginning of the 1990s, the economic conditions suddenly reversed and the nation lurched into its longest and most severe recession in the postwar era, which remained unavering in next 10 years, called Japan’s “lost decade” (Saxonhouse and Stern 2004; Yoshikawa 2001; Lee 2011). Such a love affair with Japanese institutions was dramatically shaken when Japan’s economic bubble burst: land and stock market prices began a precipitous fall in 1990 that only leveled off in the 2003-05 period; real income growth was low and volatile for over a decade (1991–2003); deflation in consumer prices from 1995 raised anxiety among foreign and domestic observers that the economy was on the verge of collapse; and massive losses on overseas investments – particularly, in Hawaii and New York City – sullied Japan’s image as an economic superpower with a uniquely long vision in making investments and harmonious relations between workers and managers (Hayashi and Prescott 2002).

The bubble crisis disenabled the institutional effectiveness of Japan’s current economic systems and gave birth to a negative impetus for both demise of the old system and groping towards the new one in economic and political aspects (Stockwin 1999: 70-92). Accordingly, the call for institutional changes in governing the bubble economy
began to resound both inside and outside of Japan after 1995 in particular. As historical backgrounds for analyzing the changing contours of industrial harmony in view of path-dependence, the following macroscopic reviews over what was exogenously given to industrial actors during the bubble crisis need to be scrupulously taken into account.

5.1.1. The Advent of the Bubble Crisis

The conclusion of the Plaza Accords in September 1985 triggered a sharp appreciation of the yen relative to the US dollar. During the next ten months, the value of the yen jumped from 240 to 150 yen per dollar. The enormous price disadvantage of Japanese imports consequently led to a decline in product demand, and the utility of enterprise-based corporatist institutions, typically lifetime employment (Kang 2006). It became thus a litmus test on whether employers faced pressures to let workers dismissed. Although the Japanese economy managed a quick recovery via the policy of low interest rate intended to stabilize macroeconomic performance in the mid-1990s, the low-interest-rate policy soon led to aggressive corporate investments causing the dramatic appreciation of land and stock prices (Fukao and Kwon 2006). This upward spiral brought about the advent of the bubble economy in the late 1980s and the early 1990s, which eventually culminated in the negative ratio of GDP growth in 1998, as well as negative signals of other macroeconomic indicators as table 5-1 shows.

Under the vicious circle of the bubble economy, Japan’s use of monetary and fiscal policy has been direly dismal. Unnecessarily loose monetary policy contributed to generating Japan’s land and stock market price bubbles, whereas tight monetary policy
subsequently helped to burst both bubbles in the early 1990s (La Croix and Kawaura 2006). Expansionary monetary and fiscal policy helped revive the economy in the mid-1990s, but since 1997 the Bank of Japan (BOJ) has engineered a monetary policy that appeared to be expansionary but has actually been contradictory in practice (nominal interest rates were 0.25 percent until 1999 and zero thereafter). This was because the continuation of price deflation left real interest rates at relatively high levels. The high real interest rates served to at least partially offset a decade of massive deficit spending by the national government.

\[
\text{Table 5-1. Real GDP Growth Accounting by Demand (annual increase rate)}
\]

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth (%)</th>
<th>Consumption Expenditures</th>
<th>Housing Investment</th>
<th>Capital Investment</th>
<th>Inventory Investment</th>
<th>Government Expenditures</th>
<th>Exports</th>
<th>Imports</th>
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</thead>
<tbody>
<tr>
<td>1985</td>
<td>4.4</td>
<td>3.3</td>
<td>2.6</td>
<td>12.1</td>
<td>175.1</td>
<td>0.3</td>
<td>5.4</td>
<td>-1.4</td>
</tr>
<tr>
<td>1986</td>
<td>2.9</td>
<td>3.5</td>
<td>8.1</td>
<td>4.5</td>
<td>-39.4</td>
<td>5.1</td>
<td>-5.7</td>
<td>1.9</td>
</tr>
<tr>
<td>1987</td>
<td>4.2</td>
<td>4.2</td>
<td>22.4</td>
<td>5.9</td>
<td>-33.8</td>
<td>1.6</td>
<td>-0.5</td>
<td>9.5</td>
</tr>
<tr>
<td>1988</td>
<td>6.2</td>
<td>5.3</td>
<td>11.4</td>
<td>14.7</td>
<td>320.5</td>
<td>2.3</td>
<td>5.9</td>
<td>20.9</td>
</tr>
<tr>
<td>1989</td>
<td>4.8</td>
<td>4.8</td>
<td>0.9</td>
<td>14.5</td>
<td>7.6</td>
<td>2.0</td>
<td>9.1</td>
<td>18.6</td>
</tr>
<tr>
<td>1990</td>
<td>5.1</td>
<td>4.4</td>
<td>4.8</td>
<td>10.9</td>
<td>-27.0</td>
<td>1.5</td>
<td>6.9</td>
<td>7.9</td>
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<tr>
<td>1991</td>
<td>3.8</td>
<td>2.5</td>
<td>-8.5</td>
<td>6.3</td>
<td>56.8</td>
<td>2.0</td>
<td>5.4</td>
<td>-3.1</td>
</tr>
<tr>
<td>1992</td>
<td>1.0</td>
<td>2.1</td>
<td>-6.5</td>
<td>-5.6</td>
<td>-58.1</td>
<td>2.0</td>
<td>4.9</td>
<td>-0.7</td>
</tr>
<tr>
<td>1993</td>
<td>0.3</td>
<td>1.2</td>
<td>2.4</td>
<td>-10.2</td>
<td>-37.3</td>
<td>2.4</td>
<td>1.3</td>
<td>-0.3</td>
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<tr>
<td>1994</td>
<td>0.6</td>
<td>1.9</td>
<td>8.5</td>
<td>-5.3</td>
<td>-128.5</td>
<td>2.4</td>
<td>4.6</td>
<td>8.9</td>
</tr>
<tr>
<td>1995</td>
<td>1.5</td>
<td>2.1</td>
<td>-6.5</td>
<td>5.2</td>
<td>369.8</td>
<td>3.3</td>
<td>5.4</td>
<td>14.2</td>
</tr>
<tr>
<td>1996</td>
<td>5.1</td>
<td>2.9</td>
<td>13.6</td>
<td>11.3</td>
<td>233.8</td>
<td>1.9</td>
<td>6.3</td>
<td>11.9</td>
</tr>
<tr>
<td>1997</td>
<td>1.4</td>
<td>1.0</td>
<td>-16.3</td>
<td>7.1</td>
<td>-10.3</td>
<td>1.4</td>
<td>11.6</td>
<td>0.5</td>
</tr>
<tr>
<td>1998</td>
<td>-2.8</td>
<td>-1.1</td>
<td>-13.7</td>
<td>-11.4</td>
<td>-25.3</td>
<td>0.7</td>
<td>-2.3</td>
<td>-7.7</td>
</tr>
</tbody>
</table>

Such a transformation in the global financial environment has made the restructuring dilemma of labor-management relations more salient. Financial deregulation in all developed economies and technological change has led to the rise of global equity and bond markets. For large competitive firms, these markets offered a cheaper source of capital rather than did traditional domestic banks if they would have satisfied foreign capital’s conditionality on corporate restructuring. For governments, tapping into these global equity markets, in addition to attracting the more traditional foreign direct investments (FDIs), brought the promise of cheaper capital, higher firm competitiveness, and greater national welfare in a longer term (Yoon 1990). As Yves Tiberghien (2007) calls this global capital flows ‘a golden bargain,’ global investors at this historic juncture of transition *de facto* offered domestic politicians a deal whereby abundant and cheap capital flows came in exchange for corporate reforms that were normally required to secure the rights of minority shareholders, a high return on investment, and the flexibility of layoffs, through the facilitation of corporate restructuring.

5.1.2. Three Outgrowths of the Bubble Crisis

The bubble economy bequeathed the three following effects on the Japanese political economy of transition, which ended in corporate restructuring and its resulting change in corporatist governance: (1) capital gains and losses on stocks and land; (2) the impacts of aging society; and (3) the banking crisis.

Firstly, the precipitous rise in stock and land prices was the bubble, and the collapse of the bubble became the primary cause for the decline in investment later on.
Figure 5-1 presents the capital gains from the asset price rose during the bubble era, as well as the subsequent losses. In the household sector, the largest capital gains (a cumulative amount of ¥800 trillion) stemmed from higher land prices, and major capital losses were incurred after the bubble burst due to the plunge in stock prices from 1990 and in land prices from 1991-1992. The prolonged period of asset inflation showed initial signs of collapse in 1991. By October 1991, capital gains on stocks had fallen 50 percent from their 1987 peak, and in December the Economic Planning Agency (1992) acknowledged that the economy had entered a long slump. To deal with this economic recession, employers, despite the traditional repercussion that employee dismissal remained the last resort, inevitably began dismissals of core workers in the early spring of 1993 by allowing shareholder-oriented corporate restructuring. In so doing, the deregulation of stock options has been used as a main instrument to implant Anglo-American mode of corporate governance within companies. Moreover, the privatization of state enterprises and impending reforms to public pensions by promoting private savings created new political support for the stock market (Bernanke 2000: 156). 79

Secondly, in tandem with the bubble crisis, another long-term threat, which would undermine not only the employment system but also economic growth itself, emerged from Japan’s aging population (Ezrati 1997; Peng 2004). The rate of aging of the workforce in Japan of the 1990s was the fastest in the world, poorly compounded by longer life expectancy and lower fertility. The aging society would eventually lead to an

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79 The result of rationalization, however, varied in accordance with industries. For example, the fiscal 1994 Economic White Paper of Japan states that stock adjustment during the Heisei recession was aggravated and prolonged due to the buildup of construction investment during the bubble era (Ministry of Finance 1994). Excessive stock was accumulated given that the huge construction investments that began during the period of 1988-1989 and continued after 1990. Thus, the stock adjustment during the recessionary phase was prolonged because the durability of construction works, once they are completed, is much longer than that of the other tangible fixed assets.
inverted pyramid-shaped age composition of the workforce and increase the burden for the active labor force to support the private and public pension system for older generations. In other words, the Japanese labor market would face a labor surplus problem in the short run, but a labor shortage predicament in the long run. Such a demographic crisis and the rationalization of employment structure in response to the Heisei recession, accordingly, led to the deluge of part-time workers, as well as the serious unemployment problem of college graduates in the 2000s.

Thirdly and most importantly, the banking crisis was placed at the center of the bubble economic crisis. Company’s contracting with banks in a traditional fashion involved multiplex relations such as mixing credit, financial services and advice, representation of shareholders as a delegated monitor or through proxy votes, holding of seats on corporate boards, and being active in corporate rescues (Osano and Serita 1994; Aoki and Patrick 1994). Such Japanese main bank relationships, however, were dramatically weakened as a consequence of the bubble. Banks initially compensated their management by lending to smaller and riskier firms in short terms, which later resulted in bad loans estimated at 18 trillion yen, as well as unrealized losses on stocks – purchased at the height of the bubble – estimated at 4 trillion yen (Takao, Ikeda and Fuchita 1998). As this banking crisis unfolded, banks reduced outstanding loans to meet capital adequacy ratios and created a credit crunch for smaller firms despite the BOJ’s zero interest rate policy. Japanese banks also divested from shares or sold and repurchased holdings in order to improve balance sheets by booking unrealized gains. In response to
the banking crisis, banking mergers became a popular solution to recapture scale, as well as eliminate excess competition (Rose and Ito 2004: 139-157).  

Figure 5-1. Capital Gains and Losses on Stocks and Land, 1980 – 1992

![Diagram of Stock Gains and Losses](chart1)

![Diagram of Land Gains and Losses](chart2)

Note: The capital gains and losses are the stock adjustment account figures from the Economic Planning Agency’s National Accounts Annual. However, the 1992 figures are calculated by multiplying the 1991 asset balances by the stock and land price change ratios for 1992.

Banking mergers include the following major cases: (1) Industrial Bank of Japan, Dai-ichi Kangyo Bank, and Fuji Bank; (2) Sumitomo Bank and Sakura Bank; (3) Sanwa Bank, Tokai Bank, and Asahi Bank; and (4) Bank of Tokyo-Mitsubishi and Mitsubishi Trust and Banking.
Along with banking mergers, individual firms also engaged with the maintenance of scale economies through horizontal mergers to cope with international competition, regional integration of European states, and globalized deregulation. Indeed, Japanese companies carried out a high number of M&As in the late 1990s, while the worldwide volume of M&A transactions jumped from 605 billion USD in 1989 to an estimated 2,500 billion USD in 1999 (Höpner and Jackson 2001).\footnote{For example, in 2000, Boehringer Ingelheim pharmaceuticals gained a controlling stake (35.9 percent) in SSP Co., a Japanese drug company. Apparently motivated by strategic rather than financial interests, the stake surprised SSP management and disrupted patterns of stable shareholding by its customers (Boerson Zeitung 17 February 2000: 12).} Japanese reforms facilitated strategic mergers by easing corporate restructuring through varieties of shareholder-oriented instruments, such as share swaps, holding companies, corporate spin-offs, and business splits. However, institutional barriers to hostile takeovers continued to be sustained by cross-shareholding, the difficulty of integrating company-specific employment systems, the role of the Ministry of Economy, Trade and Industry (METI) and banks in mediating domestic mergers, restrictions on share swaps with foreign firms, and so forth. In a nutshell, no large-scale hostile takeover bids have been successful in post-bubble Japan.\footnote{For example, Yoshiaki Murakami, the ex-MITI official now of M&A International, launched a takeover bid for Shoei Corporation in January 2000. But Murakami did not overcome the opposition by stable shareholders such as Canon Corporation and the Fuji bank group and gained only a 6.5 percent stake.} Furthermore, the Japanese banking crisis prompted political debate over transparent relations between banks and industry, thereby enabling employers to put the knife to the preexisting structure of corporate governance. Financial liberalization gave corporations greater access to bond markets and rising share prices led to cheap equity finance, consequently reducing the demand for bank credit by large firms. Bank lending has declined, particularly to large firms so that Japanese firms began to substitute bonds and internal finance for bank loans. In the 1990s, corporations therefore slowed
investment while increasing finance from corporate bond markets and writing off or refinancing bank loans (Economic Planning Agency 1999: 181).

Such a new shareholder-driven move of corporations in response to the bank crisis would be then doubted in terms of how it affected not only institutional changes in employment stability of workers within firms but also the prospect of corporatist harmony at the enterprise level. An active introduction of Anglo-American mode of labor-management relations has been relatively hesitated or even withheld by employers’ resort to the conventional methods of readjustment, which preferred the reduction of overtime work and new hiring, the transfer of workers to subsidiaries, and the encouragement of early or voluntary retirement to austere dismissal of regular workers. A missing link in corporate restructuring comes from the resilience of Japanese industrial players in the face of neoliberal pressures for remodeling the structure of corporate governance. In consequence, the systematic review on corporate restructuring and its effects on corporatist governance at the enterprise level, which has hitherto received less scholarly attention, is obviously necessary platform to understand the whole contours of industrial relations in the era of post-bubble Japanese economies (Kim 2008).

5.2. RESISTING INSTITUTIONAL CHANGES WITH ADAPTIVE REFORM

We now know how seriously the bubble crisis called on institutional change in Japan’s industrial relations. Yet, strong demands for the rationalization of Japan’s past economic systems albeit, within just a few years after the bubble crisis academic and media chorus
resumed to repeat a new refrain: *why did not Japan change in full scale?* (Lincoln 2001; Moriguchi and Ono 2006; Sako 2008; Vogel 2005; Osawa 1999)\(^83\) It can be rephrased by questioning why Japan did not reform its unique economic and political institutions, remolding them around the successful models observed in Britain and the United States.\(^84\) Against historical backdrops of critical junctures described above, a deep analytical consideration needs to be given to the central problem of how government, management and labor strategically related themselves with respective counterparts in order to keep track of the micro-corporatism-based orchestration that had been established for the making of industrial harmony at previous Stage II.

5.2.1. **The State: Constrained Intervention, More Coordination**

Some scholars who observe the process of institutional changes in Japan’s political economy during the bubble crisis conclude that Japan has been experiencing a partial convergence towards the liberal market model or a hybrid transformation between the Japanese and the Anglo-American models (Esping-Andersen 2007; Jackson 2003). This notion assumes that government leaders would be constrained from government intervention in the formation of industrial peace, which they had customarily done in the

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\(^83\) In fact, many political pundits and Japanese labor economists during the late 1990s confidently predicted the end of full-time employment and the beginning of Anglo-American model of industrial relations founded in shareholderism (Inoki 2000; Hirakubo 1999).

\(^84\) Four critical assumptions would be suggested as institutional solutions to transform Japanese economy systems to Anglo-American-styled model (La Croix and Kawaura 2006: 16):

1. The underlying reason for Japan’s economic stagnation is that its economic institutions had become obsolete and were no longer capable of generating efficient outcomes.
2. Large-scale rather than incremental institutional change was required.
3. The institutional changes could be proposed, enacted, and implemented relatively quickly.
4. The new institutions would quickly become effective.

With a critical analysis on these assumptions, it is confirmed that many of them are highly problematic, even in a highly idealized setting.
past. It also supposes that the overriding structure of labor-management relations during the bubble years has been shaped and remodeled in line with corporate restructuring for which business leaders appeared to take the leading role whereas government initiatives lagged behind. In the political arena, the same economic ministries collaborated with the same ruling party, LDP, to dominate the policy process, and therefore the primary arena of decision-making has seldom shifted from the bureaucracy to the judiciary or from the national government to local authorities. Indeed, the Japanese state reacted to the crisis of its previous economic and political model by allowing corporations to implement a series of reforms that led to the creation of an institutional and political hybrid between a liberal market economy (LME) and a coordinated market economy (CME) (Wood 2008; Estévez-Abe et al. 2001; Hall and Soskice 2001).

However, this account based upon the notion of Varieties of Capitalism (VOC) would be misleading unless it implies that preexisting institutions are not simply acting as friction impeding fuller liberalization or the convergent trajectory of institutional change. It is true to contend that the Japanese government has been constrained under double jeopardy: “it cannot maintain its existing economic system due to the forces for change, and the Japanese system cannot converge on the liberal market model due to the logic of its own existing institutions” (Vogel 2005: 147). It is, rather, true to state that the government facilitated its institutional ability to shape some innovative alternatives steering a partial liberalization within the sustained profile of CME. To the point, there have always been governmental efforts to simmer down heated demands of rationalized markets, particularly in the arena of employment security, not only by introducing a CME
but also by keeping preexisting structure of labor-management cooperation via more inventive alternatives to neutralize the external forces for change.

In so doing, Japanese political entrepreneurs – heads of governments, party leaders, and finance & labor ministers – mainly focused on how to balance inducements with coercion in order to tip the stalemate of industrial relations into one way or the other. Two opposite forms of government engagement were juxtaposed for maintaining employment security against its modification reflecting the demands for shareholder-oriented change. First, Japanese governments in the period of the bubble economy supported corporate law reforms, centering on the Commercial Code of Japan (CCJ) with the installation of some consultation agencies to endorse them (see table 5-2). To cultivate reformative actions for a LME, corporate law reform would have included the reduction of legal restrictions on dismissal, corporate governance reform, the promotion of portable pension plans and unemployment insurance, and the easing of holding company ban. Accordingly, government policy would be aimed to conform to ‘global standards’ equated with Anglo-American model in which the government should not use regulation to preserve employment and promote an active external labor market. Also, this corporate restructuring policy became a strategically designed discourse to construct competitive positions of private and public corporations, semi-public corporations, the largest public and private banks – including the Postal Savings Bank – and insurance companies at both domestic and international levels (Cargill and Yoshino 2001; Hoshi and Kashyap 2004).
<table>
<thead>
<tr>
<th>Year</th>
<th>Outlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td><em>Derivative Actions, Strengthening Auditors’ Function:</em> Effectively lowers fees for shareholder derivative lawsuits. Introduced requirement for a Board of Auditors and at least one outside statutory auditor who has not been a director, manager, or employee of the company and its subsidiaries for five years. Decreases the minimum stockholding for inspection of company accounts.</td>
</tr>
<tr>
<td>June 1994</td>
<td><em>Share Buybacks:</em> Removes prohibition on the purchase of the company’s own shares. If transferred to employees, the purchase is limited to 10 percent of issued shares and within profit available for dividends, as well as being subject to approval of the shareholder meeting. Corporations can also use profits to purchase and cancel issued shares.</td>
</tr>
<tr>
<td>June 1997</td>
<td><em>Stock-Option System:</em> Initiated by Diet. Allows Treasury stock options to be granted to employees and directors pending a general solution (extraordinary resolution) of the shareholder meeting. The total number must not exceed 10 percent of issued shares. The proposal must specify the name of the director or employee, the number of shares, transfer price, exercise period, and conditions of exercise. The Securities and Exchange Law was amended to require disclosure of stock option plans.</td>
</tr>
<tr>
<td>October 1997</td>
<td><em>Deregulation of Share Buybacks:</em> Allows changes in company articles to empower board of directors to carry out stock repurchases.</td>
</tr>
<tr>
<td>December 1997</td>
<td><em>Liberalization of Holding Companies:</em> Fair Trade Commission revises antimonopoly law to allow the establishment of pure holding companies.</td>
</tr>
<tr>
<td>March 1998</td>
<td><em>Deregulation of Share Buybacks:</em> Allows funds for stock repurchases to be expanded beyond profit to include capital reserves.</td>
</tr>
<tr>
<td>October 1999</td>
<td><em>Stock-Swap System:</em> Facilitates cashless mergers by allowing a parent firm (A) to buy subsidiary (B) through an exchange of shares (company B’s shareholders get shares in company A). Requires two-thirds majority of the respective shareholder meetings. Minority shareholders have right to sell shares back to company at</td>
</tr>
</tbody>
</table>
“fair price.” Law aims to facilitate formation of holding companies.

<table>
<thead>
<tr>
<th>Month</th>
<th>Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2001</td>
<td><strong>Spin-Off Legislation:</strong> Allows corporations to transfer business to a separate company without capital ties or to a third company. Requires two-thirds majority of shareholders.</td>
</tr>
<tr>
<td>March 2001</td>
<td><strong>Market-Based Valuation in Accounting:</strong> Requires assets to be reported at current market values. The law applies to stable shareholdings beginning in 2002.</td>
</tr>
<tr>
<td>June 2001</td>
<td><strong>Deregulation of Share Buybacks:</strong> Allows corporations to engage in buybacks for unspecified purposes and hold shares for an unlimited duration.</td>
</tr>
<tr>
<td>April 2002</td>
<td><strong>Deregulation of Share Issues and Stock Options, Electronic Disclosure:</strong> Relaxes conditions for issuing new shares and increases the variety of stock, such as shares with limited voting rights. Abolishes certain restrictions on stock options. Extends use of electronic disclosure.</td>
</tr>
<tr>
<td>May 2002</td>
<td><strong>Strengthening Statutory Auditors and Reduction of Directors’ Liabilities:</strong> Requires one-half of auditors to be outsiders who have never been a director or employee of the corporation. Reduces the liabilities of directors and relaxes procedure for such waivers.</td>
</tr>
<tr>
<td>May 2002</td>
<td><strong>Introduction of Committee System and Relaxation of Quorum Requirement of Shareholders’ Meeting:</strong> Allows corporations to adopt committees for nominations, auditing, and compensation of which more than one-half of the members be outside directors (nonexecutive directors), along lines of U.S. practice. Such companies are not required to have a statutory auditor. Reduces quorum for shareholders’ meeting to one-third of total number of voting shares.</td>
</tr>
</tbody>
</table>


The launching of the Industrial Competitiveness Council (ICC, or sangyō kyōsōryoku kaigi), chaired by Prime Minister Obuchi Keizō (1999-2001) was marked as an ad hoc political tool through which political reformers initiated a number of corporate reforms and overcame their institutional obstacles (West 2000). ICC was modeled after
Ronald Reagan’s Commission on Industrial Competitiveness and composed of cabinet ministers and industry leaders, including the presidents of *keidanren*, Sony, Toyota, and Asahi Beer (*naikaku sōri daijin* 1999; Morishita 1999: 3). ICC, with a direct line to policymakers, was able to shorten greatly the time normally taken for deliberation by the Commercial Code Subcommittee. Although the timing and policymaking process changed, the impetus for change differed little: Japanese companies needed to restructure individually in response to external competition at the enterprise level, rather than at the national level that would be based upon institutional consultations via the ICC. For the most part, the ICC targeted the two impending issues of mergers and corporate spin-offs and contributed to orchestrating their insertion into the CCJ by receiving consensus from all parties concerned. However, all decisions from the ICC were considered not a binding outgrowth of the genuine tripartite consultation agency, but just an *ad hoc* advice offered by government-business coalition networks *without* labor participation. In addition, the Nakasone Cabinet (1983-1987) institutionalized *rinchō*-style *shingikai* – including three Ad Hoc Commissions for the Promotion of Administration Reform, which operated from 1983 to 1986, 1987 to 1990, and 1990 to 1993 – to counter the tight bureaucratic networks of vested interests and deregulate the economy, but Nakasone’s successors have been reluctant to establish strong *shingikai* despite his enthusiastic support, thereby making it turn out a failure (Schwartz 1998: 104-105).\(^8^5\)

Second, the other aspect of government engagement paradoxically related to how to preserve the logic of existing economic system and cushion negative impacts of

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\(^8^5\) Likewise Nakasone, Morihiro Hosokawa (August 1993 – April 1994) had created independent commissions to advise him on critical problems and appointed the chair of *keidanren* to focus on deregulation of targeted sectors. However, the political backlash from bureaucrats was so severe that they minimized the commission’s influence by not only identifying the commission as a study group (*kenkyūkai*) rather than a committee (*iinkai*) or *shingikai*, but also assuring only to refer to its recommendations rather than to respect them (Vogel 1996: 204-205).
corporate restructuring. The Hashimoto government (1996-1998) established a new system in 1997 to provide special subsidies for job creation and skill formation in fifteen new growth areas, such as information technology and social welfare (Genda and Rebick 2000). In addition, the government paid employers direct subsidies to retain or employ older workers. The system of deferred compensation implies that employees closer to a firm’s mandatory retirement age were paid more than their marginal product, which made them more vulnerable to dismissals than younger workers (nikkeiren 1999). Government subsidies were therefore targeted specifically to protect older workers during the economic downturn and to sustain employment security at the firm level by offsetting employers’ cost-cutting which was necessarily required to enhance their competitiveness in international markets. Such government efforts also contributed to strengthening internal labor markets in terms of the retention of the old practice, particularly lifetime employment, thereby keeping alive micro-corporatism at the enterprise level, despite immediate demands of enhancing external labor markets for international competitiveness of the Japanese companies.

Such a seemingly conflicting policy combination between corporate law reform and government subsidies reflects the Japanese government’s strategic deliberation in coordinating different allegations on corporate restructuring. At the micro-level, governments have faced corporations’ reluctance to lay off workers, abandon their main banks, and cut off stable suppliers by holding the logic of the Japanese labor-management model. At the macro-level, they also have been constrained from strong demands for moving towards the LME. Large firms’ preferred business strategies reflected the incentives and constraints of the Japanese preexisting model. Furthermore, Japanese
political entrepreneurs have faced high institutional and party constraints, particularly due to the internal rules and power plays of the LDP. However, only some limited windows of opportunity for liberal market reform have appeared, owing to relatively short-term tenures of the Japanese premiership and the lack of creative institution-building (Curtis 1999; Tiberghien 2007; Shinoda 1997; Stockwin 1999). For instance, Junichiro Koizumi in 2002 took initiatives of fixing the banking crisis and the privatization of the Japan Post, operator of the country’s postal savings system. But Yukio Hatoyama, who led the Democratic Party of Japan (DPJ) to historic victory in the August 2009 general election, defeating the long-governing LDP, promised labor-friendly employment policy to rengō which played a critical role in backing the DPJ by a strong electoral support from the organized labor. As a result, government options for adjustment have been reduced to legal and regulatory constraints, such as commercial laws governing the dismissals of workers, and its preferred strategies for adjustment within these legal boundaries have constantly echoed its preexisting relations with workers and firms. Limited interventions, thus, required more coordination, but retarded any full-scale institutional change in the domain of industrial relations.

5.2.2. Management: Absorbing Shareholder Values under the Past System of Corporate Governance

Corporate governance lies at the heart of debates over varieties of capitalism across major advanced economies (Hall and Soskice 2001; Hancké, Rhodes, and Thatcher 2007). Japan’s competitive success during the period of Stage II stemmed from institutional
complementarities based upon stakeholder-oriented structure of corporate governance. The commitments of stable shareholders and banks to long-term capital investments helped foster a resolute core of highly skilled employees with their participation rights in company decisions (Aoki 1994a). This strength mirrored perceived deficits of the United States and the United Kingdom during the 1980s, such as short-termism, opportunism, and breaches of employee trust. As shown in table 5-3, the Japanese corporate ownership has been typically founded by concentrated relations among banks and inter-corporate networks, rather than fragmented among individuals and institutional investors, as in the United States. Japanese *keiretsu* groups linked corporations and banks in extensive patterns of horizontal cross-shareholding (Gerlach 1992; Gourevitch and Shinn 2005). In particular, Japanese banks played the central governance role in acting as delegated monitors through direct equity stakes, credits, and dispatched directors. Whereas Anglo-Saxon institutional investors were more interested in financial gains from share-price appreciation and dividends, Japanese corporations and banks, more often than not, pursued strategic organizational interests in promoting inter-firm cooperation, reducing risks, and generating relationship-specific rents (Friedman and Miles 2006). In a nutshell, such features of Japanese corporate governance restrained external market intervention in corporate control as well as created incentives for owners and workers to influence management through voice rather than exit.

With the burst of the bubble economy, Japan, despite its success, faced serious pressures to liberalize its corporate governance structure in line with prevailing Anglo-American practices to promote greater transparency and shareholder returns. Numerous factors drove these changes altogether: the internationalization of capital markets,
pressures from institutional investors, regime competition between states to promote stock markets, and the renewed perception of US strength in information technology and venture capital entrepreneurship (Miyajima 2008; Jackson 2004; Jackson and Miyajima 2008). In addition, dissatisfaction with Japanese traditions of corporate governance was precipitated and further deepened by corporate scandals such as payments to Japanese corporate racketeers – for example, the 1996 scandal over speculative copper trading losses at Sumitomo Corporation. As a result, after the mid-1990s, several major corporations surprisingly began to proclaim shareholder value as their primary objective of corporate restructuring.86

However, corporate governance reform largely exhibited facets of path dependence, albeit firms’ efforts for rationalization (Soskice 1999; Guillén 2000). An overrun corporate restructuring might prompt corporations to face strong political resistance to more active stock markets and hostile takeovers, because a corporate focus on share prices would threaten egalitarian postwar conceptions of corporate responsibility and labor-management cooperation. Corporate insiders might also defend vested longstanding benefits existing under the past system (Bebchuk and Roe 1999). Nevertheless, as Japanese corporate systems contained complementarities among institutions, even piecemeal change in a single institution would risk undermining the overall coherence and economic efficiency of corporate governance rooted in preexisting stakeholder-centered tradition.

86 These neoliberal developments were debated in terms of international convergence towards a U.S. shareholder-oriented model. Convergence posits that the growing international capital mobility results in competitive pressures for the promotion of higher shareholder rights and capital-market transparency. Even when formal legal differences remain, corporate practices may undergo functional convergence through self-regulatory instruments and strategic choices, such as acquiring a listing on the New York Stock Exchange (NYSE) (Coffee 1999).
Table 5-3. Comparison of Corporate Governance Patterns

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>The United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer</td>
<td>• Strategic/organizational interests</td>
<td>• Financial interests</td>
</tr>
<tr>
<td></td>
<td>• Commitment (voice)</td>
<td>• Liquidity (exit)</td>
</tr>
<tr>
<td></td>
<td>• Intensive private information sharing; implicit contracting</td>
<td>• Extensive public disclosure; formalized contracting</td>
</tr>
<tr>
<td>Employee</td>
<td>• Industrial participation</td>
<td>• Voluntarism</td>
</tr>
<tr>
<td></td>
<td>• Legal or bargained rights to information, consultation, and codetermination</td>
<td>• Collective bargaining; low legal intervention</td>
</tr>
<tr>
<td>Management</td>
<td>• Contingent managerialism, internal labor markets</td>
<td>• Capital market constraints, internal and external labor markets</td>
</tr>
<tr>
<td></td>
<td>• Modest salaries, stock options rare</td>
<td>• High salaries tied to shareholder value</td>
</tr>
<tr>
<td>Mechanism of corporate control</td>
<td>• Internal coalitions</td>
<td>• External takeovers</td>
</tr>
</tbody>
</table>


Structural Components of Corporate Law Reforms

Corporate law reforms changed not only the ways corporations could use their equity, especially by allowing managerial stock options and share buybacks, but also the ways they could deal with employment security and management in general, by changing the structure of corporate ownerships and board of directors (Jackson and Miyajima 2008). Accounting reforms in corporate governance also facilitated the adoption of international standards, which could remove conservative and creditor-oriented patterns by stressing market valuations and transparent profits. However, such institutional attempts for corporate governance reform have never been undertaken without internal safeguards.
against shareholder values, thereby always coexisting with some counterparts resisting them.

Japanese corporate law reform occurred through incremental amendments to the Commercial Code, which have continuously accrued since 1993 (see table 5-2). As aforementioned, major business associations – such as the industry association (keidanren), the employer association (nikkeiren) and the Japan Association of Corporate Executives (keizai dōyūkai) – took moderate stances on reform opposing major inroads against managerial autonomy, however (keizai dōyūkai 1996, 1998; nikkeiren kokusai tokubetsu iinkai 1998). Keidanren, for example, opposed independent outside directors that the corporate law required and proposed an alternative business judgment rule to preclude company liability when adverse outcomes result from poor business judgment rather than from dishonesty or fraud. It is, thus, contended that the early reform of corporate governance in post-bubble Japan was limited to improving the independence of outside statutory auditors. It addressed concern over illegal behavior of management in major corporations, but was unlikely to impact strategic control seriously, given the weak role of auditors. Initial proposals introducing outside independent directors have been accordingly dropped due to opposition by keidanren.

In contrast, keidanren (2001) vigorously facilitated institutional change in promoting corporate reorganization, particularly by reforming the ways of how corporate equity was mobilized and used. The key measure lifted the ban on pure holding companies by revising the 1947 Antimonopoly Law, which was enacted by the U.S. Occupation forces in order to prevent military-industrial coalitions in postwar Japan (Beeman 2003). Holding company structures are able to facilitate centralized strategic
management of multiple businesses, heighten flexibility in creating and terminating enterprises via mergers and acquisitions (M&A), differentiate employment conditions across business units, and shift from Japanese bank-centered governance to internal governance based upon shareholderism (Aoki 2000; Miyajima and Aoki 2002; Amyx 2002). In fact, holding companies have been spreading and being used to centralize strategic management within smaller corporate boards, creating more competing relations between businesses as well as workers, isolating risks, and decentralizing incentives and responsibility for performance. In this regard, the adoption of holding company structures was seen as a necessary measure for shareholder-oriented corporate governance, and share swaps and spin-offs have been often employed for the purpose of facilitating them. Share buybacks and stock options were also legalized to enable firms to return free cash flows to shareholders.

Furthermore, a series of major company law reforms continued to enhance transparency in company accounting systems. New consolidated accounting required the reporting of financial assets at market value and cross-shareholdings in March 2001, thereby reducing covert transactions and mutual assistances by making it harder to hide losses in subsidiary firms (keidanren 2001). Corporate accounting, thus, resulted in decreasing cross-shareholding, and leading banks to guard themselves in order to meet minimum capital adequacy and solvency requirements. Nevertheless, Japanese corporations attempted to slow their dissolution of cross-shareholdings because business managers valued cross-shareholdings as internal protections against hostile takeovers through M&As. Only 23 percent of managers in one survey agreed that the stable shareholding ratio at their company should be decreased (Research Institute for the
Advancement of Living Standards 1999). In the domain of voluntary codes, the Corporate Governance Forum of Japan (CGFJ), a private study group of academics and business leaders, issued a set of voluntary corporate governance principles such as the introduction of independent outside directors and the improvement of transparency and disclosure (Corporate Governance Forum of Japan 1998). The CGFJ, despite its ideology of shareholder control, not only remained cautious about Anglo-American practices such as hostile takeovers and layoffs, but also failed to prioritize the reduction of cross-shareholding as its main principles.

Corporate ownership began to shift from relationship-oriented shareholder practice to more financially oriented shareholder practice, particularly based on foreign institutional investors (Pease, Paliwoda, and Slater 2006). Between 1990 and 2001, the proportion of stable shares, owned by banks, insurance firms, corporations and government, decreased from 64.8 to 52.8 percent in Japan (see table 5-4). Conversely, the proportion of other finance-centered groups – individuals, institutional investors, and foreigners – increased from 35.2 to 47.6 percent in Japan. A partial disentanglement of traditional ties between horizontal keiretsu groups contributed to promoting the expansion of shareholder ownerships of finance-oriented investors. Between 1987 and 2000, the proportion of shares in listed companies owned by stable shareholders declined from 46 to 33 percent and cross-shareholding from 18 to 10 percent (Kuroki 2001). Since 1996, corporations began unilaterally to sell stakes in the ailing banks, cutting their cross-shareholdings with banks by one-half. Due to the banking crisis, struggling firms faced

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87 Voluntary codes imply self-regulation of firms which has been important in promoting transparency and investor protection in Anglo-American countries. During the 1990s, voluntary codes proliferated internationally, being issued by the OECD, national stock exchanges, and various interest associations. They promote institutional change through the diffusion of ideas, as well as creating normative pressures and sanctions (DiMaggio and Powell 1991). Self-regulation thereby acts as a functional substitute to statutory law in promoting international convergence (Coffee 1999).
difficulties in finding loans and financed investment by generating cash from equity sales. While banks have divested to a lesser degree although selling and repurchasing shares to cover losses on bad debt, insurance companies divested to the greatest extent because post-bubble declines in share prices led to financial troubles in facing their growing liabilities in the aging society (Amyx 2002). Such post-bubble slide in stock prices begot the retard of domestic institutional investors, but rather set in motion the rapid growth of foreign investors, largely based upon mutual funds and pension funds from the United States and Britain.\footnote{88}

\begin{table}[h]
\centering
\caption{Ownership of Listed Corporations, 1990s (in percent)}
\begin{tabular}{|l|cc|cc|}
\hline
 & \multicolumn{2}{c|}{Japan} & \multicolumn{2}{c|}{United States} \\
\hline
Banks & 22.1 & 19.3 & - & - \\
Nonfinancial firms & 24.8 & 22.7 & - & - \\
Government & 0.7 & 0.4 & 0.0 & 0.0 \\
Insurance firms & 17.2 & 10.4 & 1.9 & 3.5 \\
Pension funds & 0.9 & 4.3 & 24.4 & 25.9 \\
Investment firms & 7.8 & 3.8 & 15.8 & 22.3 \\
and others* & & & & \\
Individuals & 22.6 & 26.3 & 51.0 & 41.1 \\
Foreign & 3.9 & 13.2 & 6.9 & 7.2 \\
\hline
\end{tabular}
\end{table}

* For Japan, data include investment trusts, securities companies, and other financial institutions; for the United States, data include bank personal trusts, mutual funds, and other nonhousehold investors.

The proportion of foreign ownership increased very rapidly, and foreign shareholders intervened into stock pricing by active trading – accounting for 13 percent of turnover in Japanese stocks during 1991 and nearly 28 percent in 1999 (Tokyo Stock Exchange 2001). Foreign investors focused on a narrow segment of export-oriented blue-chip companies with high market capitalization and liquidity. As a result, between 1991 and 1998, the proportion of firms with foreign ownership of 10 percent (or more) increased dramatically from 9 to 25 percent.
Stunted Corporate Restructuring, Continued Conventional Governance Paradigms

As discussed above, corporate law reform led to the gradual diffusion of shareholder values and restructuring of the past corporate governance system, in the face of management’s reluctance to corporate reorganization. It also resulted in institutional change in the managerial domain of Japanese corporations, which gave a direct impact on the relationship between employers and employees at the plant level. Indeed, firm managers in post-bubble years have always been under double jeopardy: managers needed to meet investor pressure along with a continued importance of employee voice in corporate governance. Combining these conflicting demands in a positive way was necessarily tied in with the changing patterns and interests of corporate management, with the particular reference to corporate boards of directors; managerial pay and stock options; and labor adjustment schemes (Adams, Hermalin, and Weisbach 2008; Fligstein 1990).

With regards to boards of directors, Japanese boards normally had relatively large-sized bodies totaling forty members who were often internally promoted directors and remained closely involved with operational management (Nakahara 2003; Gourewitch and Shinn 2005).\(^89\) With the burst of the bubble crisis, however, many leading companies readily reduced board sizes in order to speed decision making and making board meetings more effective. Board restructuring often entailed the introduction of holding companies, with the aim of strategic management that holding companies developed a smaller board that would internalize monitoring over its subsidiaries. Strong

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\(^89\) By definition, the board of directors, whose members are appointed by the shareholders’ meeting resolving by a simple majority of votes without any attendance requirement, must consist of at least six members.
demands from foreign investors and the CGFJ notwithstanding, only a few companies such as Sony successfully admitted independent outside directors in their boards. Shareholders entitled to monitor or control corporate management in Anglo-American countries made only a small part with no votes in corporate governance of Japanese big firms (Saito 2009). The voting power of shareholders at the board meeting remained weak, because the annual general meeting was not only convened extremely short – roughly thirty minutes – but also held on the same day to prevent sōkaiya (corporate racketeer) interference. Even Japanese managers also doubted whether outside directors would have sufficient knowledge on company in making effective contributions, and another daunting problem for recruiting qualified external directors stemmed from underdeveloped external labor markets (Estevez-Abe et al. 2001). More importantly, labor unions showed negative responses to the external pressure of corporate restructuring, particularly the board of directors, given that board restructuring was expected to undermine the official channel for employees to be promoted to board members. But they have advocated outside directors in exceptional cases, such as the Ajinomoto Group in which a director was found guilty of making payments to sōkaiya in early 2001.

Regarding the degree of managerial pay, it is not difficult to recognize that Japanese management has received modest or even lesser compensation compared with Anglo-American countries, due to a large number of board members and lack of stock options in Japan. According to Towers Perrin’s *Worldwide Total Remuneration* (1999)

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90 Sōkaiya – translated as corporate racketeer, corporate bouncers, meeting-men or corporate blackmailers – means a form of specialized racketeer unique to Japan, and often is associated with the yakuza that extort money from or blackmail companies by threatening to publicly humiliate companies and their management, usually in their annual meeting, sōkai.
report, the total CEO pay in 1991 was 7.8 times higher than the salary of an average manufacturing employee in Japan, and 25.8 in the United States; in 1999, the salary gap between CEO and employees further climbed up to 11 times higher in Japan, and 34 in the United States. These gaps took place in line with the varying degree of performance-related pay and stock options, both of which were equal to 140 percent of the basic salary in the United States in comparison with only 13 percent in Japan during 1999. Moreover, in Japan, stock options, which were largely seen as positive rewards promoting shareholder interests, received also harsh criticisms discounting stock options as the excessive growth of managerial pay and wasteful rewards for short-term thinking and behaviour contrary to the interests of other stakeholders, especially employees (Shinada 2009). In this sense, only 10 percent of companies listed by Nikko Securities, for example, adopted managerial stock option schemes in 2000 (Nikkei Weekly 11 September 2000: 23), whereas Toyota took the initiative of introducing managerial stock options in June 1997 when the legal reform on stock options was completed (Dore 2000). Diverse regulations contributed to restraining the introduction of stock option schemes in post-bubble Japan: the National Tax Authority applied a high-rate income tax, thereby discouraging companies from issuing the stock options of a parent company to employees of their subsidiaries; and stock options themselves called for explicit approval from the shareholder meeting with specific indication of the person’s name and amounts to be received (Odaki and Kodama 2010; Gourevitch and Shinn 2005). In a nutshell, many Japanese corporations viewed stock options as inappropriate instrument working against their corporate culture, stakeholder-oriented corporate governance.
Finally, labor adjustment policies within firms have been undertaken to keep employees employed, aiming long-term stable employment and quasi-internal labor market, all of which played a significant role in encumbering shareholder-oriented corporate restructuring (Inagami 1995b). Just like the period of the Oil Crisis in the 1970s, employers once again resorted to the conventional methods of readjustment, by reducing overtime work and new hiring, transferring workers to subsidiaries, and encouraging early or voluntary retirement. It is also worthy of note that no use of labor adjustment policies has been mostly preferred by employers even during the period of the post-bubble economy, rather than other various options available for employment.
restructuring (see table 5-5). Aside from this, large firms have relied on seconding and
transferring their core workers to their affiliates and subsidiaries in order to defend
employment security and securing quasi-internal employment opportunities by
institutional complementarities within firms.91 In this regard, the practice of continuous
employment within a single enterprise slowly gave way to the practice of continuous
employment within a group of enterprises (Inagami 1995a, 1999; Sato 1996).

With all due respects, the diffusion of shareholder values in Japanese corporations
has not always been an ultimate targeted goal of management. The fact that reform has
only proceeded in an incremental manner rather than revolutionary nature indicates that
there was support for reform but it was weak and ambiguous in accordance with internal
relations of management and stakeholders within corporations. There has been
management’s resistance to reform along with Western, or global standards partly
because the Japanese people long adhere to beliefs and customs that they value in and of
themselves. While there have been important, if tentative, signs that the new environment
was actually facilitating new forms of corporate finance, alternative organizational
structures and more diverse business practices, the new institutional reform package was
a necessary, not a sufficient, condition for fundamental corporate governance reforms
(Milhaupt 2006).

91 The major focus of rationalization in the 1990s was not blue-collar workers but white-collar ones. While
the 1970s saw much rationalization on the shop-floor which led to the creation of lean production
workplaces, slower corporate growth in the 1990s aggravated the problem of excess white-collar workers
as few opportunities arise for internal promotion.
5.2.3. Labor: Advancing Voice Option as Workers’ Primary Strategy

The advent of the bubble economic crisis gave the most fatal blow to workers at the enterprise level, in that Japanese firms facing increased pressure to cut costs in remarkably predicted way would take workers as an immediate first object to be dismissed for the financial reason. New shareholder groups and regulatory reforms favored the diffusion of a shareholder-value paradigm of corporate management, which ran against the participation rights and sharing of organizational rents that characterize Japan’s nonliberal tradition of labor-management relations. The exclusive focus on shareholders contradicted the egalitarian or solidaristic normative notions of the firms embodied in enterprise community. The deregulation of holding companies emerged as a major challenge to large firms, in that holding companies augmented centralized financial control and disintegrated homogenous labor contracts across divisions of a company while decentralizing operational management. This process was aimed to differentiate wages in line with the marginal productivity of labor, enabling management to justify shareholder-driven restructuring – mainly, layoffs – against low-profile workers. Three conventional issue areas in labor-management relations were severely affected by such equity-based shareholder values: the degree of labor participation in top management decisions; the maintenance of lifetime employment; and contingent pay schemes (Vitols 2001; Jackson 2003; La Croix and Kawaura 2006). First, Japanese corporations no longer displayed the same degree of allowing labor’s effective participation in new corporate governance structures, thereby weakening enterprise unions at the margin and preserving employment for core employees only. Second, the mechanisms of securing employment
adjustment seemed to reach their limits on the protection of job security. Third, contingent pay plans also contributed to weakening further employee solidarity by creating differential rewards across business units and a greater consciousness of share prices. Japanese enterprise unions thus faced new serious questions about how to draw their new boundaries as well as how to change workers’ strategy in dealing with managerial issues (Sako 2008).

**Figure 5-2. Number of Strikes & Participants in the Period of Stage III**

![Graph showing number of strikes and participants from 1990 to 2003](http://laborsta.ilo.org)


**Workers’ Strategies for Employment Security**

How and why has Japan’s corporatist governance been able to remain at the level of enterprise, rather than workers’ exit from shareholder-dominated plants to external labor markets? This question leads us to understand the strategic response of labor unions and
its impact on the path formation – change or continuity – of labor-management relations in the era of post-bubble years.

The first rejoinder comes from workers’ realistic determination that they were eager to stay and hold on voice option within corporations in order to protect their employment security, despite their damaged positions due to shareholder-oriented corporate restructuring. This result relates to the following fact that industrial relations at large firms have remained cooperative; average rates of wage increase in the early 2000s have been declining (see figure 4-6); and the number of strikes have remained very low (see figure 5-2). While Japanese union density has incrementally shrunk to 22.4 percent across the economy and 30.4 percent in manufacturing by 1998 (see figure 4-1), joint-consultation agreements at the enterprise level has still remained a core feature maintained by 78 percent of unions and almost all unions with over 5,000 members (nikkeiren 1999). Japanese workers, thus, aligned themselves with management efforts to reduce costs without laying off workers but through flexible labor adjustments. Employment adjustment methods, including hiring freeze, intra- and inter-firm transfers, and voluntary retirement, have been mobilized for the reason to protect the level of employment, while providing management with alternative ways to reduce labor costs during business downturns.

For example, Nissan’s ‘Revival Plan’ of 1999 was one of the most aggressive restructuring programs in recent Japanese history, yet even Nissan managers did not consider laying off workers in any serious manner (Kyodo News 18 October 1999). They carefully assessed how cost-cutting measures would affect the firm’s reputation; some managers described the decision to close a plant as a harsh plan for corporate
restructuring, which needed to be reconsidered due to the reason that they had to take into account the labor union (Nissan Motor Workers’ Union), the local community including local businesses and suppliers, and their firm image overall to the outer public.\textsuperscript{92} The Murayama plant closure in 1999 made Nissan’s reputation dropping drastically among college students, its potential recruits, and the broader public as well. This damaged reputation prompted Nissan’s managers to transfer most of them to other plants, instead of laying off Murayama plant workers, and offered a generous early retirement program to those who preferred to retire rather than to move to a new location. Nissan workers also cooperated with managers by admitting the relocation of workplaces, frozen wages, reduced time of work, and early retirement schemes, rather than resisting these labor adjustments, enhancing the reformative demands of organized labor, or even exiting from Nissan and entering a new firm. In this Nissan case, it can be confirmed that Japanese managers at big firms were reluctant to undermine good relations with workers and focused extra effort on reducing non-labor costs, whereas union influence in the 1990s derived more from labor’s indispensable cooperation than its confrontation in production at the plant level, in the context of the stakeholder position of enterprise unions within the firm (Thelen and Kume 2003; Lincoln and Kalleberg 1990).

Second, the lack of a flexible labor market outside corporations locked workers into their current positions within firms, sapping their motivations of finding new job opportunities across corporations. As figure 5-3 demonstrates, Japanese firms have been categorized as the ‘firm-specific’ model representing high degree of employment protection for workers within firms but low degree of unemployment protection which

\textsuperscript{92} Interview with Katsuhiko Hagiwara, the former head of the Nissan Motor Workers’ Union, November 2010, Tokyo.
could be provided mostly by the public sector. Employee voice in Japanese corporations has supported the commitment and integration of labor as a sort of citizen within the corporation. Such commitment to stable employment has proven indispensable for high-skilled and functionally flexible employment systems by protecting firm-specific investments in human capital from excessive short-term rationalizations. The Japanese labor market that matured under the premise of lifetime employment has yet to develop an infrastructure facilitating an efficient reallocation of workers across corporate boundaries. Older workers are more likely to be endowed with higher levels of firm-specific skills, and by definition this makes it more difficult to transfer their skills to other firms.

Figure 5-3. Social Protection and Predicted Skill Profiles

<table>
<thead>
<tr>
<th>Unemployment protection</th>
<th>Employment protection</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Industry-specific (Denmark)</td>
<td>Firm-specific (Japan)</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>General skill (United States)</td>
<td>Industry-specific, firm-specific skill mix (Germany)</td>
<td></td>
</tr>
</tbody>
</table>

Another observation regarding workers’ voluntary adaptation to the new corporate environment presents a low probability of labor’s coalition with civil society. The lack of advocacy civic organizations which were positioned in line with labor unionism resulted in not only the dearth of external helpers challenging the conventional pattern of corporate restructuring, thereby assisting workers to exit from current systems of corporate governance, but also the fragmented structure of societal actors in the field of industrial relations (Pekkanen 2004; Lee and Kim 2010; Broadbent 2001). In stark comparison, the South Korean experience shows a strong tendency of the strategic alliance between labor unions and civic associations, which enabled labor movements to become more militant and mobilized at the national level. Without external supports of organized forces from civil society, Japanese workers would have no choice but to accommodate themselves to the internal circumstances of corporate restructuring by focusing their major concerns on how to secure the elongation of employment, rather than reforming the fundamental foundation of corporate governance or leaving their workplaces. The famine of advocacy civic groups acting in support of labor issues was derived from two legal changes: the 1998 NPO Law (Law for the Promotion of Specified Non-profit Activities) and the granting of tax privileges in 2001 (Pekkanen 2006).93 These two legal measures situated civil society organizations under the state’s regulatory frameworks in engineering civil society, in that NPO legal persons who are eligible to receive tax privileges must be certified by the Commissioner of the National Tax

93 The 1998 NPO Law created a new category of public interest legal persons (PILPs) through a special law attached to Article 34 of the Uniform Civil Code and was designed to limit administrative guidance and bureaucratic discretion in the granting of legal status while allowing many more civil society groups to gain legal status. The 2001 tax changes created a subcategory of NPO legal persons to which individuals and corporations can make a contribution that is deductible from their taxable income. The change, however, did not lower tax rates for NPOs and allowed only some NPO legal persons to receive charitable contributions.
Administration of the Ministry of Finance as meeting a number of stringent criteria (Amemiya 1999; Garon 2003). The state’s legal manipulation incorporated civic associations into the invented tradition of an extended arm of government agencies, thereby reducing the possibility of a strong connection between civic groups and labor unions. In this sense, it can be fair to state that a decisive factor to reconfigure labor-management relations come from strategic decisions taken by not labor itself but political actors (Calder 1993).

Against all the backgrounds described above, labor unions, which determined the voice option within firms, largely marshaled two different strategies for dealing with negative impacts of shareholder-oriented corporate governance. First, enterprise unions bargained centrally with holding companies, which were composed almost exclusively of non-union managerial employees. By dividing the channels of wage negotiations into the two of enterprises in local units and holding companies at the central level, unions tried to satisfy shareholder-driven demands emphasizing the latter. Mitsubishi Chemical and NTT, for example, retained one union but it needed to negotiate separate contracts for group companies. Second, separate enterprise unions created federations in order to overcome the conventional path of micro-corporatism at the enterprise level. For example, Nissan developed union federations among related companies and achieved a fair degree of coordination across member unions for the purpose of delivering common voices to the holding company (Sako 1997). Despite realistic adaptations of enterprise unions, corporate reorganization often led to not only a growing heterogeneity of

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94 For example of stringent criteria, one-third of the non-profit organization’s budget must come from donations. This public support test could disqualify as many as 90 percent of NPO legal persons, so that most NPOs failed to receive deductible tax benefits (Pekkanen 2006: 23).

95 In case of NTT, the strong NTT union – nearly a 100 percent organization rate – has maintained similar basic wages and quarterly consultation between the president of the holding company and top union members (interview with the secretary general of the All NTT Workers Union of Japan, April 2010, Tokyo).
employee interests and modes of representation within the firm, but also weakened access to top-level management decisions over production and investment. The resulting consequences involved a growing internal competition between different subsidiary companies on decisions whether to upgrade through internal reinvestment. It is, thus, an open question to what extent enterprise unions would defend uniform wages and working conditions in the face of shareholder-based restructuring and more heterogeneous interests of their own members.

**Loopholes in Macro-Corporatism**

The creation of union federations across corporations in the major industrial sectors, as described above, has been further invigorated in the period of the bubble crisis, following the Oil Crisis in the 1970s. Such industrial federations could be identified with ‘meso-corporatism’ designed to cover collective actions of enterprise unions regarding particular industrial issues such as textile, metal, automobile, service, or transportation (Rhodes 1985). In post-bubble years, Japanese workers created industrial federations and furthermore integrated them into the unified command of the nationwide central association, rengō.96 This integrative move for macro-corporatism was intended to overcome the fragmentation of enterprise unions in the face of shareholder-oriented corporate restructuring and rather reinforce labor’s negotiating power in dealing with varieties of labor issues, ranging from wage to job security, via direct contacts to

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96 As discussed in chapter 3, the birth of rengō was a culmination of labor’s aspiration to overcome the limits of enterprise unionism, which were brought home when the post-1973 inflation undermined workers’ real living standards; unions realized that real wages could not be defended sufficiently through enterprise-level bargaining only. National policymaking channels were considered better than enterprise channels to realize quality-oriented or lifestyle-oriented demands in such matters as housing, work hours, and childcare. Rengō holds regular policy consultations with each government ministry, and produces an annual document which spells out rengō’s demands in all aspects of government policy (Shinoda 1997).
government (Shinoda 2008). As figure 5-4 demonstrates, rengō’s main entrepreneurial positions are staffed by representatives of each industrial federation for a higher degree of policy coordination in making labor voices reflecting different interests of each federation.

However, the depth and density of rengō’s macro-corporatist capacity remained thin and limited. Although rengō intended to marshal workers’ demands for better working conditions at the central level, it relied upon enterprise unionism as the chief solution at the plant level. Rengō just handed over the general outline of wage negotiations discussed with counterparts to either industrial or enterprise unions, but the outline has been filtered and reformulated by different mechanisms of enterprise unions. Moreover, Japan’s long-term economic stagnation since the burst of the bubble economy in 1991 created new dilemmas for them with respect to mobilizing workers. On the one hand, the increasing number of contingent workers and the working poor reaffirmed the necessity of labor unions as a defender of the interests of the working classes. On the other hand, the diversification of employment experiences made it harder for unions to establish solidarity among workers, and the low unionization rate further deprived them of legitimacy as representatives of workers. In consequence, a number of labor disputes have been still mediated through the consultation between workers and employers at workplaces, indicating the dysfunctional state of union activities at the national level.
**Figure 5-4. The Structure of Rengō’s Officials (as of October 2011)**

**President**
Nobuaki Koga (Japanese Electrical Electronics & Information Union, Denki Rengō)

**Deputy President**
Hideaki Tokunaga (All-Japan Prefectural & Municipal Workers’ Union, Jinichiro)
Naomi Okamoto (Federation of All-NHK Labor Unions, NHK Roren)

**Vice President**
Kiyoshi Ochiai (Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Workers’ Unions, Ui Zensen); Kohichiro Nishihara (Confederation of Japan Automobile Workers’ Unions, Jidosha Soren); Syoji Arino (Denki Rengō); Yukio Manaka (Japanese Association of Metal, Machinery and Manufacturing Workers, JAM); Yuzuru Nakamura (Japan Teachers’ Union, Nikkyoso); Rikio Kouzu (Japan Federation of Basic Industry Workers’ Union, Kikan Roren); Hiroshi Usuki (Japan Postal Group Union, JP Roso); Tomoyasu Kato (Japan Federation of Telecommunication, Electronic Information and Allied Workers, Jyoho Roren); Syoichi Hachino (Japan Federation of Energy and Chemistry Workers’ Unions, JEC Rengō); Masao Yamaura (All Japan Federation of Transport Workers’ Unions, Unyu Roren)

**Member of Central Executive Committee**
Tsunee Ujiie (Jinichiro); Masayuki Sato (National Federation of Life Insurance Workers’ Unions, Seicho Roren); Koichi Watanabe (General Federation of Private Railway & Bus Workers’ Unions of Japan, Shitetsu Soren); Hiromi Tanamura (Japan Public Sector Union, Kokko Rengō); Takashi Emori (Federation of All Japan Foods and Tobacco Workers’ Unions, Food Rengō); Yutaka Seki (Federation of Non-life Insurance Workers’ Unions of Japan, Sonpo Roren); Yoshinori Tsuboi (Japan Railway Trade Unions Confederation, JR-Rengō); Masaharu Takei (Japan Confederation of Railway Workers’ Unions, JR Soren); Koichi Yamaguchi (Japan Federation of Transport Workers’ Unions, Kotsu Roren); Yoji Fujisawa (All Japan Seamen’s Union, Kaiin Kumiai); Tetsuya Oki (Japan Federation of Service & Tourism Industries Workers’ Union, Service Rengō); Japanese Rubber Workers’ Union Confederation, Gomu Rengō); Susumu Seo (Gomu Rengō); Chiaki Saito (Denki Rengō); Tomoko Yoshino (JAM, Denki Rengō); Yachiko Takizawa (Ui Zensen); Kaoru Hatakeyama (Denryoku Soren); Eri Shioya (Sonpo Roren); Noriko Kobayashi (Unyu Roren); Kumie Inoue (Kokko Rengō); Naoko Miyamoto (Federation of Information and Communication Technology Service Workers of Japan, ICTJ); Keiko Nakajima (Jichiro); Nobuyuki Shintani (Denki Rengō); Yoshiko Ichikawa (JAM, Denki Rengō); Chihiro Kawashima (Kikan Roren); Takashi Suda (Kika Roren); Yoshiharu Nagatsuka (JP Roso); Hiroshi Terada (JEC Rengō); Haruhisa Yamaneki (Sonpo Roren); Chihiro Ikusawa (Rengō Secretariat); Yukio Isobe (Rengō Secretariat); Keiko Hanai (Rengō Secretariat)
Indeed, rengō has faced the dilemma of reconciling the ideal of an encompassing organization with the reality of internal divisions. It intended to be all-encompassing, and therefore professes to be the defender of the needs of all working people, including those beyond its immediate membership. As a result, rengō’s ideology was vague and its constituency was not clear to all. Ironically, what the formation of rengō intended to eliminate – for instance, the inter-sectoral clashes between the public sector and private sector unions, between the export-oriented sector and the protected domestic sector, and between large and small firms – became conflicting sources of interest within and outside rengō’s organizational boundary. Another obvious evidence of rengō’s failure in achieving its all-encompassing representation is that it captured only 62.3 percent of union membership in 1993, while 28 percent remained unaffiliated to any of the national centers – including the pro-communist zenroren with 7.2 percent and the left-wing socialist zenrokyo capturing 2.5 percent (Shinoda 1997: 199).

Furthermore, rengō has deliberately admitted its restrained position in wage negotiations in order to preserve workers’ employment security (Kim 1993; Kim 2008). Long duration of economic stagnation transformed Japan’s way of wage negotiations from shuntō demanding radical increases of wage into rengō’s decision on voluntary wage freeze (Miura 2008). Re ngō in the 2003 shuntō decided to give up demanding a wage increase, and other industrial federations – such as the Japanese Association of Metal, Machinery and Manufacturing Workers (JAM), All Japan Seamen’s Union (kaiin kumiai), the Japanese Federation of Textile, Chemical, Food, Commercial, Service and

97 The Democratic Party of Japan (DPJ)-led government in 2011 planned to enact a bill to reduce its employees’ wages by an average of 7.8% while shelving a bill to provide the right to conclude a collective agreement with them (Japan Press Weekly 6 December 2011). When the government submitted these two bills to the Diet in June, the ruling DPJ promised rengō, one of Japan’s major national trade centers and the DPJ’s largest supporter, to enact the bills as a package. Based upon this promise, rengō agreed to cut national government workers’ wages.
General Workers’ Unions, (ui zensen), etc. – also agreed to a voluntary wage freeze, following rengō’s decision (Joongang Ilbo 17 June 2003). Particularly, the Confederation of Japan Automobile Workers’ Unions (JAW, jidosha soren) put off a wage increase, leaving everything about wage demands up to enterprise unions at the plant level. In response, strong enterprise unions, such as the Toyota Motor Workers’ Union (TMWU) and the NTT Union, also decided a wage freeze, taking into consideration of economic downturn. All labor concessions on wage demands reflect not only unions’ strategic prioritization of employment security which needed to be protected at the sacrifice of wage increases, but also the demise of shuntō, Japan’s conventional way of labor’s collective movements for its better position in negotiating wage-related issues (Shinoda 2008). Such a low profile that rengō continued to keep was often questioned by IMF-JC (Japan Council of Metalworkers’ Unions), and All Japan Shipbuilding and Engineering Workers’ Union (zenzosen), both which shared anger against rengō (Cubelo and Haruhi 2010).

In a nutshell, Japanese labor federations’ deliberate adaptation to shareholder-based challenges of corporate rationalization – mainly, via a voluntary wage freeze – resulted in undermining macro-corporatism by limiting the target of union movements to employment security. It, accordingly, involved emphasizing enterprise unions as a main solution to such a restricted negotiation, which could necessitate the voice strategy within firms, rather than exit options.

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98 Interview with Ichiro Shioji, the former union leader of JAW, November 2010, Tokyo.
99 TMWU, bar industrial chaos right after the end of the Second World War, for the first time relinquished a wage demand through the 2003 shuntō in postwar Japan, with two exceptions of the regular promotion pay (6,500 JPY) and bonus pay (60,000 JPY) (National Labor Committee 2008).
5.3. THE PATH OF CORPORATISM IN ‘THE LOST DECADE’: THE CONTINUITY OF MICRO-CORPORATISM

By viewing corporate governance as the constructivist patterns of regulation and decision making within corporations, we can now know that corporate governance involves how coalitions among employers and employees are institutionally embedded in corporate law, accounting rules, financial regulation, pension finance, and industrial relations eventually (Aoki 2001). Normally, institutions and their changes provide not only incentives and constraints for economic behavior of industrial actors, but also they, over time, shape identities to reflect the social and political processes by which their interests are defined, socially constructed, and represented (Rothstein 1998; Goodin 1996).

However, actors facing new circumstances do not rationally calculate costs and benefits so much as they fall back on preexisting norms and routines (DiMaggio and Powell 1991). Changes or continuities in corporate governance and the path of corporatism, therefore, could be considered a logical outgrowth of deliberate interactions among all parties involved in the diffusion of norms and shifts in rationalistic incentives as well.

With regards to institutional changes in the period of the bubble crisis that we discussed above, it can be a short précis to state that Japan has never precisely converged on a U.S. shareholder-oriented model nor maintained its past models intact. Despite a growing role of institutional investors, significant differences remained in company regulation, ownership, and the role of labor. The emerging pattern nonetheless represented somehow a new path, in that core features of the past model have eroded and were unlikely to reemerge – particularly, relational banking among large international
firms. Rather, the new path bounced back to the conventional model of industrial relations in order to accommodate marketized capital within stakeholder-oriented regimes of industrial citizenship for employees. It would ultimately generate the positive-sum aspects of shareholders and employee interests which could be remolded as an enlightened version of the shareholder-value paradigm in corporate governance. Those positive outcomes during Stage III related to the following three observations: shareholderism within stakeholderism; the persistence of employment security; and the continuation of micro-corporatism based upon voice strategy. In short, the magnitude of path-dependence, despite the introduction of a new path, could be still detected and preserved during Stage III.

5.3.1. Transforming the Corporate Governance Structure within the Conventional Value of Stakeholderism

The overemphasis on the influence of shareholder-oriented corporate restructuring, which determined a particular type of national responses to global financial environments, would be bound to fall in trap of naïve assessment of governability for industrial actors with no focus on their contributions to policy transfers and the preservation of past models of labor-management relations. As aforementioned, the intrusion of shareholder values into employment adjustment through the legal measures of the CCJ was fairly curbed by stakeholder-oriented responses anchored in firm-based human capital management and long-term employment security (Odaki and Kodama 2010). Transforming the existing pattern of corporate governance into a shareholder-based one
has always remained in a mixed form of liberal reform and sustained stakeholderism. While banks and firms made some major adjustments in their relationships (Vogel 2005), employment adjustment repeated the past practices of institutional complementarities via internal transfers of workers, rather than Anglo-American style of the dismissals of workers (Miyajima and Aoki 2002).

Such a good defense against corporate restructuring, nevertheless, led to a negative result of internal breakup of employees within corporations. In 1995, for example, nikkeiren (1999) publicized a report entitled, “Japanese-style management in a new era,” which brought about the grouping of employees into two categories. According to the report, managers could be internally promoted only in the core category of workers, who would enjoy in-house training and long-term employment, whereas both professional workers and unskilled workers would be supplied from the external labor market. The latter types of workers were expected to invest in their own skill formation as necessary, and were perceived to have a high degree of mobility in the labor market. Thus, nikkeiren’s proposal declared an intention to make the stratification of the workforce, thereby narrowing the purview of stakeholder-based management to be applicable to the former only (Miura 2008).

Rengō also seemed to agree to nikkeiren’s framework protecting the core groups of workers in large firms, because labor unions at Stage III have invested much of their

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\(^{100}\) Japanese bankers, since the 1990s, adopted an elaborate framework in which the banks and their main-bank clients renegotiate terms. The guiding principles are twofold: prior consultation and reciprocity. If a bank wants to sell shares of a company, it consults the company first. Thereby, it can expect to lose a proportionate share of the company’s banking business; likewise, a company that shifts some of its banking business to other financial institutions can expect the bank to divest some shares. In either case, the bank does not divest all of its shares, and the company does not completely drop the main bank, so the long-term relationship continues. Consequently, we cannot conclude that Japan’s traditional connections between banks and companies were clearly liquidated by the introduction of shareholder-oriented corporate restructuring.
organized demands for job stability of skilled labor, rather than unemployment protection, training programs for unskilled employees, and even wage increases. Labor opted for employment security as a top priority of unions’ targets by conceding its traditional preference of wage demands through shuntō. In this regard, employment security was brought to the front of labor-management relations, and this target has been achieved in many cases achieved by raising voices of workers rather than exiting from the firm at the enterprise level.

5.3.2. Employment Security Sustained: The Continuation of Lifetime Employment

At the center of Japan’s employment security was, indeed, a bout of serious debates over the preservation of lifetime employment in the post-bubble economy. In the midst of the longest economic stagnation in Japan’s postwar history, doubts about the future of lifetime employment surfaced once again and continued to captivate the public’s attention. A February 2002 survey by the Nikkei Research reported that over half of 800 large firms were reluctant to sustain permanent employment policies. In the business community, Matsushita’s announcement of 8,000 job cut through voluntary layoffs during fiscal year 2002 culminated in a turning point in Japanese industrial relations. Its announcement was an impetus for change, as it triggered an avalanche of corporate downsizing plans among other Japanese companies. In 2002, 82 firms had announced plans to discharge a total of 120,000 workers by fiscal year 2004 (MHLW 2005: 108).

101 Ironically, Matsushita, in both its organization and history, represents a microcosm of the Japanese firm, often credited as the first to effectively implement lifetime employment.
It is obviously true that employment adjustment in the 2000s is so tougher than in the previous decades that conventional measures of adjustment are becoming more difficult to implement. Despite increasing pressures to reduce redundant labor, however, MHLW’s survey results confirm that dismissal of regular workers continues to be the last resort among Japanese firms (see table 5-6). The Japan Institute of Labor (2001) confirms that preferences for employment adjustments among Japanese employers have changed little. The proportion of long-tenure workers (10 years or longer) in Japan averaged 43 percent in the 1990s, while the same proportion in the United States was 26 percent (Auer and Cazes 2000). Even under the pressure for a more flexible labor market, the Japanese labor politics that matured through the premise of lifetime employment has yet to develop an infrastructure that facilitates an efficient reallocation of workers across corporate boundaries (Moriguchi and Ono 2006). Older workers were more likely to be endowed with higher levels of firm-specific skills and by definition this made it more difficult to transfer their skills to other firms. In this regard, mid-career workers had little choice but

<table>
<thead>
<tr>
<th>Adjustment method</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricting overtime work</td>
<td>11</td>
</tr>
<tr>
<td>Reassigning workers to other parts of the business</td>
<td>7</td>
</tr>
<tr>
<td>Temporary transfer</td>
<td>5</td>
</tr>
<tr>
<td>Reducing (or stopping) mid-year intakes of new employees</td>
<td>4</td>
</tr>
<tr>
<td>Increasing holiday leave and days-off</td>
<td>2</td>
</tr>
<tr>
<td>Dismissing part-time and temporary workers</td>
<td>2</td>
</tr>
<tr>
<td>Dismissing or calling for the voluntary retirement of regular employees</td>
<td>2</td>
</tr>
</tbody>
</table>

to remain with their current employers; they did not want to quit their jobs and other firms did not want to hire them either.\textsuperscript{102}

Why has lifetime employment persisted in Japan? Why do we not observe a drastic institutional change despite the more-than-a-decade-long economic stagnation? Searching possible answers to these questions is marked as a critical solution to figure out the institutional foundation by which Japan’s corporatism that had been previously pursued for industrial harmony among the state, labor, and management could be sustained despite some modifications in post-bubble years.\textsuperscript{103} Most of all, firms and workers have a long-term relationship of reciprocity, and this relationship has both a rational and a normative component. As Richard Samuels (1987) notes, the “reciprocal consent” model sees different and sometimes competing interests, a distinction between jurisdiction and control, negotiation and compact, and choices and contingency. So far the lifetime employment system has emerged from each economic shock by consolidating itself more firmly with necessary adjustments and innovations. Such a reciprocal relationship became a main source of continuing stakeholder values of corporate governance and lifetime employment, both of which contributed to forming institutional complementarities. As long as the complementary institutions continue to support it,

\textsuperscript{102} A notable example of employers’ aversion to older worker is found in job postings, where employers explicitly stipulate age restrictions on their new hires (Japan Institute of Labor 2001). In 1999, over 90 percent of Japanese firms imposed age limits – generally 35 to 40 – on their job openings. This so-called age limit problem continues to be the most common reason for workers not changing jobs in the Japanese labor market.

\textsuperscript{103} There is sufficient evidence that in the 1990s, the majority of managers and workers think it desirable and feasible to maintain the Japanese employment system, albeit with modifications. The most significant modification is a shift from continuous employment within a single enterprise to that within an extended enterprise grouping. The principle of lifetime employment continues to be upheld by management because without it, the motivational basis of workers’ and unions’ cooperation would falter. For this reason, even in the case of privatization of the railways and the telecommunications companies, employment reductions were achieved without compulsory redundancies.
lifetime employment in return would likely persist, thereby leading to the path dependence of labor-management relations.

From the perspective of employers, lifetime employment has still been a very effective tool for management in the bubble economy. When a Japanese firm considered laying off workers, it did not only weigh the benefit of reducing operating expenses versus the cost of shrinking the workforce, but also assessed how this decision might impair its ability to mobilize remaining workers to enhance productivity. It considered the broader implications for its reputation: the impact on its ability to recruit new workers in the future, and on its image among business partners and consumers. Despite increasing pressures to let workers go out of companies, management continued to uphold the lifetime employment practice throughout the 1990s (Chuma 1998b; Kato 2001; Rebick 2001). Job retention rates and employment durations remained virtually unchanged in comparison to the 1980s (Brunello 1988). Management kept core workers employed by resorting to transfers between intra-firms or subsidies within a corporate group. As table 5-7 aptly shows, large firms’ employers, surveyed by the Japanese Institute for Labor in 2009, interestingly demonstrated higher degree of preference on lifetime employment than employees; employers even opposed the abolishment of lifetime employment more seriously than employees, which would have been reversely done. In return for this,

104 Along with lifetime employment systems, Japanese management has debated the end of seniority principle between the 1970s and 1990s. The seniority-based pay, which was another important pillar buttressing industrial harmony, has been gradually abandoned but newly transformed into the principle of the seniority-plus-merit pay. In the 1990s, the majority of both managers and unions wanted to see ability and other criteria besides seniority introduced in pay and promotion (Kawakita 1997). Despite a general consensus on the introduction of an ability-based human resource policy, it is unclear at what point the motivational basis for the seniority principle would start to break down if the ability-based principle were to be gradually fortified. It is also unclear in what ways the ability-based approach (noryoku shugi) should be implemented. Feasible alternatives to the seniority-plus-merit principle are difficult to come by, due to the fragile balance in reconciling competing motivational forces, one relying on treating workers homogenously, and the other relying on differential treatment. From the 1970s to the 1990s, there has been a shift in focus in determining pay and promotion, away from a long-term assessment of employees’
enterprise unions were willing to accept virtually no wage increase, which kept unemployment rates low in the 1990s (Genda and Rebick 2000). It is in this context to confirm that no major outbreak of labor disputes has been observed since the mid-1970s after the Oil Shock. In contrast, repeated concessions signaled the union’s lack of bargaining power, leading many workers to see their unions as powerless (Kume 1998).

Table 5-7. Survey on Lifetime Employment (LTE) in the 2000s

<table>
<thead>
<tr>
<th></th>
<th>Firm Survey</th>
<th>Employee Survey</th>
<th>2004 keidanren Top-Managers Survey (N=545)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004 (N=1280)</td>
<td>2008 (N=923)</td>
<td>2005 (N=2823)</td>
</tr>
<tr>
<td>LTE as many as possible</td>
<td>69.8</td>
<td>79.7</td>
<td>40.7</td>
</tr>
<tr>
<td>LTE for restricted members</td>
<td>21.5</td>
<td>15.6</td>
<td>20.5</td>
</tr>
<tr>
<td>Abolishment of LTE policy</td>
<td>8.8</td>
<td>4.7</td>
<td>23.8</td>
</tr>
<tr>
<td>Unknown</td>
<td>-</td>
<td>-</td>
<td>14.3</td>
</tr>
</tbody>
</table>


5.3.3. Micro-Corporatism and Labor’s Voice Strategy

All in all, strategic options of the three players can be reassessed in terms of ‘exit’ and ‘voice’ (Hirschman 1970). The Japanese system differs from the liberal market model in underlying capability during their lifetime employed career towards a short-term evaluation of performance demonstrated on the job. However, there is likely to be reluctant to vary pay by performance too much, lest below-average performers suffer from a loss of their livelihood.
that it imposes greater constraints on exit from industrial relations, but it also has more fully developed channels for voice within business relationships (Vogel 2003; Jackson 2003). Actors who are constrained from exit have a greater incentive to cultivate mechanisms for voice. Whenever Japanese firms and labor unions confront tougher competition or a weaker economy in the 1990s, they are more likely to exercise voice rather than exit. In this vein, the institutionalization of ‘voice’ strategy within firms in the economic crisis was the crucial foundation on which workers’ enterprise-level unionism and employers’ micro-corporatism are intersected for the development of industrial peace.

It can be therefore concluded that the plateaus of priority on stable relations between workers and employers in post-bubble Japan have been actively constructed and then defended by deepening canyons of industrial harmony on the basis of voice strategy and strengthening boundaries to block exit at the enterprise level (Tilly 1998). The existence of net gains in the terrain of industrial relations means that losers from the government’s institutional change can potentially be compensated by either full-scale or partial rewards in workplaces. Partial compensation of all or some losers or full compensation of a few losers may be sufficient to lessen opposition enough to ensure passage of reforms. In contrast, those who have political power and will lose it if there is institutional change have incentives to block this change. In the corporate arena, very few Japanese large firms newly enter or exit the existing system of labor-management relations, so change comes via the incremental reform of existing firms rather than via their replacement by new firms with radically different practices.
However, dynamics of micro-corporatism remained limited to large firms. Most attention has focused on large firms and their links to the state or labor unions through industrial policy, but as Morris-Suzuki (1994) shows, in addition to this central dynamic, a peripheral dynamic featuring small firms and local communities has been vital in Japan’s industrialization and technological transformation. In March 2002, the unemployment rate among workers between the ages of 15 and 29 recorded 9.6 percent, in comparison to the nation’s average of 5.2 percent (rōdōshō 2002: 91). The Japanese government’s piecemeal adjustment to protect older workers had the undesirable consequence of depressing youth labor market conditions (Kato 2001; Brinton 2011). Employment remained stable for core workers in the 1990s, as reviewed previously, but less so for younger workers and middle-aged workers with short tenure. The lack of aggressive restructuring of employment security and stakeholder values has therefore worsened the labor market conditions for younger workers in the sense that their promotion rates have slowed down, and their training opportunities within firms have been depressed.105 Accordingly, the emergence of the working poor or irregular young workers has been becoming a great challenge against the core workers who benefit from stable employment and functional flexibility, and it also calls the current micro-corporatism-based solutions for industrial harmony into question.

105 The primary cause of the problem was that employers, faced with the post-bubble surplus of labor, dramatically reduced their intakes of new hires. Labor hoarding during the bubble years left a diamond-shaped age composition of the workforce, with an overstock of workers in their thirties. This imbalanced age composition misaligned the system of internal promotion, so that the bulk of the bubble-cohort must be promoted, or it will demoralize subsequent cohorts. Meanwhile, management faces a dilemma rooted in the fact that the average quality of the bubble-cohort is likely to be lower than that of the subsequent cohorts due to the lower recruiting standards used during this period (Ariga et al. 2000).
Considering all historic events described in the previous chapters, we are able to conclude that the making and sustainance of industrial peace in Japan are based upon the path-dependent sequences at critical junctures where the three actors – the state, business, and labor – have adjusted themselves to the framed pathway of micro-corporatism over time. This study, despite its analytical limits focusing only large-sized companies rather than small- and medium-sized firms, demonstrates how and why micro-corporatism, working for job security via lifetime employment and institutional complementarity at the plant level, has been mainstreamed as a central solution to construct industrial peace in the context of Japan, which is a main exemplar of East Asian countries. This historical review contains just a single case study of the Japanese corporatist governance, but offers an important base study of Japan’s welfare capitalism that differs from not only the liberal market model of Great Britain and the United States, but also the social democratic model of Scandinavian countries. By advancing Japan as a unique case of welfare capitalism, we can compare varieties of corporatist governance for the making of industrial peace in advanced economies.
This chapter consists of the three parts in not only elaborating further the path-dependence of Japan’s industrial peace formation but also comparing the Japanese way with those of other advanced economies in Western societies. The first part sets out to recapitulate the historical evolution of path-dependence in both prewar and postwar Japan, and figure out its underlying mechanisms to sustain the path-dependendent relations among industrial actors throughout Stage I, II, and III. The second part demonstrates the oscillation of Japan’s path-dependence in the face of the changing external environments, despite its consistent continuity. It juxtaposes the unplanned ‘trodden path’ and the ‘branching pathways’ at critical junctures in the Japanese context, as Bernhard Ebbinghaus (2005) sets forth in the Western context. The third part emphasizes the Japanese uniqueness of industrial peace formation, which rests upon micro-corporatism locked in job security protection, in comparison to other OECD countries, such as liberal regimes (United Kingdom and United States), social democratic regimes (Scandinavian countries), and conservative regimes (France and Germany).

6.1 PATH-DEPENDENCE AND ITS MECHANISMS IN JAPAN

The key idea of path-dependence is that in a sequence of historical events, the latter events are not completely independent from those that occurred in the past. The key engine of changing the sequence of historical junctures comes from the social construction of the transversal relations among government, management and labor at a given historical juncture. Against both advoadvocates of the state-centric approaches and advocates of Varieties of Capitalism which emphasizes the firm as a main player, this
study attempts to bring the mixed bag of all three actors into a central position in the understanding of the political economy of corporatist governance in Japan. Accordingly, the evolving mechanisms of path-dependence need to be traced down by analyzing such transversal relations where the power balance among the three actors has been always moving in accordance with historical conditions.

The kernel of path-dependence is to verify increasing returns, which enable the existing institutions to preserve and nurture the past institutions (Pierson 2000; Mahoney 2000; Mahoney and Rueschemeyer 2003; Crouch 2001). Increasing returns create positive feedbacks that are self-reinforcing in making and sustaining the peaceful coexistence of industrial actors. To recall, the two factors need to be captured as central components to constitute increasing returns in a positive way. First, the new path can be dependent to the past events or institutional effects when the costs of switching from the past option to new alternative increase significantly in certain social and historical contexts. Second, the temporality of historical events and the following options taken by actors is critical to identify issues of timing and sequence, distinguishing the continuing conjunctures from the other moments that foster divergent paths. With these two elements, issues of increasing returns help us comprehending the sequences of institutionalization of corporatist governance aimed to stabilize industrial relations in Japan.

As figure 6-1 demonstrates, increasing returns stem from the initial sets of corporatist governance in the periods of Japan’s modern state building and wartimes (Stage I). Apparently, the state in prewar Japan acted as the most decisive planner and controller in inventing and forging the peaceful tradition of industrial relations by
ideological propagandas, legislative measures and institutional devices. Particularly, the Industrial Patriotic Association, and kyōchōkai paved the way for the fascist coercion to force unions to collaborate with employers at the plant level. Management also acted as a shadow collaborator for state corporatism by appealing to traditional norms that protected Japan from Western reforms of labor-management relations, and providing firm-based concessions within large companies in return for labor’s loyalty. Labor, despite its expanding riots contributing to the formation of labor movements in prewar Japan, suffered from its internal weaknesses, such as the small number of unionized workers in the average plant, the large proportion of female workers, and the marginalization of unionized workers in large firms. In dealing with the employer offensive and state intervention, labor took options for realistic adaptions in order to improve workers’s welfare and keep on the traditional tenets of paternalistic harmony at the enterprise level. As a result, the mutual construction of state corporatism, as the antecedent condition, became later the mainstay of Japanese corporatist governance even though the degree of both state-business coalition and labor’s adaptations in search of survival and protections has been varying over time. The principal feature of the initial sets of Japan’s state corporatism included fundamental commonalities that have been shared by latter Stages: job stability protection, based on a long-term employment and micro-corporatism, within firms, and the state’s guidelines for symbiotic cooperation between management and labor.
Stage II confirms that the source of increasing returns stems from the shared objectives of job stability protection entrenched at the enterprise level (see figure 6-1). Enterprise unionism was the self-reinforcing institutional underpinning of corporatist governance in the period of Japan’s democratization and high growth. The state wielded a dual strategy not only to incorporate the organized labor under the developmental
national goal of high productivity but also to steer wage negotiations to be handled at the plant level, evading the macro-level negotiation of shuntō. Furthermore, the lack of public welfare schemes designed to assist workers who exit from workplaces discouraged them from switching jobs, thereby staying and raising voices within the firms. Management of large firms also joined the state’s efforts to downscale the negotiations with workers at the firm level and mainstream enterprise unionism as a prime solution to stabilize industrial relations. For the sake of micro-corporatism, management developed the stakeholder corporate governance, which was mainly grounded on employment security and institutional complementarity in managing the production system and its associated effects on the elongation of workers’ employment. Harmonious relations between employers and employees at workplaces remained in place covering a wide range of fringe benefits, lifetime employment, and internal promotions for workers who were excluded from the public regime of welfare protection. Meanwhile, labor pusued its confrontational moves via the formation of rengō at the national level, particulary in the wake of the two Oil Shocks, but failed to generate significant success in restoring shuntō as the upward wage pressure due to internal limits of national centres for unifying the labor movements. Labor changed its strategic policy from the confrontation to the compromise on the basis of enterprise unionism, and approved workers participation in democratic deliberations at workplace in order to consolidate job stability and the stakeholder-based corporate governance. It can be stated as a logical option of calculative compliance where labor perceived the realistic compromise to be in its interest maximization by complying with management policies at the enterprise level (Etzioni 1975)\textsuperscript{106}

\textsuperscript{106} According to Amitai Etzioni’s types of compliance, there are three patterns of compliance: (1) coercive
Stage III, furthermore, corroborates the historical evidence that increasing returns for path-dependence resulted from the collective consensus among all three actors on the continuous protection of job stability at the enterprise level, in spite of the bubble economic crisis and its assertive intrusion with shareholder corporate restructuring into large firms (see figure 6-1). The state cautiously introduced innovative alternatives of corporate restructuring policy, which directed a partial and constrained liberalization within the sustained frame of its coordinated market economy for industrial peace. Whilst the Japanese political entrepreneurs steered corporate restructuring to enhance Japanese firms’ external competitiveness via corporate law reform and the launching of ICC, they endeavored to cushion negative effects of corporate restructuring by means of not only special subsidies for job creation and skill formation, but also government subsidies to retain old workers. In this regard, such a dual aspect of government engagements can be viewed as its coherent approach to keep alive micro-corporatism at workplace and simultaneously respond to immediate demands of corporate restructuring for flexible job mobility. Management, in the face of enhanced pressures to liberalize its corporate governance structure for greater transparency and shareholder returns, coordinated its diffusion of shareholder values in large firms in an ambiguous way which its reformative actions proceeded in an incremental and slow fashion, resisting the structural transformation of corporate management along with the Anglo-American model. Path-dependence, thus, can be continuously found in employers’ final resort to the conventional methods of readjustment, such as the reduction of new hiring, and the transfer of workers to their affiliates within firms, all of which were designed to defend

compliance where a person has little power to resist a policy; (2) calculative compliance where a person perceives it to be in her interest to comply with a policy; and (3) moral compliance where a person strongly believes in the basis for a policy.
employment security via institutional complementarities. Labor, being in danger of dismissal owing to shareholder-oriented corporate restructuring, reactively adjusted itself to new working conditions by holding on voice option within firms in order to protect their employment security, allowing average rates of wage increase to be declined, and aligning itself with management efforts to reduce labor costs in return for the warranty of employment security. Such a reactive strategy of workers was undertaken as a valid reflection of the changing landscapes of labor politics at both internal and external dimensions. Internally, the role of rengō remained as a limited national association, in the sense that it administered the general guidance of wage negotiations at the enterprise level as the basic prescription, just like the conventional way of labor-management relations. Therefore, rengō has been losing ground as the defender of an all-encompassing labor organization, and conceded its limited capacity to pursue wage negotiations at the national level. Externally, not only the lack of flexible labor market outside firms but also the dearth of social protection for workers who exit from firms coerced workers to stay in current positions and to belittle their own motivations for finding new job opportunities.

In a nutshell, the elongated security of workers employment and the resulting enterprise unionism have always been at the center of the path-dependence of Japan’s industrial peace formation and its underlying mechanisms to create positive feedbacks for increasing returns to the past institutional arrangements and the connection between past and current events. Consequently, how long workers are able to keep their own positions within firms is the most critical primary concerns of workers, employers, and governments, which have been seen as the fundamental groundwork for making the
Japanese corporatist governance sustainable and stabilized on the basis of lifetime employment, institutional complementarities, and other firm-specific solutions. In accordance with the changing external conditions at a given historical juncture, the pendulum of main symbiotic coalitions among the three actors has been swinging from the one side to the other – for instance, from the state-business symbiosis (Stage I and II) to the management-labor symbiosis (Stage III). Nevertheless, the strategic moves of all three actors eventually have been convergent on the identical point of micro-corporatism that play a significant role in blocking workers’ exit from firms, downscaling wage negotiations to the level of enterprise unions, and securing the promotion of the harmonious relationship between employers and employees at workplace.

6.2 MOVING FRONTIERS OF CORPORATISM: FROM THE TRODDEN PATH TO THE BRANCHING JUNCTURE

It is a critical review of the Japanese corporatist governance to verify to what extent the path of micro-corporatism has been dependent firmly to the past institutional trajectories and how the deviation from the pathway of micro-corporatism can be envisaged (Mahoney 2001; Kim 2008b). In spite of the alleged notion that the making of industrial peace in Japan has been peacefully constructed and collaboratively maintained, the confrontational struggle for power and dominance has incessantly been forged and aggravated among actors involved in industrial relations. Particularly, the labor offensive and the employer offensive during Stage II exhibit how severely workers and employers have been competing with each other in order to expand their own sphere of influences.
The historical records of mobilizing the labor force for establishing national peak associations beyond enterprise unionism uncover the deviation from micro-corporatism or the partial shift from micro-corporatism to meso- and macro-corporatism. In response to the labor moves, management and governments have created and sustained a viable alternative non-liberal market form, which could well be legitimized by legal change and social consensus, thereby easing the demands of workers and justifying corporate governance as the joint efforts to generate the employee-favoring firm. This is another interpretation of the centripetal forces of increasing returns to enterprise unionism protecting job security for workers.

As figure 6-2 demonstrates, we now recognize the fact that the path of corporatist governance in Japan has always been moving beyond micro-corporatism and shaping alternative paths towards meso- or macro-corporatism along with the power balance among actors at a given historical juncture. It is worthwhile noting that there are the two main processes of the past shaping the future – diffusion and developmental pathways – that need to be distinguished analytically (Ebbinghaus 2005; Immergut 1998; Thelen and Steinmo 1992). The two processes are contrasted in renaming them as follows. The first pattern embedded in the diffusion process is the unplanned ‘trodden trail’ that takes shape through the subsequent repeated use by other organizations of that spontaneously chosen path. This model stresses the spontaneous evolution of an institution and its subsequent long-term entrenchment in an identical fashion. The second one is the ‘road juncture’ at which one of the available alternative pathways must be chosen in order to continue a journey but contain a differentiated itinerary (Immergut 1991). This model holds the interdependent sequence of events that structure the alternatives for future institutional
changes in a different fashion. The path dependence concept, thus, subsumes two markedly different approaches to understand historical sequencing. The two images of the trodden trail and the road juncture represent different social processes: a persistent diffusion path and the branching pathways. Also, it is important to note that path-dependence results from non-linear self-reinforcing processes reflexive of increasing returns and there are seldom linear patterns of path-dependence in practices.

*Figure 6-2. The Evolution of Corporatist Governance in Japan*

When the two models of path-dependence are applied to the Japanese context, Stage I represents the trodden trail via diffusion effects and Stage II and III can be characterized as the branching junctures (see figure 6-2). Given the conventional notion that the uniqueness of the Japanese corporatism model stems from its harmonious nature of stabilizing labor-management relations at the plant level, the path-shaping effect at the
branching juncture beyond the trodden trail provides a new perspective to translate the Japanese uniqueness in different terms (Jeong and Aguilera 2008: 126). Stage I signifies the period of state corporatism in prewar Japan when the state had predominant power as the most decisive planner and regulator to provide the general guidance aimed for the peaceful coexistence of workers and employers at workplace. Accordingly, the strong presence of government intervention dampened workers’ ardor for enhancing their working conditions and consolidating employment security. On the other hand, Stage II and III have the road junctures at which the path of corporatist governance has been diverged – even partially – from the trodden rail of micro-corporatism to meso- or macro-corporatism (Sato 2008). The advent of the Oil Shock in the 1970s and the bubble economic crisis in the late 1980s stirred up labor unions to find an alternative way of making collective actions against enterprise-centered industrial relations. While meso-corporatism includes primarily sectoral unions of industries and sectoral associations of business interests, both of which stretch their organizational identities across micro- and macro-corporatism, macro-corporatism is referred as to national consultations by which organized labor at the national level trades industrial peace for government commitments to full employment and increased share of political power in the process of wage negotiations (Cawson 1985). As figure 4-7 aptly demonstrates, postwar Japan has witnessed the rise and fall of national labor associations from sōhyō to rengō.

It is fair to state that such a moving frontier of corporatist governance from the trodden trail to the branching pathway becomes so acute as to trigger further divergence of path-dependence, even though enterprise unionism remains as a structural backbone of Japan’s industrial peace formation. In the early 2000s, the unemployment rate among
younger workers between the ages of 15 and 29 has soared to about 10 percent, and the discrepancies between skilled workers in large firms and unskilled/part-time workers has been severely widened (Kato 2001; Brinton 2011; Morris-Suzuki 1994). The expansion of the working poor, particularly part-time young workers, in the post-crisis Japan has been perceived as a stark social disease that threatens micro-corporatism and promotes the branching juncture where a new alternative of organized labor representing the working poor can be formed beyond enterprise unionism.

6.3 VARIETIES OF CORPORATIST GOVERNANCE AND THE UNIQUENESS OF JAPANESE CORPORATISM

As a last step for understanding the path-dependence of the Japanese corporatist governance, the comparison of differences across countries has a high value to review and fathom the uniqueness of Japanese corporatism. For the sake of comparative perspectives on corporatist governance and its associated industrial peace, we focus largely on early exit from work for older workers and its linkage with industrial relations through welfare regime, occupational welfare, corporate governance, and production system (see table 6-1). This linkage is also critical to review how the elongation of workers employment such as lifetime employment has effectively generated the peaceful formation of industrial relations in Japan. The targeted countries for the comparison to Japan consist of liberal regimes (UK and US), social democratic regimes (Sweden), and conservative regimes (France and Netherlands), according to Esping-Andersen’s typology of the three worlds of welfare regimes.
The institutionalization of old-age retirement as full exit from work has become a universal feature of postwar industrial economies and the largest income program of modern welfare states (Esping-Andersen and Sonnberger 1991). However, since the rise of mass unemployment following the first and second Oil Shocks, early exit from work before the normal pension age has become a social tendency that went beyond the political expansion of social rights, but resulted from unintended policies and collective responses to the new socioeconomic pressures (Quadagno 1988; Walker 1991).107 Early retirement seemed to be a panacea for certain pervasive labor practices, including shedding workers to restructure in response to the changing economy, buying worker consent to downsizing by offering soft landings and the efforts of government and unions to shrink labor supply (Guillemard 1991). Nevertheless, with increased early retirement, the negative economic and social consequences have become more worrisome to governments, employers and union leaders alike.108

Early exit from work is embedded in institutional incentives and constraints that shape the push and pull of early retirement and its structural connection to welfare regimes, production regimes and industrial relations practices. Due to the proactive introduction of early exit from work for older people as a major solution for economic downturns, older male workers (aged 55-64) in all OECD countries, as shown in figure 6-3, experienced a decline in employment rates, even though Japan was least affected. The

107 The concept of social rights comes from T. H. Marshall’s historical development of citizenship rights in modern Western European countries. The first stage was the legal constitution of citizens as of equal standing in relations to the law (civil rights in the 18th century); the second stage was political rights to the formal exercise of voting rights in the 19th century; and finally, the best condition for the successful development of industrial societies was to maintain a balance between the economy and social rights in the 20th century (Marshall 2000).

108 There are the complexities of negative impacts of early retirement: rising non-wage labor costs harm competitiveness; unemployment persists despite early exit from work; current social expenditure and future liabilities have risen substantially; the entry age into early retirement is becoming increasingly early; and continued traning and re-skilling of older workers is lacking (Ebbinghaus 2001: 76).
worst case comes from conservative European welfare states in the sense that employment rates dropped dramatically from four-fifths of older men in the 1970s to only one in three Frenchmen and only 40 per cent of Dutch men of the same age group in the 1990s. The second worst group of countries, which recorded medium declines (a better outcome in comparison with conservative welfare regimes), represents the liberal welfare regimes of the Anglo-American welfare states, the UK and the US. The British case went through a significant reduction from a high employment rate over 90 per cent in the early 1970s to below 60 per cent in the 1990s, whereas the US experienced a more gradual decline, leveling off at above 60 per cent since the 1980s. In the case of social democratic welfare states showing higher male employment rates than the liberal welfare regime, Sweden’s decline in employment rates of older workers was slow and maintained around 70 per cent, until the crisis of the 1990s, when employment rates dropped to American levels. The reason how Sweden made the slowness of employment rates until the 1990s stemmed from part-time work and gradual retirement. Finally, Japan stands out as an outlier in that it has successfully maintained the highest level of male employment rates while the other countries experienced grim effects of higher unemployment rates in the wake of economic crises. In Japan, four out of five older Japanese male workers (aged 55-64) remain employed, although no necessarily in the same job. Maintaining such a high rate of male employment in the face of economic downturns implies that industrial actors commonly see micro-corporatims on the basis of job stability at the plaint level as an important institutional instrument to sustain the peaceful harmony of industrial relations (Siaroff 1999).
Grouping the countries in respect to their early exit patterns shows systematic differences across countries in terms of ‘pull’ factors and ‘push’ factors. In order to explain the differences across countries, we need to understand the different welfare state policies that provide a ‘pull’ factor towards early retirement. The more favorable benefits are provided by the welfare state out of companies, the stronger the incentives are for older workers to quit work early (Gruber and Wise 1999). Each national system of social protection differs in the availability of alternative pathways and in their generosity, eligibility and selectivity (Kohli et al. 1991). This does not imply that the ‘pull’ factor
completely determines the overall level of early exit, but the welfare generosity and accessibility to the public welfare services play a critical role in the choice of pathways. Alongside public welfare policy as the pull factor, ‘push’ factors, which lead to a decline in labor demand for older workers within workplaces, are found in not only employment protection and human resource management strategy that also play a significant role in limiting or promoting early retirement, but also the production system that can be restructured and downsized by early retirement in a socially acceptable way. Such an integrative perspective via the combination of the pull factor (public welfare policy) and push factors (management’s strategic employment/production policies) enables us to view the historical review of Japanese corporatist governance as an effective frame to compare different corporatist governances in the making of industrial peace by means of transversal tripartite relations across countries.

In the first place, the continental European and Scandinavian welfare states provide multiple pathways to early exit via the public pension, unemployment and disability insurance systems. However, the most generous pension system in Sweden still maintains a high employment level, while the continental pension states with medium-level de-commodification seem to have the highest level of early retirement (see figure 6-3). Indeed, the continental European welfare states rely most heavily on the labor-shedding strategy: in both France and the Netherlands, only one in five older men (aged 60-64) and only half of the men in the younger age group (aged 55-59) can work. By contrast, the Scandinavian welfare states show high employment performance even during old age, partly by fostering part-time work (one-third of Swedish male workers aged 60-64). In recent years, unemployment has risen to unprecedented levels, also
affecting older workers. The most important difference between these two systems is the successful use of partial and flexible pensions in Sweden, which allows combination with part-time work, thereby leading to a gradual transition and prolongation of exit from work (Wadensjö 1996). Reversely, the French government intervened directly by setting up special early retirement schemes, with subsidies for reemployment of young workers, although these did not bring the expected labor market improvement and proved relatively expensive (Jacobs et al. 1991). As the ‘push’ factor, in the Netherlands and France, special early retirement schemes negotiated by the social partners at the national level play an important role in reinforcing the pervasive trend of early exit and the externalization of costs at the meso- and macro-level. However, in Sweden, occupational pensions are provided as supplementary pensions, not changing the course of early retirement very much, since employers and workers internalize some part of early exit costs to occupational schemes at the firm level. Also, Sweden, the Netherlands, and partly France commonly share some of the quality production system, which relies on coordinated labor markets with a skilled workforce and elongation of employment security. In France during the 1970s, private employers were able to dismiss older workers and restructure with the help of the early retirement unemployment allowances administered by the social partners. Given that the French government intervened by lowering the retirement age, negotiating reemployment conditions in solidarity contracts, and intervening in the social partners unemployment funds, employers have come under more pressure since the 1980s (Guillemard 1991). The French state intervention brought about weak social partnership, highest early retirement rates, and decentralized bargaining in industrial relations. On the other hand, the Swedish government allows the
coordinated market economies on the basis of public investment and the long-term ownership of labor-management relations. Thereby, the Swedish industrial relations can be characterized by neo-corporatist governance with the two track of centralized and workplace bargainings.

Secondly, the Anglo-American liberal welfare states see a decline in employment rates for older workers due to economic forces, following the business cycle embedded in neoliberal principles of economic behaviors. Half of older American or British men (aged 60-64) are not working, while this figure is around one-quarter in the younger age group (aged 55-59). The liberal welfare regimes do not have much ‘pull’ on early exit, because they provide insufficient or no early retirement pensions, long-term unemployment benefits and labor market-oriented disability insurance (Lonsdale and Aylward 1996; Berkowitz and Burkhauser 1996). In the absence of enough ‘pull’ from public benefits, American and British companies relied on ‘push’ forces: classically, occupational pensions provided by employers played a more crucial role for early retirement.¹⁰⁹ In the terrain of production systems, ‘Fordist’ mass production factories in the liberal welfare regimes promoted low or general skilled workers and high turnover, with employers not committed to employment tenure. Anglo-American liberal (uncoordinated) market economies rely on capital markets that impose short-term horizons and on anti-trust policies that foster competitive inter-company relations (Soskice 1999). All in all, the liberal market economies forge industrial relations in the form of voluntarism-based decentralized bargaining, which is based on the privatization of employment security.

¹⁰⁹ As another ‘push’ factor, the US Congress legislated the Anti-Discrimination in Employment Act in 1967, initially raising the mandatory retirement age to 65, and increasing it to 70 under the Carter administration in 1978, but finally abolishing such rules altogether under the Reagan administration in 1983 (Sheppard 1991: 278).
Finally, Japan maintains the highest level of activity in older age among OECD countries, yet workers have often been forced to quit jobs in large companies and seek reemployment of self-employment in much less favorable jobs (Kimura et al. 1994). As Japan, like the liberal welfare regimes, has no enough ‘pull’ (public welfare eligibility) forces from its welfare state, the Japanese early exit pathways have been thus subject to ‘push’ factors such as private occupational pensions and employment protection, both of which employers provide, and entailed a larger internalization of labor-shedding costs by employers and workers within firms (Kii 1991). The Japanese mandatory retirement (teinen) has to be seen in the context of a company’s human resources strategy and responsibility to provide income opportunities after retirement (Kimura et al. 1994: 250). Large Japanese companies rely on teinen in response to their lifetime employment guarantee, age-related career trajectories, and seniority pay structure. In return for lifelong loyalty shown by workers, large companies provide considerable lump-sum severance pay and occupational pensions, and they may re-employ workers within their company network. As a result, older workers are over-proportionally employed in large firms.\footnote{However, the financial and economic crisis and long-term ageing has put pressure on the Japanese government to raise the pension and mandatory retirement age and threatens to undermine these re-employment practices, which are closely tied with Japan’s production system.} Such promises of job stability such as lifetime employment within firms provide an incentive for workers to invest in firm-specific skills and cooperative labor-management relations (Estevez-Abe et al. 2001). Furthermore, Japan’s lean production system promoted the flexible production by which workers were able to actively participate in management and expect them to be promoted within firms. Also, Japan’s coordinated market economies provide the positive formula that stable ties between companies and banks have reinforced the long-term commitment to guarantee
employment stability and corporate welfare benefits. In a nutshell, the Japanese employment security at the firm level creates the peaceful form of industrial relations, by means of micro-corporatism based upon company unionism that characterizes the uniqueness of the Japanese labor-management relations. The varieties of corporatist governance based upon early exit patterns across countries are summarized in the following table 6-1, and the Japanese pattern is shaded at the bottom of the table 6-1.
<table>
<thead>
<tr>
<th>Country: Exit-rate</th>
<th>Welfare state regime</th>
<th>Occupational welfare</th>
<th>Employment system</th>
<th>Production system</th>
<th>Financial governance</th>
<th>Industrial relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands: Medium-high</td>
<td>Welfare without work: multiple pathways</td>
<td>Negotiated collective (pre) retirement schemes</td>
<td>Employment regulation, long-term employment</td>
<td>Organized: quality production</td>
<td>Coordinated, but also multinationals</td>
<td>Social partnership: corporatist bargaining</td>
</tr>
<tr>
<td>UK: Medium</td>
<td>Liberal welfare state: limited pathways</td>
<td>Voluntary employer or private pension (opt-out of state pension)</td>
<td>Low employment regulation, high turnover</td>
<td>Unorganized: mass production</td>
<td>Uncoordinated, short-termism</td>
<td>Voluntarism: decentralized bargaining</td>
</tr>
<tr>
<td>US: Medium</td>
<td>Liberal welfare state: limited pathways</td>
<td>Voluntary/negotiated pension plans</td>
<td>Low employment regulation, high turnover</td>
<td>Unorganized: mass production</td>
<td>Uncoordinated, short-termism</td>
<td>Voluntarism: decentralized bargaining</td>
</tr>
</tbody>
</table>

CONCLUSION: BOUNDED TRANSFORMATION AND TASKS AHEAD

The overall pattern of making industrial peace in modern Japan is described as a historical and social construct of path-dependent sequences embedded primarily in economic concessions at the enterprise level. Indeed, the overriding path of Japanese labor-management relations has, over time, been shaped and reshaped centering on micro-corporatism by which labor’s purposive interests on fronts of job security and occupational welfare are reconciled in return for its cooperation with employers at the plant level. It is, therefore, assumed that the Japanese pattern of corporatist governance can be identified as the ‘trodden path’ that takes shape through the increasing returns to the elongation of company unionism, which has been subsequently repeated by other actors of that spontaneously chosen path. Nevertheless, it is fair to state that such a trodden trail has been transformed into the ‘branching pathway’ meaning that the path of corporatist governance in Japan has always been moving beyond micro-corporatism and shaping alternative paths along with the power balance among actors at a given historical juncture.

At the center of such a peaceful management of industrial relations is the persistent presence of economic concessions – albeit the vacillation of their enormity and
kinds – characterized by the “three pillars” modes of Japan’s employment security at the enterprise level: lifetime employment (*shushin koyo*), wages that increase with seniority (*nenko joretsu*), and enterprise unionism (*kigyo-nai kumiai*).\(^{111}\) The conventional interpretation of this three-pillar system has tended to perpetuate a stereotype of Japanese workers as loyal employees bound to the company through paternalistic traditions of cradle-to-grave employment (Norman 1940; Marshall 1967; Matalne 2003). Even hailed as “three golden treasures” (Shimada 1983), economic concessions have been highlighted by both academic pundits and business analysts in Western societies as a critical institutional component for stabilizing potential turbulences of industrial disputes and promoting labor-management relations in a more harmonious and productive fashion. Despite pessimistic predictions in the wake of the Oil Shocks in the 1970s and the economic crisis since the late 1980s, it is fairly true that empirical studies have found no major changes to the practice of job stability – particularly, lifetime employment and institutional complementarities at least – pertaining to core employees in large corporations (Lincoln and Nakata 1997; Dore 2000; Moriguchi and Ono 2006).\(^{112}\)

Such a conventional three pillars interpretation, however, leaves us the following three puzzling inquiries which have not been hitherto seriously investigated: (i) what are the social origins of the Japanese corporatism and to what extent did its initial sets influence the later path formation of corporatist governance under different historical contingencies?; (ii) why and how have increasing returns been emerging constantly in the form of economic concessions which generate enterprise-level stability in labor-

\(^{111}\) The notion of the three pillars interpretation of Japan’s industrial relations was first elaborated by James Abegglen (1958) in his classic, *The Japanese Factory*, postulating that jobs were permanent, and wages were based on seniority.

\(^{112}\) Rather, even in the period of the bubble economic crisis, Toyota’s chairmen told an international business forum that his firm was not going to abandon lifetime employment however much Standard and Poor’s lowered its credit rating in the late 1990s (*Nikkei* 8 October 1999).
management relations?; and (iii) how can we understand the role of labor, other than strong presence of capital or its coalition with government, in maintaining the stable path of industrial peace? Answering these questions lies in a more comprehensive attempt to uncover the secrecy of Japanese labor-management relations and its underlying mechanism of corporatist governance beyond the traditional blind belief in harmonious and paternalistic relations between labor and capital.

In mapping out such a comprehensive approach verifying the path dependence of Japan’s micro-corporatism, we advance three different points of the Japanese modern history as critical junctures, “historical decision point(s) at which there are clear alternative paths to the future” (Calder 2008: 16): (i) the period of modern state-building as initial settings for the Japanese corporatism; (ii) democratic transition and high economic growth in postwar period as its consolidation phase; and (iii) the bubble economy in the late 1980s as its transformative phase. A common observation shared by all three junctures is to keep the level of corporatism lowered at the enterprise level by diluting corporatist actors’ intention to opt for alternative paths. This means that increasing returns, over time, relies upon the constant source of economic welfare concessions, thereby mainstreaming micro-corporatism at the plant level, despite the fact that there are possible choices for the future development.

7.1 **KEY FINDINGS: BOUNDED PATHWAYS FOR THE MAKING OF INDUSTRIAL PEACE**

Indeed, the postwar Japanese industrial relations system combined a grand bargain of
wage moderation in exchange for employment security with firm-level pacts that
promoted labor-management cooperation. Key findings of this study can be elaborated by
both methodological and empirical perspectives on how to analyze the uniqueness of the
Japanese corporatist governance and its path dependence. First, the analytical framework
for in this study draws upon a range of methodologies combining governments,
management and labor altogether as key actors consisting of structural accounts. It is a
reflexive attempt to overcome the limits of previous scholarly researches on the political
economy of industrial peace formation in Japan. The proponents of statist perspectives
emphasize the role of governments in guiding industrial actors into a cooperative form of
corporatist governance by arguing that the state should be brought back in the center of
discussion tables (Evans et al. 1985; Johnson 1982). The state-centered approach has
fundamental limits in explaining how the other actors – management and labor –
responded to state intervention by fixating governments as a main player who took
initiatives of downscaling the negotiations between employers and employees at the firm
level. Similarly, a group of scholars, who are, particularly, advocates of Varieties of
Capitalism, made the same mistakes of advancing firm-based strategies as the main
approach to the political economy of capitalism and neoliberal globalization, while
devaluating the important functions of the other actors in creating increasing returns for
the path dependence of industrial peace (Hall and Soskice 2001; Wood 2008).
Considering the pros and cons of the existing approaches, this study attempts to
contribute a holistic view by integrating all three actors into one single frame where they
interact, conflict and complement with each other under a given historical condition
(Hancké et al. 2007; Kim 2008b). It helps us understanding the changing balance of
power among actors and its associated results in the production of increasing returns to sustain the pathway of industrial peace. It is thus confirmed that the frontiers of corporatist governance has been moving from state corporatism in prewar Japan to democratic corporatism based on enterprise unionism in postwar Japan.

Second, this study empirically contributes to detect the historical evolution of corporatist pathways for the making of industrial peace in Japan. A historical review – from the prewar modern state-building through the democratization and economic growth after the end of WWII to economic downturns in the 1980s – provides the analytical prism by which forging industrial peace is seen as an altered social construct of historical relationship among actors involved, rather than a static phenomenon. It also provides the method not only to follow the changing sources of increasing returns at different critical junctures, but also to verify how the sequence of historical events becomes convergent on the path dependence centering micro-corporatism. Path dependence has developed into a common short hand to indicate that the past shapes the future – in short, history matters. In this regard, the historicality of path dependence on the Japanese corporatist governance is able to provide the explanatory power to look at the fluctuation of power balances among actors and the sequential connections of critical events producing increasing returns to sustain the existing pathways (Myrdal 1970). It, thus, stands against the traditional paradigms of the corporatism-without-labor thesis and the cultural uniqueness thesis.

Gunnar Myrdal’s solution to the problem of values in social science involves invoking the notion of crisis politics. In periods of crisis it becomes generally obvious what ought to be done as the social engineering mechanism can drive in a situation experienced as a crisis in which interests converge and conflicts of valuations disappear (Myrdal 1958: 256). Myrdal reports that the Great Depression itself presented a solution because the demanding urgency of the social crisis put academic questions in respect of values into perspective at the same time as generating a crisis-driven consensus in respect of what must be done (Preston 1996: 207).
The upshot of the integration of structural and historical accounts is that Japan’s secrecy of the industrial peace formation results from not its cultural uniqueness but a historically bounded transformation of corporatist governance. The bounded transformation marks the fact that the path of corporatist governance has been transformed within the boundary constituted by enterprise unionism – micro-corporatism – aimed for the elongation of job security and the retarded early exit from work, both of which have received positive feedbacks from institutional options over time. Such a branching path within the bounded frame can be reviewed by taking the three propositions raised in chapter 2 into account.

[PROPOSITION I] The labor offensive is more likely to be neutralized or weakened where increasing returns mostly focus on employment security on the basis of micro-corporatism at workplace. Reversely, the presence of macro-corporatism is not necessarily effective in softening the assertiveness of organized labor.

[PROPOSITION II] The more favorable benefits are provided by the welfare state out of companies, the stronger the incentives are for workers to exit from firms and to transform corporatist governance beyond Japan’s traditional pattern of micro-corporatism.

[PROPOSITION III] Economic concessions are more likely to generate edurable periods of peaceful relations among corporatist partners, whereas political concessions easily exhibit the vacillation of industrial peace.
Indeed, Japan’s corporatist experiences convey the argument that the protection and enhancement of employment security at workplace has remained as the institutional backbone of peaceful relations between employers and employees. Although promoting the labor offensive at the national level is one of powerful solutions that workers can take in order to raise their voices for wage increases and better working conditions, the labor offensive requires not only strategic alliances across labor unions but also strong leadership of national peak associations to unite enterprise unions. However, the government’s social engineering and management’s symbiotic interventions in line with government guidelines hampered the organized efforts of national labor umbrellas and prompted workers to downscale their negotiations at the plant level. The resultant increasing returns to economic concessions for the elongation of employment stability softened the assertiveness of organized labor and encouraged workers to look for alternative ways of enhancing their voices within firms. Such a peaceful solution based on micro-corporatism has the longstanding historical records that date back to the period of state corporatism in prewar Japan. In a nutshell, the first proposition stands in contrast to a still strong tendency in continental European welfare regimes to rely on macro-corporatism.

The main reason of why the enterprise-level stability in labor-management relations has been constantly sustained in Japan is rooted in economic concessions whose emphasis is on the redistributive benefits such as occupational welfare, job security and wage-related programs, all of which managers can employ as stakeholder-centered corporate governance within companies. In contrast, political concessions, defined as state recognition of labor’s nationwide collective bargaining processes and its
participation in public-policy forums, have been underdeveloped in Japan’s coordinated market economies. From sanbetsu to rengō, almost over 40 years, all labor unification movements in Japan have been deeply dependent on the power shifts of political parties, in particular opposition parties, and thereby they were incapable of uniting labor forces in order to demand political concessions from the state. The combination between weak political concessions and strong economic concessions has been further consolidated by the lack of public welfare benefits out of companies. The presence of negative welfare environments outside firms dampened workers’ motivations to exit from firms and seek labor alliances for the maturity of macro-corporatism, but promoted enterprise unionism for protecting their own positions within companies. Alternatively, workers found a way of securing job stability and lifetime employment by means of their reactive adaptiveness in response to strong dominance of government alone or its coalition with business. In consequence, economic concessions remained as a more effective tool to generate the prolongation of industrial peace among corporatist partners than political concessions in Japan. The second and third propositions, thus, stand in contrast to the liberal welfare regimes as well as social democratic regimes of Scandinavian countries.

7.2 TASKS AHEAD: FUTURE PROSPECTS

Since the 1990s onward, Japanese firms have engaged in substantial neoliberal restructuring and the Japanese government has enacted major policy reforms to support it, yet these adjustments in preparation for new external environments have been conditioned by the preexisting labor-management relations and institutional
complementarities. In recent years that are not included in this study, nevertheless, the high request of international competitiveness and corporate governance reforms are constantly given to all three industrial partners – government, business and labor – in order to go beyond the bounded transformation of corporatist governance in Japan. How do we understand an awkward combination between demands for changes and the pervasive continuity of the preexisting pathways in contemporary years after Stage III?

Japanese large firms have quite integral mechanisms of corporate restructuring in an economic downturn, such as the negotiation for wage restraint, the rejection of renewing contracts of part-time workers, the collaboration with workers and suppliers to cut production costs, and the request for their banks to extend credit or to bail them out. By shifting the employment guarantee from the enterprise to the corporate group, Japanese corporations not only downgrade the status of lifetime employment but also redefine the role of corporate groups. Japanese governments also have been converting to new missions. Particularly, the Ministry of Economy, Trade and Industry (METI) shifted its primary goals from promoting exports, to promoting investment abroad, to promoting investment in Japan. It has moved from classic industrial policy to promoting deregulation, cultivating market infrastructure, and facilitating corporate restructuring (Vogel 2005). How can we make sense of labor’s responses to these changing landscapes for industrial relations? How can we describe the persistence of path dependence and positive feedbacks from preexisting institutions to the shifting goals? How can we verify the Japanese model of corporatist governance and its validity in the current period of time?

By looking at the interaction of policy reforms and corporate restructuring in this
way, we begin to cast a serious doubt about the strengths and validity of the model presented as the ‘bounded transformation’ based upon enterprise unionism in this study. By focusing on how preexisting institutions shape the trajectory of change, we can go far in explaining the distinctive Japanese pattern of corporate adjustment and policy reform over the short to medium term. We can also show how adjustments at one period of time reshape possibilities and constraints for change at a later time. However, we cannot predict the long-term evolution of these institutions because government reforms, corporate adjustments, and labor adaptiveness interact and cumulate into broader institutional change over time. Also, we cannot argue the unique consistence of the Japanese model in the process of the bounded transformation without the comparison to other OECD countries.
## Appendix I. Cabinets and Ministers related to Labor Policy, 1908 – 32

<table>
<thead>
<tr>
<th>Cabinet</th>
<th>Year formed</th>
<th>Party</th>
<th>Home Affairs</th>
<th>Agriculture-Commerce</th>
<th>Justice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katsura Tarō</td>
<td>1908</td>
<td>–</td>
<td>Hirata Tōsuke</td>
<td>Ōura Kanetake</td>
<td></td>
</tr>
<tr>
<td>Saionji Kimmochi</td>
<td>1911</td>
<td>S</td>
<td>Hara Takashi</td>
<td>Makino Nobuaki</td>
<td></td>
</tr>
<tr>
<td>Katsura Tarō</td>
<td>1912</td>
<td>–</td>
<td>Ōura Kanetake</td>
<td>Nakashōji Ren</td>
<td></td>
</tr>
<tr>
<td>Yamamoto Gonnohyōe</td>
<td>1913</td>
<td>S</td>
<td>Hara Takashi</td>
<td>Yamamoto Tatsuo</td>
<td></td>
</tr>
<tr>
<td>Ōkuma Shigenobu</td>
<td>1914</td>
<td>D</td>
<td>Ōura Kanetake</td>
<td>Taketomi Tokitoshi</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ichiki Kitokurō</td>
<td>Minoura Katsundo</td>
<td></td>
</tr>
<tr>
<td>Terauchi Masataka</td>
<td>1916</td>
<td>–</td>
<td>Gotō Shimpei</td>
<td>Nakashōji Ren</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mizuno Rentarō</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hara Takashi</td>
<td>1918</td>
<td>S</td>
<td>Tokonami Takejirō</td>
<td>Yamamoto Tatsuo</td>
<td>Hara Takashi</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ōki Enkichi</td>
</tr>
<tr>
<td>Takahashi Korekiyo</td>
<td>1921</td>
<td>S</td>
<td>Tokonami Takejirō</td>
<td>Yamamoto Tatsuo</td>
<td>Ōki Enkichi</td>
</tr>
<tr>
<td>Katō Tomosaburō</td>
<td>1922</td>
<td>–</td>
<td>Mizuno Rentarō</td>
<td>Arai Kentarō</td>
<td>Okano Keijirō</td>
</tr>
<tr>
<td>Yamamoto Gonnohyōe</td>
<td>1923</td>
<td>–</td>
<td>Gotō Shimpei</td>
<td>Den Kenjirō</td>
<td>Hiranuma Kiichirō</td>
</tr>
<tr>
<td>Kiyoura Keigo</td>
<td>1924</td>
<td>–</td>
<td>Mizuno Rentarō</td>
<td>Maeda Toshisada</td>
<td>Suzuki Kisaburō</td>
</tr>
<tr>
<td>Katō Takaaki</td>
<td>1924</td>
<td>K, S, KC</td>
<td>Wakatsuki Reijirō</td>
<td>Takahashi Korekiyo</td>
<td>Yokota Sennosuke</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Noda Utarō</td>
<td>Ogawa Heikichi</td>
</tr>
<tr>
<td>Katō Takaaki</td>
<td>1925</td>
<td>K</td>
<td>Wakatsuki Reijirō</td>
<td>Kataoka Naoharu</td>
<td>Egi Tasuku</td>
</tr>
<tr>
<td>Wakatsuki Reijirō</td>
<td>1926</td>
<td>K</td>
<td>Wakatsuki</td>
<td>Kataoka</td>
<td>Egi Tasuku</td>
</tr>
<tr>
<td>Name</td>
<td>Year</td>
<td>Group</td>
<td>Comrades</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Tanaka Giichi</td>
<td>1927</td>
<td>S</td>
<td>Suzuki Kisaburō</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>Mochizuki Keisuke</td>
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<td></td>
<td></td>
<td></td>
<td>Nakahashi Tokugorō</td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Hara Yoshimichi</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hamaguchi Osachi</td>
<td>1929</td>
<td>M</td>
<td>Adachi Kenzō</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Tawara Magoichi</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Watanabe Chifuyu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wakatsuki Reijirō</td>
<td>1931</td>
<td>M</td>
<td>Adachi Kenzō</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sakurauchi Yukio</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Watanabe Chifuyu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inukai Tsuyoshi</td>
<td>1931</td>
<td>S</td>
<td>Nakahashi Tokugorō</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Suzuki Kisaburō</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Maeda Yonezō</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Suzuki Kisaburō</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Kawamura Takeji</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

S: Seiyūkai; K: Kenseikai; M: Minseitō
Appendix 2. The Chronological Outline of the 1911 Factory Law

<table>
<thead>
<tr>
<th>Year</th>
<th>Chronological outlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>1882</td>
<td>Research begun within the Ministry of Agriculture and Commerce.</td>
</tr>
<tr>
<td>1887</td>
<td>Drafts completed of two laws regulating conditions of labor for employees and for apprentices; not published.</td>
</tr>
<tr>
<td>1890</td>
<td>In response to public outcry in the Takeshima coal mine, Mining Regulations were enacted which contained compensation provisions and other protective controls.</td>
</tr>
<tr>
<td>1891</td>
<td>Chambers of Commerce circulated with a proposal for factory legislation in general terms.</td>
</tr>
<tr>
<td>1896</td>
<td>General proposals circulated to prefectural governments.</td>
</tr>
<tr>
<td>1896</td>
<td>Opposition to general proposals from industrialists on the newly formed Higher Council for Agriculture Commerce and Industry.</td>
</tr>
<tr>
<td>1898</td>
<td>A draft Factory Law circulated to Chambers of Commerce and debated by the Higher Council for Agriculture Commerce and Industry. To apply to factories with fifty or more workers, banning labor of children under 10, limiting to 10 hours a day the labor of those under 14, requiring educational provision for employed children under 14 who had not finished schooling, requiring two days a month holiday, and payment for industrial injuries.</td>
</tr>
<tr>
<td>1899</td>
<td>A revised draft approved when circulated to prefectural governments.</td>
</tr>
<tr>
<td>1902</td>
<td>New bill drafted and circulated to Chambers of Commerce and prefectures. Application to all factories employing thirty or more workers; the bill never presented to the Diet.</td>
</tr>
<tr>
<td>1909</td>
<td>New bill published and eventually presented to the Diet. Opposition particularly strong from textile manufacturers; the bill withdrawn.</td>
</tr>
<tr>
<td>1910</td>
<td>More detailed bill circulated to Chambers of Commerce, prefectures and employers’ federations. Further revisions made by a special committee chaired</td>
</tr>
</tbody>
</table>
by the leading industrialist, Shibusawa, in the light of their replies.

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911</td>
<td>Bill presented to the Diet. To apply to all factories employing ten or more workers: minimum age twelve; twelve-hour maximum for women and children under 15; no night work for women and minors. In passage through the Diet amended by restriction to factories employing fifteen or more workers, and enforcement postponed for a further five years.</td>
</tr>
</tbody>
</table>

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