The great transformation of Japanese capitalism

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The puzzle (1/2)

- Financial and employment systems in East Asia and Europe have experienced decades of reforms (liberalization, deregulation, privatization, etc.). Mainly inspired by the US experience, their aim was to improve the efficiency of financial and labor institutions by giving more place to market mechanisms.
While the importance of institutional changes is not the same in all these countries and is still sometimes a matter of debate, what is the most striking is that the process of liberalization did not lead always to the expected results:

1. As a whole, we do not observe a straightforward convergence towards the US system
2. Within each system, an increasing corporate diversity has accompanied the process of liberalization
3. In many cases, reforms did not lead to an overall improvement of efficiency but rather to more economic instability
Purpose

- The purpose of this presentation is to understand why structural reforms did produce institutional and corporate change but not in the directions that were thought by the promoters of the reform.

- We do so by focusing on the particular case of Japan.
Why Japan? – a successful alternative

- The first non Western country that have experienced a successful development in modern times (from Meiji period – late 19th century)
- A country that has almost overcome the US in the 1980s with a different organizational & institutional model as well as specific strategies of innovation and internationalization

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Why Japan? – Economic policies

- In this process, the important role of the “developmental state” has been emphasized (see Debanes & Lechevalier (2014) “Towards a revival of the developmental state?”, *Critique Internationale* (In French))
- 30 years of structural reforms – a typical case
- The issue of change
- Abenomics:
  1. Beyond austerity: monetary and fiscal policies
  2. Attempt to articulate them with structural reforms
What are the links with the EPOG program?

- Economic policies in the age of globalization: at the center of economic debates in Japan for 30 years
- Lost decade in Japan: failed adaptation to new waves of globalization and technical progress?
- Beyond Europe and the US: looking at the diverse Asian experiences
- (Globalization and rising inequalities: next presentation)
A book & a research program

- Research network on Asian capitalisms within SASE (Society of the advancement of socio-economics)
- *Finance and Employment in Asia: connecting Institutional change and corporate diversity* (with Takeo Hoshi (Stanford), Greg Jackson (FUB), Hideaki Miyajima (Waseda), Mari Sako (Oxford), Yves Tiberghien (UBC))
Appetizer: about the myth of “Japan that never changes”

- 2 types of argument are supporting this “vision”:
  1. Cultural interpretation of Japanese capitalism (e.g. Michio Morishima)
  2. Misuse of international comparisons: existence of one best way, normative recommendations, but stating the (frustrating) absence of convergence, and concluding about the stability of the “model”

- Three antidotes:
  1. Learning from historians
  2. Building up a concept of gradual (or incremental) institutional change (e.g. Streeck & Thelen, 2005)
  3. Combining micro and macro studies
Motivation: challenging the dominant vision about *Arthritic Japan*

- **Dominant vision** – the fact that the Japanese system has not well adapted itself to a new environment explains the poor performance of the Japanese economy since the early 1990s:
  1. Decay of Japan (whose symbol would be demography)…
  2. …because of the absence of reforms ("Arthritic Japan", Lincoln, 2001)…
  3. …in a new environment characterized by new phases of *globalization and technical progress*, which make necessary a radical reform of the former model

- This vision of Japan is similar to a certain vision of Europe ("eurosclerosis")…
The *great* transformation??

- Beyond the apparent paradox, the key methodological issue is the following:
  
  **How to analyze change**
  (its reality, its intensity, which indicators, speed, causes, direction, etc.)?

- Example of question: Does the absence of convergence toward liberal capitalism mean absence of change?

⇒ **Understanding the Japanese trajectory from the early 1980s by analyzing the institutional changes that have characterized this form of capitalism at different level**
Three questions addressed by the book

- **Q1:** Has the Japanese capitalism significantly changed from the early 1980s?
  ➔ Micro/macro paradox

- **Q2:** Has it converged towards another form of capitalism?
  1. Dore: convergence towards the Anglo-Saxon capitalism;
  2. Europeanization of Japanese capitalism (low growth, Ice age of labor market)?
  3. Hybridization (Aoki, 2010)? Problem: the concept of “hybrid” is only a measure of what we do not know…

- **Q3:** What have been the engines for change?
  ➔ A functional answer to the crisis?
Methodology: political economy of institutional change (1/2)

- An attempt to combine different political economy approaches:
  1. Importance of corporate level analysis & of coordination (Hall & Soskice, 2001)
  2. Importance of (corporate among others) diversity in the process of change (Nelson, Dosi)
  3. Concept of gradual institutional change (Streeck & Thelen, 2005);
  4. Institutions as political compromises (Amable, 2003; Boyer)
Methodology: political economy of institutional change (2/2)

- A mid-long term perspective (at least since the end of the 1970s);
- Beyond functionalist approach of institutional change: it does not always correspond to a progress or to the answer to a crisis;
- Founding hypothesis (Streeck & Thelen, 2005): the concept of liberalization can by itself capture the dynamics of institutional change since the early 1980 in most of advanced economies, to some extent;
- How to analyze this process? Focusing on the deregulation and structural reform policies and their impact at various levels: firms, forms of coordination, social compromise, and beyond (e.g.: education)

(Depending on the level one considers, conclusions may be different)
3 results

1. Japanese capitalism has changed since the early 1980s, in a gradual way but significantly.

2. It has converged neither towards Anglo-Saxon capitalism nor European capitalisms.

3. Neoliberal reforms introduced since the early 1980s (and justified by a certain analysis of globalization and technical progress) have been the main engine of change, among other causes.
Contents

- The “classical” Japanese capitalism
- 30 years of Neoliberal reforms in Japan
- The great transformation
- Japanese lessons
The “classical” Japanese capitalism
What is the ("classical") Japanese model? (1/2)

- Different levels of definition:
  1. The firm level
  2. Meso- and macro-economic levels
  3. The social **compromise** (*outside the firm*)

- The Japanese model, like any economic model, is not static but in **permanent evolution**: this “classical” Japanese capitalism, whose Golden Age is in the late 1970s and the early 1980s, is itself the product of a certain history at least since the WWII
  ➔ limits of two types of interpretations of the Japanese capitalism: “economic-universalist” and “cultural”
What is the ("classical") Japanese model? (2/2)

- A form of capitalism, which is:
  1. Greatly decentralized;
  2. Coordinated;
  3. Segmented.
At the firm level

- Major Characteristics:
  1. Long term relations between stakeholders
  2. Whose goal is the maximization of firm’s growth (even more than the short term profit, which is also included in the objectives function of the firm)

- Do not underestimate the differences between firms (depending on their size, the sector they belong to, etc.)
Private and public coordinations

- Introducing the concept of coordination

Concrete forms in the Japanese case:
1. **Keiretsu**: type of conglomerate, centered on the Main Bank;
2. **Sub-contracting**: not typically Japanese but more developed in Japan and with a specific logic;
3. **Shunto**: Spring wage offensive (coordinated rise of wages depending on productivity gains; coordination between the firms at the sectoral level and between unions and employers)
4. **Industrial policy**: R&D consortia, coordinated by MITI;
5. **“Bureaucratic pluralism”**: within the administration, representation of different regional and sectoral interests;
Social compromise

- An egalitarian compromise (Middle-class society) but segmented (LE/SME; m/f, etc.);

- Centripetal tendencies of the post-war compromise centred on the large firms of the manufacturing sector: inclusion, through the coordination forms and under certain conditions, of SMEs, blue-collar workers, non regular workers, women, young people, retired people and persons who are facing various risks covered by social protection, peripheral regions
30 years of Neoliberal reforms in Japan
What is neo-liberalism?

- Avoiding any normative discourse...

- A set of policies implemented from the late 1970s-early 1980s, whose objective has been to transformed the post-war capitalism, itself deeply influenced by the Great Depression experience.

  “(...) neo-liberalism has been a political project concerned with institutional changes on a scale not seen since the immediate aftermath of the WWII and a project that attempted to transform some of the most basic political and economic settlements of the post war era, including labor markets accords, industrial relation systems, redistributive tax structures, and social welfare programs.”

How to analyze the effects of neoliberal policies on the Japanese system?

- **A chronological perspective** in order to highlight the most important evolutions – chronology is a key in our argumentation (structural reforms have not been a late answer to the crisis but have introduced before the it and are a good candidate to explain it)

- Not a history of neoliberal ideas in Japan but an analysis of their incarnation in a set of **politics**, whose effects should be carefully investigated:
  1. Focus on the “structural reform” (deregulation, privatizations, etc.)
  2. An analysis market by market (finance, goods, labor)
  3. An analysis that should go beyond the economic sphere (education, consumption, reproductive sphere, including welfare and family, etc.)
Specificities of the Neoliberal transition in Japan

- A neo-liberalism without neoliberals?
- Paradoxical effects: no convergence towards liberal capitalism
- 2 identifiers:
  1. Contents of the reforms;
  2. Justification of the reforms (globalization & technical progress; crisis)
Chronology: a non linear process

- Stop and stability (1987-1996)
- Gradual structural reforms in all direction: Hashimoto, Obuchi, et Koizumi (1996-2006)
Policies that have been implemented (1/2)

- A very “classical” program of neoliberal reforms:
  1. Progressive deregulation of financial markets, goods markets, and labor market;
  2. Privatization of key firms and institutions (NTT, JR, JAL and Japan Post);
  3. Downsizing of the public sector (already relatively small by comparison to France for example);
  4. Reform of the fiscal system (influence of Reagan type policies but soft implementation)
Policies that have been implemented (2/2)

- These policies also aimed at drastically changing the ideological foundations of institutions such as the firm, the family, or the school.

- This set of policies has therefore led to a redefinition of the role of market by comparison to other institutions.

- A problematic and eclectic implementation that lacked coherence:
  1. Numerous cases of counter-reforms and of costly compensatory policies
  2. Partial reforms, strategically introduced during a short time span
Interpretation: the leading forces of the reform (1/2)

- Competing hypotheses:
  1. Exhaustion of the classical model and functional answers to its crisis;
  2. American pressures;
Interpretation: the leading forces of the reform (2/2)

- **Our own interpretation:**
  1. Domination of the political logic on economic rationality that would aim at making the system more efficient;
  2. The first structural reforms have been introduced at the time of the climax of the classical system (before than pressures from globalization or a new technological environment could be felt);
  3. Illusory attempt of institutional catch up after the success of the economic catch up (Nakasone);
  4. Financial deregulation: less the product of an ideology that of a political trade off between diverging interests (banks, large firms, SMEs, insurance companies) and of foreign pressure.
Which results? Which effects? (1/2)

- Results by markets and domains:
  1. Finance: relatively complete reforms;
  2. Goods market: uneven reforms, depending on the sectors;
  3. Labor market: less “revolutionary” and slower reforms (because of initial conditions) but long lasting and dramatic effects;
  4. A paradoxical evolution of the role of the State: withdrawal but increasing control in some domains (see Steven Vogel)
Which results? Which effects? (2/2)

- Effects:
  1. Deregulation and financial bubble: a typical case of dramatic failure of market type coordination
  2. Political success of the privatization of JR: collapse of sohyo
  3. Success of wage moderation policies from the viewpoint of the competitiveness of firms but with a very high social cost
The great transformation
Changes at the corporate level

- This is not the end of the Japanese model of the firm…
- Increasing **discrete** heterogeneity of performance and organization at the micro level;
- How to study the changes at the micro level: case studies, studies at the aggregate level, **panel data**
- Which are the competing models (Aoki et alii, 2007)?
  - J, Hybrid 1, Hybrid 2, no “pure” Anglo-Saxon model
Evolution of the labor productivity in the non manufacturing sector (Ito & Lechevalier, 2009)
Another indicator of the increasing diversity of Japanese firms: evolution of the downsizing speed (Lechevalier, Dossouguin, Hurlin & Takaoka, 2013)

- Panel of 658 listed manufacturing firms extracted from NEEDS & JDB database (1992-2011)
- Labor demand and employment adjustment:
  \[ \Delta \log(L_t) = a_0 + a_1 \log(Q_t) + a_2 \log(w_t) + a_3 \log(L_{t-1}) + \theta_t \text{ if } \Delta \log(L_t) < 0 \]
- Result: Decrease of average downsizing speed but increasing dispersion of individual speeds with important implications for workers
The paradox of liberalization (institutional change) and increasing diversity of firms

- Most of public policies, which have been introduced in Japan and elsewhere and whose aim was to make the environment of firms more market based, have led to an increasing diversity of firms’ organization, i.e. no convergence towards the model of firm’s organization that they had in mind.
Decay and revival of coordination forms

**DECAY**
- Towards the end of *keiretsu*?
- “Fluidification” of subcontracting relations
- Decay of *shunto*
- Putting into question the very founding of industrial policy
- Decay of “bureaupluralism”

**REVIVAL**
- Revival of the holding structure and new type of cross-shareholding
- Fragmentation of the production in Asia
- Nothing replaces *shunto*
- Innovation policy and new forms of R&D collaboration
- “Bureaupluralism”, revisited

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Coordination & crisis

- This is not the excess of coordination which is responsible for the crisis (Witt, 2006) but the lack of coordination of the increasing heterogeneity of firms (Lechevalier, 2007); e.g. decreasing spillovers

- In this sense, one may consider that instead being THE only solution to the crisis, neoliberal policies have been one of its causes
A remarkable rise of inequalities: a changing social compromise (1/2)

- **The inequalities** as a revealing fact of the very nature of each form of capitalism (neither a simple result or an orthogonal dimension)

- **A unique trajectory**: according to the criterion of Gini coefficient, Japan has evolved from a level of inequalities comparable to the one of Sweden in the 1970s to a level comparable to the one of the UK in the mid 2000s.

- **A major stylized fact: rise of intra-group inequalities** (sex, education, age)

- Question: how to determine the causes of rising inequalities (and not of their level; e.g. sex)?
A remarkable rise of inequalities: a changing social compromise (2/2)

- Explaining the divergence between the US and Japan (Moriguchi & Saez, 2008): “The change in technology or tax policies alone cannot account for the comparative experience of Japan and the United States. Instead, institutional factors such as internal labor markets and union structure are important determinants of wage income concentration”
  ⇒ Looking at the labor market (it means that Piketty’s framework does not explain well rising inequalities in Japan (and in Korea) for the most recent period)

- The labor market is the matrix of inequalities in Japan: one observed during the Lost Decade a re-segmentation of the labor market, along new lines of cleavage
  ⇒ determining the losers and the relative winners of this evolution
Comparing the evolution of top 5% wage income share in Japan and in the US for the period 1929-2005 (Moriguchi & Saez, 2008)
Japanese lessons
“Taking Japan seriously” (R. Dore)
Lessons for Japan

- Plasticity of Japanese capitalism…

- …but key issue of the definition of a new social compromise

- It implies to answer the following questions:
  1. Which growth model?
  2. Which answers to deindustrialization, in particular in the context of the rise of China as a manufacturing superpower?
  3. Which place in globalization?
  4. Which welfare regime?
Beyond Japan: the future of coordinated capitalisms

- Not everything is determined by the global or technological environments:
  1. The new technological environment is not a problem by itself, even if it may require to revise the forms of coordination (e.g.: Internet and its implications of the coordination);
  2. The key issue is the form taken by globalization as well as the “financialization” of economy (e.g.: comparison of the benefits of cost cutting in the short term and of collaboration in the long term);
  3. However, a country like Japan has the possibility to influence the rules of globalization…if it has the will

- Plurality of possible ways…

- …under the triple constraint of history, institutional complementarities (which define the comparative advantage of a given form of capitalism), and the ability of politics to present a goal to society as a whole, beyond any conflict of interests
Thank you for your attention

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