CENTRE FOR ECONOMIC PERFORMANCE

OCCASIONAL PAPER NO. 11

March 1996

THE END OF JOBS FOR LIFE? CORPORATE EMPLOYMENT SYSTEMS: JAPAN AND ELSEWHERE

R. DORE

SUMMARY

It is not only in Japan that traditional employment systems are being called into question. It has become conventional wisdom on the OECD conference circuit that we are entering a new era of intensified global competition in which only the most “flexible” firms can survive. “Flexibility” and the elimination of rigidities, particularly labour market rigidities, became, in the mid-1980s, the keynote of prescriptions both for lack of competitiveness and for rising unemployment. Even earlier reservations about the desirability of preserving a “core” of stable, long-serving, committed workers, differentiated from a flexible “periphery” have given way to prescriptions for wholesale “down-sizing”.

There is a flexibility trade off. Concern with labour market flexibility -- especially managers’ ability to hire and fire at will -- is strengthened in the Anglo-Saxon economies by the **in**flexibility of the financial markets they face. Japanese firms, being more insulated from the short-term demands of shareholders, have hitherto been able to afford more “rigid” employment systems from which they gain the advantage of employee commitment and cooperative and flexible attitudes to work.

But today the competitiveness/flexibility concern grows in Japan too. The lifetime employment/seniority-constrained pay and promotion system is under attack. Advocacy of change is common; assertions that wholesale change has already taken place almost equally common. The reasons are to be found partly in the objective situations of many firms after four years of recession, partly in a loss of self-confidence and a “resurgence of the American model”.

Actual change seems in fact to be marginal, but there are a number of grounds for expecting change in the future: value change -- greater affluence, diminished work ethic, and diminished egalitarianism; the possible resurgence of shareholder power; the declining influence of unions; the declining “intellectual quality” of blue-collar and routine white-collar workers; increased inter-firm competition and the reduction of industry cartel understandings; slower growth; low-wage competition, particularly in future from China, and the “hollowing-out” response thereto.

Those who have a stake in Japan’s “employee sovereignty” *jimponshugi*, and would be reluctant to see it slide into just another version of “shareholder sovereignty” Anglo-Saxon capitalism, might be expected to be proposing legislation to bring company law in line with current Japanese reality. Noone seems to be doing so.

This paper was produced as part of the Centre’s
Programme on Business Policy and Entrepreneurship

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MARCH 1996

Published by
Centre for Economic Performance
London School of Economics and Political Science
Houghton Street
London WC2A 2AE

ISBN 0 7530 0469 0

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The Centre for Economic Performance is financed by the Economic and Social Research Council.

This paper was prepared for a conference on Twenty First Century Capitalism at the Institute for Fiscal and Monetary Policy, Ministry of Finance, Tokyo, 16 March 1996.

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Ronald Dore

The world economy may still be a long way from the globalised borderlessness so often celebrated by our futurologists. But the "globalization of consciousness" -- should one call it? -- proceeds apace. Perhaps "globalization of what the Japanese call *joshiki*, conventional wisdom" would be a better way of putting it -- world-wide homogenization of those common assumptions about trends in the political economy of the advanced industrial countries that creep from academic writing, (or the quasi-academic writing of OECD consultants), into journalism and the speeches of politicians until they become a conventional wisdom which dissenting voices, however backed by hard evidence, find it hard to dent.

One such piece of conventional wisdom is the pervasive belief that the intensification of international competition and the accelerating pace of technological change are having -- universally -- a devastating effect on traditional patterns of employment. Here is a typical expression of the thesis in an influential essay by Ralf Dahrendorf which recently became a best-seller in Italy as well as eliciting much comment in the UK:[1]

> ..the global market-place requires some of the same virtues from all. To use the fashionable word, economic actors need, above all, flexibility. Flexibility means, in the first instance, the removal of rigidities. Deregulation and less government interference generally help to create flexibility; many would add a lighter burden of taxation on companies and individuals. Flexibility has increasingly come to signify loosening of the constraints of the labour market. Hiring and firing become easier; wages can move downwards as well as upwards; there is more and more part-time and limited-term employment; workers must be expected to change jobs, change employers, change locations of employment... A career for life will be the exception rather than the model. People will be in and out of work, employed full-time and part-time, in training and retraining...

Picked almost at random is the latest Japanese expression of this conventional wisdom that I have come across -- from a contribution to a symposium on vocational high schools by a director of the Sumitomo Trust Bank:[2]

> Nowadays the number of Japanese companies where the personnel department does general recruitment of graduates and school leavers is no longer more than a tiny minority. There's a tremendous change towards what is, after all, the proper pattern (*honrai no saiyo-keitai*). When they want somebody for sales, they get a salesperson; when they want somebody for personnel management they get a personnel manager. There are vast numbers of mini-businesses and venture-businesses being formed....

Note, there, the *honrai no*, the "proper". It has two senses: first and probably foremost in the mind of a Japanese banker in 1995 "the way things are done in the United States"; second, the way economic textbooks describe the "efficient" working of the labour market.

I. The Evidence?

But what evidence is there that forms of employment are undergoing drastic change in the Western world? The OECD's *Employment Outlook 1993* looked at the average tenure of different age groups, and the pattern of change during the 1980s for nine countries.[3] The country with the shortest average tenure -- i.e., with the greatest job mobility -- was the United States and tenures had become slightly shorter in 1991 than in 1983 for men, though overall just slightly longer for women. The same applied to the UK, though there was no change for the age groups up to 50; all the fall was in the older age groups for both sexes, and probably reflected the effects of the sharp recession of the early 1980s which led to a considerable volume of "early retirement" redundancies. The Netherlands also showed a tendency for average tenures to fall (1985-1990), but from a quite high level; male workers aged 55 and over still had been in their jobs for more than 22 years, and women for nearly 15 years. The country with the biggest increase in average job tenures (1989 compared to 1979) was Japan, a rise of three years -- from 17 to over 20 -- for 50-54-year-old men and from 10 to 12.5 for women in the same age group. Germany -- which shares with Japan the longest overall tenure pattern -- also saw some increase between 1984 and 1990.

More recent evidence from Britain -- up to 1993 -- is derived from the Labour Force Survey and the General Household Survey.[4] Average tenures have continued to decline slowly for men (by 20 percent 1975-1993) while rising slightly for women, but there is an emerging pattern of polarisation; higher income full-time jobs are not becoming more unstable; it is the lower income, particularly part-time, self-employed and temporary jobs which are held for increasingly shorter periods. Instability of employment, in other words, is increasingly a problem for the poor.

To the British statistical evidence one can add anecdotal evidence, and the observations of practitioners as opposed to pundits. The *Financial Times*[5] reported on a number of firms in Yorkshire which had markedly improved their productivity, product quality and sales in recent years, many of them by the deliberate adoption of Japanese management principles -- insistence on cleanliness and discipline, simplification of the pay/job link, *kamban*-type stock control, and so on. The article concluded:

> There was a refreshing absence of the "no jobs for life" mantra in any of these companies. Mr. Bill Chard, regional organiser of the GMB general union, warned that employers who insisted on preaching this doctrine risked indirectly contributing to the economic stagnation that was harming their own businesses. "People who are fearful of losing their jobs are going to be afraid of spending money", he said. "Business needs to be aware of this".

Recent Japanese statistics do not offer evidence of any great shifts in employment practices either. Average tenures of the employed population covered by the wage survey rose through the recession, 1990 to 1994, from 12.5 to 12.8 years, though this has to be looked at in relation to the average age. For university graduates, the increase in the average age and the increase in average tenure were identical -- indicating no change in employment stability. Overall, the average age increased by 0.2 years more than the average tenure which suggests a slight increase in job turnover, mostly concentrated in the high-school graduate category (where there was an increase of one year in age, and of 0.5 years in average tenure).[6]

A similar story -- of changes more likely to be explained by cyclical than by secular structural factors -- emerges from the Japanese statistics for job turnover -- though these are confined to firms with 30 or more workers. In the first year of the recession, 1992, overall job separations fell to their lowest point since 1988 -- an indication that an overwhelmingly large portion of separations has always taken the form of voluntary quits by people who were hoping to better themselves by changing jobs. Thereafter, it depends what survey you use. One[7] shows a continuing decline in separations as the recession continued, another a slight increase[8]. The former gives a breakdown of separations into their various categories. The interesting categories are those which can be interpreted as abandonment by employers of the "lifetime commitment" guarantee. There was, indeed, a slight increase -- 1993 as compared with 1991 -- in the proportion of separations accounted for by disciplinary dismissals and redundancy dismissals; in absolute figures an increase of 76,000 to make a total of just over a quarter of a million for disciplinary dismissals, and an increase of 114,000 to a total of 367,000 for redundancies. These figures, however, have to be set in the context of five and a half million total separations, a total gainfully employed labour force of 64 million, and a total employee labour force of 52 million.

II. The Cult of Flexibility

So if there is little evidence of massive changes in employment patterns, why should there be such widespread talk about the "end of jobs for life"? Why the belief that the intensification of global competition has created an overwhelming need for flexibility which can only be gained at the expense of greater insecurity for employees?

The first answer is a kind of "End of History" answer. It goes like this. The story of the leading Western industrial nations from the beginning of the 20th century until about 1980 was a story of steadily increasing intervention by the state to control the employment contract and the labour market in order to afford some kind of protection to employees. It was a trend of uneven tempo, frequently moving faster under left-wing than under right-wing governments -- the American New Deal and the Great Society; the spate of legislation in post-war Germany and Japan. But the movement was generally in the same direction -- towards what the British jurist Dicey identified at the beginning of the century[9] as a trend away from individualistic liberalism towards collectivism, away from *laissez-faire* freedom of contract back towards "status" -- towards legal constraints on that freedom designed to protect the poor and the weak against the strong and the rich -- in the words of a well-known 1960s version of this "Whig" thesis, the gradual build-up of a "web of rule" with the cooperation of the state, the labour movement and employers.[10]

The concrete expressions of that trend were wide-ranging: legal privileges for labour unions; regulation of hours of work and holidays; health and safety legislation; protection against unfair dismissal; minimum wage legislation, restraints on large-scale redundancies; rules for the employment of the disabled, compulsory unemployment insurance, workman's compensation insurance; social security systems, etc etc.

The apotheosis of this long-term trend came in the 1970s. The growing strength of labour unions (in part attributable to state protection) exacerbated the problems of inflation control. Corporatist attempts to deal with this by gaining union cooperation in wage restraint led to further concessions to the unions, further measures for worker protection.

But what one might, until then, have been forgiven for thinking was a long-run and irreversible evolutionary trend of modern societies[11], proved to be by no means so. The crucial factor responsible for what looks like a long-term reversal of that trend was a sharp political shift in the two Anglo-Saxon societies with the largest concentration of OECD-dominant-opinion-forming economists -- the election of Margaret Thatcher in Britain and Ronald Reagan in the US. They and their supporters had a great deal in common. Both had a strong hostility to trade unions; both rejected totally corporatist attempts to combine growth with inflation control through "concertation among the social partners" in favour of free market bargaining under the strict discipline of a restrictive monetary policy; both believed that the market was a meritocratic instrument which rewarded virtuous enterprise and had an antipathy towards any kind of engineered egalitarianism which might hamper its efficient operation.

What had, hitherto, been seen as "enlightened" labour-protection legislation came to be denounced as "rigidities" which impeded the efficient allocation of labour resources, and hence acted as a brake on general prosperity. Two specific circumstances reinforced the urgency of the attack on "rigidities" which developed particularly in authoritative OECD reports in the course of the decade.

The first was the impact of Japanese competition, particularly in the first half of the decade when the yen was relatively undervalued. The need to restore national "competitiveness" came to be spoken of as a goal which should over-ride other domestic policy considerations; and the main cause of loss of competitiveness -- and hence of slower growth -- was seen to be the rigidities which slowed the response to technical change; the clinging to out-dated "smoke-stack" industries, the inabililty to adopt new production technologies.

The second was the other symptom of "Eurosclerosis" -- the growth of endemic unemployment, and the growing popularity of the view that "labour market rigidities" were exacerbating the employment problem.

There were the *a priori* arguments that high social-security costs, legal restraints on dismissal, or minimum wage requirements were a deterrent to employers who might otherwise take on new workers, and empirical evidence that a large number of indicators of mobility -- the percentage of workers with short job tenures, turnover rates etc -- all showed differences among countries which seemed to be directly related to the degree to which labour market regulations restrict the freedom to hire and fire. Italy appeared as the country with the least movement and the most rigid policy regime. At the other end of the spectrum, the United States and, in Europe, Denmark, came out as the countries with the least regulated system and the greatest movement in the labour market.[12] The fact that the United States, where employers have greater freedom to hire and fire than anywhere in Europe, was also a country with relatively lower unemployment and an impressive record of new-job creation reinforced the argument that the road to curing unemployment lay in the reduction of labour protective legislation.

At any rate the trend-reversal was striking and Europe-wide. As already mentioned, many countries had extended the scope of protective legislation during the "corporatist" 1970s. The last such extension was in France, in the early "socialist" phase of the Mitterand government before its major turn-around. Thereafter, all legislative changes appear to have been in the opposite direction -- relaxation of hiring rules in Italy, the end of control over redundancies in France, and wholesale institutional change in Britain -- the large-scale reduction in trade union privileges, limitations by size of firm and by period of employment on the right to sue for unfair dismissal, much greater freedom to hire and fire on temporary and part-time contracts and so on.

These, then, were the emphases of the rigidity/flexibility debate at the time of its first great flowering in the mid-1980s. A decade later, in the mid-1990s, four things have changed. First, it has become clear that, although, with deregulation of the labour market, the "right of managers to manage" has become more untrammelled in Europe -- certainly in Britain -- than it has been for decades, unemployment rates have not fallen, nor has there been much obvious improvement in the competitiveness of the internationally trading sector. Secondly, it has become part of the received wisdom that there is a clear connection between the lower unemployment rates of the United States as compared with Europe, and the fact that wages for unskilled jobs have fallen much more rapidly in the United States -- income inequality has increased at a rapid rate. An increasing number of the jobs created in the US are "lousy jobs" which would not be created in Europe because of the existence of social security guarantees. A person with few skills is better off being unemployed in Germany than employed in the United States.

And consequently, the third change is the increasing attention being paid to the social security systems themselves. Everybody is "rethinking the welfare state". Few will admit to the intention of "driving" the unemployed into work by cutting off benefit entitlements. That is what most of the proposed changes amount to, but the ostensible emphasis is rather on making the social security system more "work-friendly", reducing the work disincentive effects of the social security net.

But, fourthly, the preoccupation with irreducible unemployment, especially long-term unemployment, has become detached from the concern with competitiveness. In the mid-1980s, the same pursuit of flexibility, the same measures to "free up" the labour market, were supposed to be a cure for both slow growth and slow adaptation to technological change on the one hand, and also for unemployment on the other. Now, flexibility is less discussed as a cure for unemployment; the flexibility debate has moved on to concentrate, rather, on matters of management strategy, with the emergence of business school doctrines of the need for "restructuring", "re-engineering", dividing core from periphery, creating the virtual corporation and so on.

III. The Other Kind of Rigidity

The debate described above was largely about **legislated** rigidities in the labour market. What was not always recognised in the early stages of the debate, at least, was the importance of **self-imposed** rigidities, most fully exemplified in the Japanese firm. By self-imposed rigidities, I mean the acceptance, by managers, of a wide range of constraints on their freedom of action -- lifetime employment guarantees, tight seniority constraints on promotion, acceptance of the need to engineer consent, to maintain close consultation with employees or their unions -- that acceptance of constraint being rewarded by a "commitment" on the part of employees which greatly facilitates the firm's "flexible" adaptation to new technologies and new market opportunities. "Committed" employees, not fearful of dismissal, are more willing to accept a complete change of job function when new technology makes their former job obsolete, more willing to undergo the necessary training; less likely to leave the firm and take with them the investment the firm has made in their training; more willing to accept wage restraint when the firm faces temporary difficulties, etc.

Flexible rigidities[13] -- which spelt out these characteristics of the Japanese corporation (and also of other "rigidities" in the Japanese economic structure like relational sub-contracting) -- was the title of my own contribution to the flexibility debate. But the distinction was already being made in Britain in the form of a contrast between "numerical" and "functional" flexibility. The former was freedom to hire and fire at will; the latter was the flexibility in the use of their time and skills which the manager of “committed” employees can ask of them. And in a Britain in whose manufacturing industry there remained a good deal of shop floor control by unions -- maintained by wage agreements which involved jealously guarded job demarcations -- the value of such functional flexibility was not difficult to recognise. It was further underlined by the practice, introduced by Japanese firms building greenfield sites in Britain, of concluding “single-union agreements” with the amenable electricians union -- agreements which simplified job categories, loosened the connection between wage rates and job functions, and generally removed any possibility of disputes over job demarcation or the authority of managers in matters of work organization on the shop floor.

In the second half of the 1980s, there had emerged something like a consensus on the flexibility issue[14]. Wise management would, indeed, seek to build a **core** labour force of “involved”, “committed” employees -- though there was no consensus as to how far towards Japanese levels of lifetime employment guarantees one should go. But a good deal of the firm’s work could be performed under the supervision of this core labour force by a **periphery** of temporary, part-time and fixed contract workers to whom the firm owed no obligations. Wages of the core workers were close to being a fixed cost, but the cost of periphery labour could be highly variable depending on the economic cycle. In Britain and a number of other European countries, changes in labour legislation which reduced social security charges etc on temporary and part-time labour and facilitated short-term contracts made the core-periphery division more viable.

From there to the restructuring/re-engineering/down-sizing rhetoric of -- primarily American -- business schools in the 1990s was a step in two directions. One was the emphasis on the restructuring of businesses to release shareholder value, which reflected a dominant concern with financial manipulation and largely ignored the effects of restructuring on the “involvement” or work motivations of employees. But it was also, secondly, a development of the core/periphery doctrine -- advocating the whittling away of the core and the expansion of the “flexibly” employed periphery, in some extreme versions to the point of defying the Coase-theorem altogether and reducing the firm to a network of fixed-term contracts -- the “virtual corporation” in the words of a much-quoted paper by Peter Drucker.[15]

IV. Flexibility: Micro and Macro

Such was the background of analysis and rhetoric which has produced the “cult of flexibility” and what the *Financial Times* journalist called the “‘no jobs for life’ mantra” -- but predominantly in the countries of what Michel Albert called Anglo-Saxon capitalism. That debate has been largely about how to manage individual firms -- what one might call micro-flexibility. But there is a rather different question which one might call macro-flexibility: what are the mechanisms, and what determines the speed with which whole economies adjust to changes in technology and changes in market competition -- caused, for instance, by the emergence of low-wage overseas competitors particularly in the production of labour-intensive goods?

Broadly, one can distinguish three types of society-wide adjustment mechanisms.[16]

1. Through the **external labour market**.

Firms in declining industries, firms with obsolete technology, cut back their work force or go bankrupt. The unemployed workers, perhaps after having acquired new skills through training, eventually find jobs in firms in expanding markets -- typically venture businesses started by Schumpeterian entrepreneurs.

2. Through **intergenerational transition**.

Firms in declining industries -- perhaps in some way protected by the state -- decline gradually, reducing their work force primarily by natural wastage, recruiting few replacements. New labour market entrants -- hopefully equipped by the educational system with new skills -- are recruited into the expanding firms in the advancing sectors.

3. Through **intra-firm diversification**.

The entrepreneurship and the venture capital needed to exploit new opportunities and expand in growing markets is provided **within** the declining industry firms, which organically "grow" new business divisions, rather than seeking to acquire them through acquisitions. The new skills required for diversification may be taught to the existing work force as well as obtained through recruitment of new graduates. The firm as corporate entity survives but the nature of its business changes.

The "no jobs for life" thesis assumes -- as do economic textbooks, and most policy-makers in Anglo-Saxon countries -- that the overwhelmingly dominant adjustment mechanism is the first, the external labour market. In Japan, however, the ideal form has been a mixture of the second (in the case of agriculture or small family-firm **sanchi** textiles) and the third. Examples are the shift of the whisky firm Suntory into pharmaceuticals or the various forms of diversification of Japanese steel firms over the last decade and a half -- the moves of Japan Steel, for example, into computer software, silicon wafer manufacture, plant engineering. Not all these moves have been successful by any means, and the speed at which employment can be created in new fields frequently does not match the labour force reductions in the old fields. (Japan Steel recently still had 15,000 surplus workers on *shukko* -- "leased out" to other firms.) But it remains the ideal form of adjustment which firms seek to achieve.

V. Flexibility in Labour Markets; Flexibility in Financial Markets: A Trade-Off

There is one precondition for that diversification mechanism to remain the ideal mechanism for structural adjustment. It requires "patient capital", to use the term which has become common in British debates about short-termism. Japanese firms can make the long-term investments required to diversify, even if that means that they produce low, or even negative profits for several years running. Their managers know that they can do this -- if necessary paying their tiny conventional dividend payment out of reserves as the **average** firm was doing in 1993[17] -- provided they retain the confidence of their bankers, and their suppliers and their distributors who, among them, in most cases make up a majority of their shareholders. And "retaining their confidence" means retaining their belief that the firm's troubles are primarily a consequence of its objective situation, not of mismanagement, **it being accepted** that the constraints under which they manage -- maintaining the lifetime employment commitment, for example -- are unavoidable.

Anglo-Saxon firms face shareholders who are much less forgiving in a very different financial environment. It is a fortunate firm which has a majority shareholder who is interested in the long-term prosperity of the firm -- who has some interest in doing business with the firm which overrides his interest in making a profit out of his shareholding investment. Most firms are at the mercy of fund managers anxious to make sure that their annual performance as earners of dividends and capital gains should show them up well in the fund manager performance league tables which the analysts prepare for investment advisors. When a firm's earnings fall below "the market's" expectations, share prices fall; when share prices fall, thus putting a lower market price on the firm's assets, the possibility of a takeover bid increases, and so does the probability of the bidder offering the shareholders such windfall gains that the bid succeeds -- and with it the probability that a new dominant shareholder will replace the existing management.

Under such tight financial market constraints, it is small wonder, then, that British or American managers seek by all means to keep profit levels as high as they can in a recession, and small wonder that they attach the greatest importance to their freedom to hire and fire -- to cut their wage bills to match cuts in orders and sales.

In short, there would seem to be a **flexibility trade-off**. It is precisely because they face the inflexible demands of shareholders in financial markets that British or American firms need flexibility in their labour markets. And it is because they have flexibly accommodating shareholders that Japanese firms can accept more rigid constraints on their ability to hire and fire.

The difference is, of course, at the heart of the distinction between Anglo-Saxon "shareholder sovereignty" capitalism and Japanese "employee-sovereignty" capitalism, between an economy dominated by financial markets and run predominantly in the interests of the owners of capital (a **true** capitalism, some would say), and an economy which is run more in the interests of the managers and employees of corporations -- what some would call a **deviant or distorted** capitalism.

VI. Change in Japan: Debate and Practice

Those loaded terms "true" and "deviant" can actually be given some legal content, insofar as Japanese company law does specify "true" capital-owner-sovereignty as the basic legal principle of Japanese corporate governance. The actual practical reality which has developed in Japan in the post-war period has so developed in defiance of those legal prescriptions.

That, however, is irrelevant to the moral and political question: which form of capitalism is the **better** one. A decade ago, when Japan was triumphantly recovering from the first big *endaka* shock and resuming the path of vigorous investment, export growth and GNP growth, there was a quite widespread consensus in Japan, (as expressed in English, for example in Morita's autobiography[18]), around the idea that Japanese corporations had strong advantages compared with, say, American corporations -- strengths to be attributed to the loyalty, conscientiousness, innovativeness and flexibility of employees which was part and parcel of lifetime employment, seniority-plus-merit pay systems and promotion systems, and the system of cross-shareholding which insulated firms from financial markets and made these employment practices possible.

But no longer. Although few are as confident about the reality of change as the banker quoted at the beginning of this paper, the view that change must come -- and is desirable -- seems now the dominant one. "The end of lifetime employment"; an end to the "bad egalitarianism" (*aku-byodo*) of the seniority system, and instead overwhelming emphasis on ability (*noryoku-shugi*) seem to be the dominant themes, with the argument that more attention has to be given to the claims of shareholders as a subsidiary motif.

Why this change of mood? One can think of a number of factors.

1. The first and most obvious is the recession and the pressure on profits. Many firms found themselves with large numbers of surplus employees, and managers came to be acutely conscious of the cost of the

lifetime employment guarantee. The problem was exacerbated by the so-called "lump-generation" problem. Many of the superfluous employees were graduates over 45 who had been recruited in large numbers in the early 70s at a time of rapid expansion. They were reaching the age at which -- had that expansion continued at the same rate -- they would now have been entitled to expect a senior managerial post. Many of these have been shunted sideways -- the so-called *shukko* practice of transfer to a subsidiary or dependent supplier, sometimes initially without loss of salary, but usually with eventual full transfer, though sometimes with the compensation of a higher retirement age.

The surplus labour situation has so far only produced frequent assertions of the need to change, but not much change itself. No major firm has announced large-scale compulsory redundancies. Nor do many of the "lump generation", although they may have been forced to move to new jobs with loss of salary, seem to have been pushed into complete early retirement. 1993-1994 participation rates for men have been higher than they have ever been for 55-59-year-olds (94 percent), and higher than since 1982 for 60-64-year-olds (75 percent).[19]

Nor does there seem to have been any strong trend to replace "core" employees with temporary and contract workers who can be more flexibly dismissed. Agency-despatched workers (limited by law to 16 occupations) still make up only 0.2 percent of the work force, and contract workers less than two percent. Part-time women workers have been steadily growing in numbers for the last two decades (now one quarter of all women workers), but the proportion of the work force who are "regular employees" was still (in 1992, at any rate) hovering around 80 percent.[20]

2. A second and understandable factor is the new impetus given to the "hollowing out" process after the shock of the unexpected yen revaluation between April and August 1995. Many firms which were heavily involved with exports or faced import competition decided that they could only survive by moving production overseas to areas of lower wage costs, and that they would have to do it at a pace which would make it difficult to deal with the run-down of their home labour force merely by natural wastage. The subsequent fall of the yen relieved the immediate pressure, but left firms still convinced of the reality of the long-run need to relocate.

3. But there seem to be other less concrete psychological factors involved too: a whole syndrome which might be called "the resurgence of the American model". Recall the *honrai no* of the banker quoted on the first page. The idea that the way things are done in America is the "proper" way of doing things has been a recurrently pervasive one ever since the post-war occupation period. The self-confident assertion "we have it better" has always been tinged with a slight air of bravado. That bravado has been more easily forthcoming when the economy has been bounding ahead, and never more than in the late 1980s when Japan seemed poised to displace American dominance in one field of high technology manufacturing after another, and the Americans themselves showed an enormous appetite for books which told them they were no longer Number One[21].

In the 1990s, however, the picture has looked different. The American comeback -- in semi-conductors and the manufacture of equipment for the making of semi-conductors -- and the strengthening of the American lead in other fields like micro-processors and software, aerospace and pharmaceuticals, and at a time when Japan is mired in depression, has changed the mood in both countries. The *Wall Street Journal* runs frequent triumpalist features on the end of the Japanese miracle, and Japanese self-confidence has evaporated. Silicon Valley and "venture business" have now become the admired model. Few cling to the belief that Japan's alternative -- the entrepreneurship of the managers of giant corporations and the provision of risk capital out of the reserves of those corporations -- can in the long-run compete. And Japan cannot develop its own venture business until the lure of the giant corporation is destroyed and those corporations cease to capture the best and brightest of every generation of science graduates in order to turn them into loyal lifelong salarymen.

Two other factors have favoured this "resurgence of the American model". One is external pressure -- *gaiatsu* from foreign, predominantly American, trade negotiators claiming that Japan's "deviant" form of capitalism is, indeed, unfairly deviant and a detraction from the open reciprocity which every trading nation owes its trading partners in an increasingly integrated global economy. The legislation which recently made it much simpler for shareholders to sue Boards of Directors for losses caused them by negligently inept decisions is an example of a legal measure designed to pull the system towards the shareholder-sovereignty pole and one which sprang directly from American pressure during the Structural Impediment Negotiations at the beginning of the decade.

The other is the growing diffusion in Japan of the ideology of American free-market capitalism and individualistic competition. It is mediated, first, by the growing number of Japanese managers sent by their firms to spend a couple of years at American business schools -- a flow considerably increased since yen revaluation reduced the costs of doing so. Once, Japanese managers went to American business schools to learn how the American mind ticked, in order to better cope in dealing with Americans in world markets. Now the Japanese manager is more likely to come back brainwashed and convinced of the need for Japanese firms to become as efficient as their American rivals. The influence of these managers -- large Japanese corporations now count their MBAs in their hundreds rather than their tens -- is reinforced by the growing influence in the media, in the business magazines and television commentaries, of economists who acquired their PhD in American graduate schools and are "true believer" adherents of the free-market-competition-is-the-only-route-to-efficiency doctrines of neo-classical economics.

Those doctrines have four dominant manifestations in contemporary Japanese discussions.

a) The demand for deregulation and the introduction of freer competition in all those (predominantly non-tradables) sectors of the economy where regulation and tolerated cartelisation and dampened competition have preserved high levels of employment -- i.e., low levels of productivity and of efficiency. That the cost of giving the sovereign consumer his higher levels of efficiency, and hence cheaper and better products, is likely to be European levels of high unemployment -- unemployment affecting a significant proportion of those same sovereign consumers in their role as producers -- is not thought to be important, except by a small dissident minority[22].

b) Deregulation particularly of financial markets, at the expense of the relational banking which has been one feature of the system which has hitherto insulated Japanese corporations from shareholder pressure.

c) The development of free and active labour markets in which people are hired for their established specialties and dismissed when they are not needed -- thus securing a better match of skills to jobs and avoiding the wastefulness of the concealed unemployment which observance of the lifetime employment guarantee currently entails.

d) An end to the bureaucratic seniority-constrained career-management practices of Japanese large firms and replacement by interpersonal competition, performance-related pay and promotion by merit alone and not by seniority.

This last call -- for the replacement of the *nenko* system by *noryokushugi* -- has been a recurring one for at least the three decades that I have been intermittently studying the personnel practices of Japanese companies, but it is certainly more strident in recent years than it has ever been before. My impression is, however, that, although there have been one or two spectacular deviations from traditional practices -- such as the recent Sony decision to remunerate Board-level executives partly in American-style share options -- in most corporations the "shift to *noryokushugi*" has meant only marginal changes in promotion practices -- for example shifting from the tenth to the fifth year of employment the point at which a cohort of new graduate entrants starts to get salaries differentiated according to performance and not all of the same amount, or a lowering of the conventional minimum age for appointment to the rank of section or department chief.

Unfortunately concrete data on changes in individual firms' practices are hard to come by. A recent Japan Productivity Centre publication[23] seeks to measure change by looking at the wage spread of graduate managers across the whole economy. Whereas, to take 50-54-year-old graduate managers, in 1981 the ninth decile manager's salary was 12 percent higher than that of the median manager, and the first decile manager was 36 percent below, in 1993 the figures were, respectively, 30 percent and 27 percent. In other words the top-to-bottom percentage spread had increased by 9 percentage points but the median had shifted sharply downwards within that spread. This, however, conflates differences within firms with differences among firms, and is also obviously affected by the expansion in graduate ouptputs that occurred in the 1950s and 1960s, probably implying a rather greater spread in the natural-ability range of graduates. Another national-average statistic which the report quotes is the seniority wage premium for graduates, comparing 1993 with 1975. At all tenure categories up to those with 25-29 years' service the premium had slightly diminished -- those in that last category, for instance, were getting 2.2 times the current starting salary in 1975, but 2.15 times in 1993. Beyond that, however, the premium had increased. For those with over 35 years' service what had been 2.2 times the starting salary had become 2.5 times. A possible explanation, as the report suggests, is that in recent years less able older managers have more frequently been shunted out into *shukko* positions, leaving only the more able managers to be counted. In any case, the differences are marginal. And as for accelerated promotion, the national wage survey which cross-tabulates rank and age shows clearly that any changes in innovative companies' practice are entirely overwhelmed by the effects of the maturation of the system -- slower growth means having to wait **longer** for promotion. See the following table for firms with more than 1000 employees:

TABLE 1

Occupants of Selected Ranks by Age Group (%)

	Sub-Section Chief (Kakari-cho)			Division Chief (Bucho)		
	Under 35	35-39	40 or over	Under 45	45-49	50 or over
1976	31.8	31.9	36.3	24.5	31.1	41.4
1984	18.3	33.1	48.6	12.5	37.3	50.2
1994	16.4	23.5	60.1	7.6	27.8	64.6

Source: Chingin kozo kihon chosa (Basic Survey of Wage Structure), various years.

VII. Prospects for Future Change

So one is forced to conclude that all the brave talk about fundamental change in the system has so far failed to materialize in anything more than marginal changes in practice. Will it always be so? There are several reasons for thinking that the system really is under genuine pressure, and that slowly, over the long-run, it may change -- and in an American direction. I list below some of the major factors at work.

1. The first is **affluence and the change in values**. Pick up any Japanese weekly magazine and one will find demonstrated the truth of Daniel Bell's *Cultural Contradictions of Capitalism*. Work plays little part in the life-styles they celebrate; spending plays an enormous part. For the generation now in their fifties, the competition to get into a "good firm" was intense; the difference that it made to one's life chances, to one's position in society, to one's ability to satisfy the ambitions of one's self-sacrificing parents, made the effort worth while. And if one succeeded, one was not going to jeopardise one's luck by being anything other than a model employee. Now, the difference between the first prize and the consolation prizes is not so great. Those who have "made it" into a good firm are not so grateful. Managers cannot expect of them quite the same sacrifices as they could of their parents. *Tanshin funin* -- being "posted"

to a distant part of Japan or the world without one's family -- used to be taken for granted. Now it is written of as gross disregard for personal rights. *Karoshi* -- death from overwork -- used to be an occasion for mourning the loss of a loyal comrade whose physique was not quite up to the work load that everybody was undertaking. Now, it is something for which the family gathers evidence in order to sue the over-demanding employer. Sensitivity to foreign criticism that the Japanese compete unfairly by working too hard has produced official targets for reducing the work week from over 2,000 to 1,800 hours a year -- for the workers whose work hours are counted because they are paid overtime. But the real over-workers were, and still are, the university graduate staff whose work hours are not counted. It was their willingness to work through several weekends running when a new product was being rushed to the market which was a major factor in producing the competitive edge which Japanese firms held in world markets. That willingness to sacrifice personal and family life is surely diminishing in the world of the leisure boom.

But it has not, by any means disappeared. Nor does it seem that the examination rat-race which occupies those crucial teenage years when Japanese men and some Japanese women acquire those habits of diligent application which they subsequently carry into the workplace is much diminished in intensity. The best statistical indicator is probably attendance at the cram schools, and taking an extra year or more between high school and university in order to get into a university higher up the prestige scale and hence, eventually, into a better job. Neither index shows any marked decline.

So shift in work values there might be, but it works slowly and has not yet reached the point at which managers might calculate that the "dedicated diligence" pay-off bought by the lifetime employment guarantee is no longer worth the cost.

Another part of the value system, besides the work-leisure balance, which is under attack is **egalitarianism**. The key words here are those already mentioned: *aku-byodo* -- "bad equality" and *noryoku-shugi* -- meritism, the subject of much discussion in management magazines. What does seem to be lacking in such discussions is concrete indications of what *noryoku-shugi* should mean in practice. Managerial careers were always governed by a mixture of seniority and merit, so how should the mixture change? Should the salary spread among managers with, say, 20 years seniority ideally be 30 percent? Or 40? Should bright and able young people be appointed to section chief positions in their mid-20s? Equally rare seems to be any discussion of why the "wisdom of the ages" produced the seniority system in the first place, and what might be its advantages in maximizing cooperative activity and the propensity to strive for organizational rather than personal goals. Economists have sought rationalizations for the seniority promotion system in terms of "rank-order tournaments"[24] -- rationalizations in the sense that they explain the efficiency of the system via its power to evoke effort in a **purely self-interested** every-man's-hand-against-his-fellow competition. What they leave out is the paradox that one wins out in this promotion competition precisely by exhibiting not just skill and diligence, but also unaggressively, uncompetitively **cooperative** behaviour.

But promotion systems are planned not for the economist's abstract universal individual, but for particular types of individuals with the particular sentiments, the particular mix of selfishness and altruism, of pushiness and cooperativeness which count as normal in their society. And those sentiments can change. The generation of CEOs just retiring were often "men of the people". They may have got to Tokyo Law School but from families where no one had been to a university before, and from primary schools at whose reunions they continued to meet childhood pals who now worked on the shop floor. A number of them had first shown their leadership qualities and initiative as leaders of their firm's militant post-war union. The future CEOs now in their twenties are more likely to have been segregated from future shop-floor workers at the age of 11 into one of the elite selective schools, and far more likely to be the son of a professional or managerial worker with a good university education. A few generations of genuinely meritocratic social selection with a very high degree of equality of educational opportunity is likely, by genetic as well as cultural and economic processes, to produce an ever-more-exactly self-reproducing class system. That sense of social solidarity which underlies the egalitarianism of postwar Japan is a diminishing asset. **Transmitted greed** -- envy of the vast salaries of American CEOs -- is still only occasionally admitted to, but it would be unwise to discount its force. So far, however, any such process seems to be glacial. If one looks at the summary tables for the division of value added in Japanese companies, it seems that, in 1985, the nearly four and a half million Japanese executives (Board members and above) were, on average getting a salary (including bonuses) only 34 percent larger than the average employee member of their companies' 31.4m workforce. In 1994, (by which time the relative numbers were 5.7m and 38.5m.) it was 42 percent larger. For manufacturing, (where the numbers of executives increased by 12 percent and of other employees by only four percent) the increase was from 43 to 48 percent.[25]

2. The second factor is the possible **resurgence of the shareholder**. Several factors would seem to promote it.

a) Pressure from the American government in trade talks. I have already mentioned as a factor behind the resurgence of the American model the change in the law concerning shareholders' rights to sue directors. So far, it has to be said, few people who have taken advantage of these regulations seem to have had any spectacular success.

b) Pressure from foreign investors. CALPERS, the Californian pension fund, has taken to presenting the companies whose shares it holds with comprehensive memoranda on how they should pay out more in dividends.

c) Pressure from Japan's own life insurance companies which are faced with a changing balance between premium accumulation and pension pay-out, and want more in the way of dividends, now that the bursting of the bubble has destroyed the twenty-year myth that the stock market would deliver capital gains for ever and for ever.

d) All these pressures grow with the progressive internationalisation of financial markets. The prospect of an ever-rising yen has helped to keep Japanese capital at home. Better 4 percent in yen appreciating by 5 percent a year, than 8 percent in correspondingly declining dollars. But how far can the yen detach itself from its purchasing-power-parity moorings? When will expectations of a continuously rising yen finally cease? At 70 yen to the dollar? Or 50?

e) The ideological influence of the MBAs and American-trained university professors already mentioned, having the effect of increasing the number of articulate people in Japan who firmly, even fervently, believe that Americans and all their text-books have got it right, and that proper capitalism is capitalism run for capitalists.

f) And they have the law on their side. Remarkably few of the Japanese who think their system has superior merits to the American, give any thought to legal changes which might help to entrench it.[26]

3. What, no labour movement? Surely, if any group should be seeking such legal changes to consolidate the advantages for employees which Japan's "employee-sovereignty" form of capitalism represents, it should be the labour unions. The major unions, representing two-thirds of all union members, are now integrated in a single national federation, Rengo, which has been accepted as part of the Japanese Establishment; it enjoys regular consultations with top officials of the main ministries, is courted by all political parties, nominates members to government commissions. But, as compared, say, with German unions, both its power -- and perhaps, even, its leaders' inclination -- to act as an independent champion of the interests of those they represent seems close to zero. Union leaders who have risen to prominence in their home union because they are willing to negotiate under the ruling assumption that the needs of "the company" are paramount, become national leaders who accept that the needs of "the Japanese economy" are paramount. And if that means getting rid of "bad egalitarianism" and giving more attention to "merit" as a means of strengthening Japan's competitiveness, so be it. And if it means mollifying the Americans in order to keep American export markets open by, for instance, changes in the law to strengthen the power of shareholders, then they are ready to accept it.

And if a major Japanese company decides that it can observe the lifetime employment guarantee no longer, (even in the acceptable attenuated form which permits the *shukko* redeployment-outside-the-firm of older workers), and decides to take on its union and force through compulsory redundancies, does Rengo have the will and the organizational strength to mount effective resistance? Probably not.

One factor is clearly the disappearance of the fire-in-the-belly socialist or communist beliefs which inspired the post-war union leaders, and it is probably also the case that there are fewer union leaders with the intellectual and moral stature of their post-war predecessors.

4. Change in the quality of union leadership is a matter for speculation. What does seem certain, however, is that the immense change since the war in the social selection mechanisms of Japanese society -- the way the schools, develop, select and label talent -- has had an effect on the **intellectual quality of blue-collar and high-school-graduate white-collar workers** which may well in the long-run cause managers to place less value on their contributions to the firm and consequently make managers less inclined to give them the consideration, and to grant them the guaranteed place in the company, which they have hitherto enjoyed. The argument is as follows.

Even in 1950, national university fees were low and the competition to pass entrance examinations was fierce, so it is probable that, if one could measure "native ability", the 10 percent or so of 20-year-olds who were in universities -- the group from whom the senior board members of today's corporations are drawn -- were at least among the most academically able 30 percent, the quickest and sharpest 30 percent, of their age group. But the universities certainly did not enrol all the quickest and sharpest. A good many of the brightest and best -- top decile people by any likely measurement -- left school at 15 to support the finances of families never far from poverty. Often they were among those selected by their teachers for recommendation to the recruiters from the leading companies of the land. It was from their ranks that were drawn the often-activist leaders of enterprise unions in the 1960s and early 1970s, and it was they, as foremen, who became the fertile and innovative leaders of quality circles and continuous improvement teams in the 1970s and 1980s; alert, self-confident, able to talk on equal terms with graduate managers and technicians, but not, in Japan's credential-driven society, resentful of the fact that their educational history put an ineluctable ceiling on their promotion.

In today's more affluent, all-middle-class Japan, with university enrollment rates more than tripled and the aspiration for a university education diffused to practically every family in the land, children of that relative ability level go straight through university into the managerial ranks. There are unlikely to be many of them among the blue-collar workers on the shop floor. Will those who do become blue-collar workers continue to be as highly regarded as valuable "members of the firm community"?

5. The fifth factor is **slower growth** (with the exhaustion of the technology catch-up factor and the agriculture/industry transition process which produced the earlier high growth rates.) It is easier to run a Japanese type personnel system in a corporation when there is a constantly expanding youth-recruitment base to one's pyramid -- easier to motivate middle-managers with relatively good prospects of promotion, and easier to maintain a low average wage. This is essentially the problem of the "lump generation" already discussed, but perhaps a problem not as specific to that particular generation as is usually supposed.

6. The increased **openness of the economy, the decline of bureaucratic influence and less cartelisation** is another factor, affecting traditional forms of regulating competition. Recession cartels can hardly work any more because there are too many "outsiders" to the agreements who can no longer be persuaded to restrain imports and so make agreed domestic production cutbacks work to raise prices. Deregulation is increasingly evoked as a necessity to improve the economy's competitive position. The Fair Trade Commission has been goaded by foreign criticism into breaking up the *dango* cartels by which bureaucrats regulated competition between major construction companies in ways which they could argue served the public interest as well as that of the political parties which benefitted from the slush funds generated. This intensification of competition may well make it harder to maintain traditional employment practices. The five big steel firms were able to take the costly route of running down their labour force without breaking the lifetime guarantee

because they **all** agreed to do it; none sought competitive advantage by being tougher on their workers. The relationship among them was well exemplified when Kobe Steel was hit by the earthquake. The other firms agreed to take over its customers, but to give them back as soon as the plant was repaired. The relationship may not always be thus.

7. An unpredictable factor is the future of **the technology race** between the competing Japanese and American styles of R&D and new product development. One element in contemporary Japanese pessimism is the belief that the American style -- Silicon Valley and Venture Capitalists, high mobility both of ideas and of people, the rise of a Wang or a DEC or an Apple in this decade, their near-collapse in the next -- is superior to the Japanese style -- patient work by talented teams, trained within the firm and committed to careers within it, financed by giant and highly stable corporations with greatly diversified research portfolios. That remains, however, to be proved. A recent careful study[27] of the way DRAMs are developed in Japanese and American firms, suggests that the advantages of each approach are fairly evenly balanced. If in the long-run the overall picture does appear different; if America continues manifestly to increase its lead in commercial technologies over Japan, this will certainly induce pressure for change in Japan's corporate system. One thing to note, however, from the study quoted. Producing a generation of Bill Gates and risk-taking venture capitalists may well not be enough. An essential part of the American system is the **public good** provided by the university system -- the large flow of science PhDs who acquire in their university labs the knowledge and the innovative ideas which they take into their firms, but which Japanese researchers acquire **within** their firms after they have been recruited at a much younger age, as BAs or MAs.

8. The **intensification of low-wage-cost competition** is a final factor to be taken into account. Japan broke into world markets when it reached world levels of technological expertise and quality at a time when its labour was still cheap. China is moving rapidly into that same position. The last four years have shown that Japanese companies can still afford to keep large work forces on their books even if the labour of many of them could be dispensed with without loss. The system can survive a prolonged

cyclical shock. But sustained pressure on prices of low-wage competition may in the end have an erosive effect. The hollowing-out process of relocating overseas, is one form of threat to the traditional system. Staying in Japan, but continuously restructuring to cut costs is another. I am reminded of the remark of the former manager of a Phillips subsidiary: "Phillips used to be a very Japanese sort of firm; we looked after our employees and didn't have to watch every penny -- until, that is, we had to struggle to survive Japanese competition." Perhaps, in twenty years time, one will hear Japanese managers saying: "We used to be a very Chinese sort of firm -- until we had to meet Chinese competition."

VIII. Conclusion

One would need to be very wise, or very foolish, to predict how these factors will play over the next decade, let alone over the next quarter-century. I conclude with one general point. It is often said that lifetime employment and seniority-constrained promotion systems are the exclusive preserve of a privileged elite, and that that elite is diminishing in size. What count as "good jobs" -- in government service, banks and the 924 firms quoted on the first division of the Tokyo stock exchange -- now make up 16.5 percent of employment compared with 25.4 percent in 1970, according to one calculation[28] which, however, admits that many non-quoted firms, the newspapers, mutual insurance companies ought to be added to any list of what the graduates of elite universities consider "good jobs". But, as the numerous whole-economy statistics quoted in this paper -- for turnover ratios, tenures, age-wage progressions, executive/employee remuneration ratios, etc -- the firms with the "good jobs" set the norms for the whole economy. And even small employers, if they wish to retain the cooperation of their workforce and the respect of their fellow-employer reference groups, find those norms constraining. As mentioned already, the difference in turnover rates between small and large firms does not primarily reflect a difference in "hire and fire" practices, but the much greater prevalence in small firms of voluntary quits. Those who have "good jobs" stick with them. Small firm employees very often can better themselves by moving.

If change is to come, then, it must come in the norm-setting "good job" sector. Which is also the sector in which most firms have unions which have hitherto been quite effective in restraining any tendency on the part of managers to break with traditional practices. Whether the clearly declining bargaining strength of the enterprise unions in wage negotiations indicates a similar decline in their power to resist changes in the basic features of the employment system will obviously be a key factor when the next recession again puts the system under maximum strain.

In all its essentials, the Japanese employment system has survived the present recession. Next time -- ten years from now, say -- its survival may be more problematic.

ENDNOTES

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