



# **Business and Society in Japan and the United States**

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## **Abstract**

This essay is an extension of my recent book, *The Embedded Corporation: Corporate Governance and Employment Relations in Japan and the United States*. It considers some recent differences in Japanese and U.S. internal labor markets to do with decentralization, outsourcing, and intra-firm transfers. Then it elaborates an historical interpretation of how Japanese and U.S. companies are embedded in their societies despite overlap in their corporate structures and management philosophies. The essay closely by speculating on the future of corporate governance and employment relations in Japan and the United States, examining in particular the role of social norms.

**Keywords:** corporate governance, embeddedness, employment relations, Japanese management, *Keiretsu*, welfare capitalism

**JEL codes:** J2, J3, J5, K2, L2

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## **Business and Society in Japan and the United States**

Sanford M. Jacoby

I am honored by this symposium. I thank the editors for organizing it and the commentators for raising important issues. In Japanese Zen meditation, students occasionally are whacked by a monitor wielding a stick called a *keisaku*. Properly done, the monitor administers the blow with compassion for the student's failings. The student is grateful for the opportunity to realize his errors and to develop his sense of reality. So too am I grateful for the commentators' compassion, even when their remarks touched a sore spot. In what follows, I start with concrete empirical issues, such as decentralization and outsourcing, and then tackle more theoretical problems to do with embeddedness, norms, and institutional change.

### **DECENTRALIZATION**

Harry Katz has written excellent analyses of how decentralization is causing convergence of national employment systems. His remarks here build on that earlier work, which identifies three main causes of decentralization: the decline of unions, eroding systems of labor regulation, and the spread of information technologies that enable decision-making at lower organizational levels. As these forces take hold and employment systems become more decentralized, markets emerge as a more powerful determinant of employment outcomes. The result is a tendency for convergence at the industry level of previously distinct national systems, and divergence within countries as national systems are pulled apart by centrifugal market forces, what Katz terms "converging divergences."

Our surveys sought to determine the level and rate of change of centralization within organizations, which is not the same as employment-system centralization but is related to it. Our window on this process was the HR function within large corporations. We asked senior HR executives to tell us where in the hierarchy (from line managers up to headquarters) decisions are being made about employee participation, union policies, headcount, and managerial careers. We found that with the exception of participation plans, administration is significantly more centralized in Japan. Also, during the period 1996-2001, U.S. companies were decentralizing more rapidly than Japan in all areas

except the development of union policies, a surprising fact given that U.S. companies started out at a lower level of centralization. Hence the centralization gap between Japan and the United States has widened, not narrowed.

Japan's persistent organizational centralization can be explained, in part, using Katz's framework. At least in large companies, unions remain more prevalent in Japan: the density rate for our survey firms was 65 percent in Japan versus 16 percent in the United States. *Embedded Corporation* examines how Japanese enterprise unions sustain organizational centralization.

But there are other factors, not mentioned by Katz, that account for differences in the level of decision-making in large Japanese and U.S. companies. One candidate is business strategy, which for many large Japanese companies is based on core competence and depends on internal resources -- including human resources -- to achieve competitive advantage, a point well explicated by Suzanne Konzelmann. Not only are training expenditures higher, on average, than in large American companies, but companies use the tacit knowledge of their groomed-from-within executives as a control mechanism to substitute for the financial controls found in M-form U.S. companies. The link between strategy and centralization occurs via companywide career systems and via knowledge sharing at U-form headquarters, which builds core competencies throughout the organization.

Another factor is corporate governance. Stakeholder-type systems, which are common in Japan, are more likely than shareholder-oriented systems to be financed by patient capital (e.g., cross-held equity, private equity, and debt) that is tolerant of training expenditures and long-term career commitments. Stakeholder systems do not base strategic decisions strictly on financial criteria, which gives an edge to insiders who know the business and have built up relational capital that helps exploit internal synergies coordinated from above. Stakeholder governance requires an entity to balance diverse "team" interests, which is the final link to centralization. This can occur either through a board of independent directors--Margaret Blair's solution--or through an executive selection process that winnows out people who are committed to the long-term viability of the enterprise and posts them to an insider board, the Japanese solution. Stakeholder systems generate other peak entities to represent stakeholder interests, such as enterprise unions and the presidents' councils found in *keiretsu* conglomerates.

Hence analysis of what determines centralization must be broadened beyond

institutions conventionally conceived as being “outside” the economy--labor movements and statutory regulation--to include factors such as corporate strategy and governance that are situated “inside” the economy and generate national business systems that respond idiosyncratically to transnational forces such as deregulation and technological change. In *Embedded Corporation* there is evidence of this kind of path-dependent adaptation. This brings us to the question posed by Mari Sako, namely, how do national business systems evolve such that their constituent elements become interrelated? It is easier to pose the question than to supply answers because we don’t know as much as we should about the historical development of the institutions comprising a business system.

Consider corporate strategy in Japan. Did the dominant resource-based approach result from initial factor endowments (capital and resource scarcity), from artisanal and engineering values (*monozukuri*, the ethic of craft), or was it due to an exogenous reduction in labor mobility associated with the postwar labor compact, which forced companies to make the best use of their now “quasi-permanent” employees, that is, to make firm-specific training investments? Or take the question of corporate governance in the United States. Is the recent waxing of a shareholder-orientation due to endogenous processes (companies selecting new governance principles to fit new business strategies and new technologies that are less reliant on firm-specific capital) or is it due to an exogenous change in ownership (the rise of outsider CEOs and of institutional investors hungry for a redistribution of corporate resources)?

It is difficult to answer these questions because of a paucity of data and because it is risky to infer causality from temporal sequencing (the *post hoc ergo propter hoc* fallacy). Faced with these problems, some retreat into speculative scholasticism: building models with a set of limited and highly “stylized” facts, the exercise described by Blair. The resulting models are overly functional and give an aura of inevitability to existing institutions. For example, in the 1980s economists rationalized the U.S. career job systems with various theories such as implicit contracting, asset idiosyncrasy, and efficiency wages--all of this at the very moment when the system was beginning to erode. What is needed are better facts, not from random digging, but from carefully designed historical and comparative studies.

Admittedly, a problem with comparative analysis--as in the “varieties of capitalism” literature--is that it overemphasizes central tendencies. Japanese companies are far from uniform (and, as we found in several of our paired case studies, there is

overlap between Japanese and U.S. firms operating in the same industry). Comparative analysis also tends to give insufficient attention to how national business systems change over time. Japan *is* changing, yet the pace remains slow as compared to the United States. But rather than this being a situation in which business systems in Japan and the United States are moving at different speeds to a convergent destination, the tortoises and hares are likely to end up in different places. One reason is diverse starting points, which causes business systems to respond differently to common forces like technological change, a point elaborated in Steven Vogel's (1996) comparative study of deregulation and "re-regulation" in advanced societies. The other reason is that the economic environment is constantly in flux so that tortoises face the new climate with a different set of constraints and resources than the hares. That's how first-movers can create barriers to entry to keep tortoises out; it's also how late developers can overtake firstmovers.

## **OUTSOURCING**

*The Embedded Corporation* describes features of an emerging business-partner model in the United States wherein senior HR executives participate in strategy formulation and the design of policies to support that strategy, even as their companies move to more decentralized, market-oriented employment practices. Sako suggests that there are potentials inherent in HR outsourcing that can bolster the status of the executive HR function and the viability of the business-partner model. In her view, HR outsourcing can support not only market-oriented employment practices, as in the United States, but also organization-oriented practices, as in Japan.

At this point I do not see much evidence to support an optimistic reading of HR outsourcing as something that will bolster HR's standing in the United States. First, the bulk of HR outsourcing in the United States involves employee benefits, which have always been viewed as an add-on, not something integral to the employment relationship. Also, from the earliest days of welfare capitalism, benefits have been co-administered with insurance and financial service companies, which makes them relatively easy to move out the door. Currently, the most commonly outsourced HR activities are employee assistance programs and flexible-spending health benefits (BNA 2004). Second, employee benefits is an area in which a rising number of managers have finance rather than HR backgrounds; the finance managers are more cost-oriented and presumably were placed in charge of benefits -- and of negotiating

outsourcing packages -- for this reason. Saving money, reducing operating costs, and accessing external expertise are the most common reasons for HR outsourcing (SHRM 2004). Third, I re-analyzed our survey data to see if there was a relationship between HR executives' strategic influence and HR outsourcing by their companies. There is none; the correlation coefficients for the different types of outsourcing are centered on zero in the U.S. sample.

The Japanese situation is different. Although our respondents reported high levels of HR outsourcing, most of this does not constitute outsourcing to third parties but rather consists of spinoffs from the headquarters HR department. Spinoffs are sometimes a form of accounting gimmickry to make headquarters HR departments appear leaner than is, in fact, the case. But there is also a strategic objective: to force the spinoffs to generate revenue by selling their services and expertise to other companies, initially to business group members and then to a wider market. That is, the spinoffs are positioning themselves as players in the HR outsourcing market. Perhaps for this reason, our data show that two of the five types of outsourcing activity--payrolls and HR information systems--are significantly related to HR's strategic influence in the Japanese corporation. As yet the outsourcing market in Japan is relatively small. Large companies are not outsourcing to independent third parties, although some mid-sized companies are using third parties for routine transactions such as payroll and benefits.

## **EMBEDDEDNESS**

Economic sociologists use "embedded" to mean relational contracting as opposed to arms-length contracting, such that economic activity is shown to occur within networks of social relationships. My use of the term incorporates that notion but is intended as a broader concept in which society and the economy are intertwined to form time- and place-specific institutions. The emphasis on time brings elements such as pathdependence (origins matter), contingency (origins may be unrelated to complementarities that develop later on), and historicism (particulars and context can overwhelm synchronic tendencies). The emphasis on place focuses attention on the multiple ways in which economic institutions combine with cultural, legal, and regulatory phenomena that are associated with nation-states and regions. This conceptualization of embeddedness owes a great deal to Karl Polanyi and to Max Weber, for whom comparative and historical research were standard procedures for

relativizing markets (Schluchter 1989).

Mari Sako asks a simple question: what do I mean by “embeddedness” in the U.S. case and how, if at all, is this different from Japan? The United States is a vast and complicated place, so my reply shares some of those characteristics. I would begin with the distinction, made recently by historian David Hackett Fischer (2004), between two opposing principles--liberty and freedom--that have animated developments in America from its earliest days. Liberty, Fischer observes, means individualism unconstrained by others, unboundedness, a separation of self that fits well with the imagery of *laissez-faire* markets, autonomous rational actors, and “Don’t Tread On Me” rattlesnake flags (which after 9/11 were revived by the U.S. Navy and now fly on all its vessels). The other principle or folkway is “freedom”, a term whose etymology Fischer traces to Northern Europe and which connotes communal attachment, status rights and responsibilities, a society of freemen with connection to others (as in “friend”). Fischer is surely on to something. There is a persistent tension in U.S. history between libertarian and communitarian conceptions of the economy. The communitarian pole is associated with republicanism, a tradition that emphasized civic virtue and a moral economy based on just prices and social responsibilities. It placed farmers and artisans (and later on, populists and craft unions) in opposition to financiers and factory owners--the progenitors of market individualism (Appleby 1984; Rodgers 1992).

These cross-cutting tensions form the matrix from which big business emerged at the turn of the last century. On the one hand were those who asserted that the modern corporation was nothing more than a bundle of arms-length contracts for hiring and shedding factors of production, the neoclassical formula described by Margaret Blair. Anything that challenged unfettered markets and managerial discretion--whether unions or government--was held an interference with trade. This was the ideology of the open shop. It also was the view of Wall Street, which supplied the capital for America’s burgeoning industries (Bendix 1955).

On the other hand were those who thought that the large corporation, with its scale and longevity, required “new responsibilities towards the owners, the workers, the consumers, and the State” (Berle and Means, 1932:7) Some businessmen did indeed take on new responsibilities: to give employees a status within the enterprise and to shelter them against risk. They justified this variously in terms of efficiency, enlightened paternalism, the social Gospel, and technocracy. Sometimes they explicitly used Blair’s “team” metaphor, while making it clear that trade unions would not be considered part

of the team. This was welfare capitalism, an alternative not only to unions and the welfare state but also to more rugged and market-oriented business practices. Achieving welfare capitalism required insulation from financial pressure so that profits could be reinvested to sustain long-term investments in the enterprise and its members. One way was through family or bloc ownership; another was through the separation of ownership and control and the appeal to professionalism to justify managerial autonomy (Jacoby 1997).

The ethos of welfare capitalism permeated the new schools of business and the ideas of Progressive-era thinkers from Mary Parker Follett to jurist Louis Brandeis. Brandeis is of particular interest, because his writings touched on a key question: whether the engine pulling the economy came from capital markets--the site for mergers, acquisitions, and a financial approach to decision-making--or from within the corporation--Konzelmann's realm of production--with its emphasis on research, planning, and cooperation between workers, engineers, and managers. For Brandeis, the tension between finance and production was a reprise of the conflict between liberty and freedom. He blasted the "money trust" and came down on the side of technocracy and cooperation (Haber 1964).

But welfare capitalism was less deep-rooted than its publicists let on. Come the 1920s, there was a resurgence of financialization, of the open shop, and of cruder forms of management. The formation of internal labor markets was slow and uneven. The courts, at least at the federal level, were gripped by antipathy to anything that challenged laissez-faire principles (Jacoby 2004).

It was the advent of two random events--the Great Depression and the Second World War--that tilted the American business system in a new direction. The depression showed the fickleness of free markets and also of welfare capitalism's promise to protect workers against risk. It brought the New Deal, an unprecedented attempt to use government power to regulate markets, including labor and financial markets. Depression and war created a sense of vulnerability among the middle class, which led to cross-class alliances supporting regulation, social insurance, and the civic groups championed by Robert Putnam (2000; Jacoby 2001).

During and after the war, business reformulated welfare capitalist ideas to burnish its tattered reputation. Assuming a mantle of social responsibility, it made peace with big government and big labor, yielding a "mixed" system of employee benefits and elaborate internal labor markets. While blue-collar job security and

stability never reached levels seen in Japan, average tenure steadily rose (Hall 1982) and with it came a key result: greater investments in firm-specific training. Some blue-collar workers and many college-educated employees were treated in ways that accorded with the tenets of a resource-based approach.

Business's emphases on responsibility and risk-management fit with a Galbraithian corporate structure that valued stability, long-run planning, and insider management. As explained in the book, corporate managers asserted their immunity from shareholder pressure and advanced a stakeholder philosophy in which investors were viewed as just another member of the corporate team. Wall Street--and finance more generally--fell from grace, at least for a while.<sup>1</sup>

From this quick overview, let me draw two main points: first, the U.S. business system is not a timeless monolith inherently inhospitable to team-production values and stakeholder concepts; welfare capitalism was congenial to both. Second, the postwar business system was, in fact, a moment in time. By the 1970s, the ethos and economics of big business were cycling back in the direction of finance, harsher anti-unionism, and a more adversarial stance towards government. What happened?

At the normative level, there was a steady weakening of the sense of "we": the micro-community of the workplace, the bindings of civic organizations, and the passing of the generation that had been touched by depression and war. At the corporate level, an important change was the diffusion of the multi-divisional (M-form) organization, which brought a separation of top from bottom and a greater emphasis on financial criteria in decision-making. Although the M-form originated in the 1920s, its adoption occurred after World War II. By the 1960s HR executives were complaining that their stiffest opposition came from finance departments. With finance in control, it was increasingly difficult to justify resource-based strategies.

As the depression faded from memory and as corporations re-financialized, Wall Street found itself enjoying a more favorable reputation (Fraser 2005: 552). The 1970s and 1980s heralded the second coming of a shareholder-value model that justified any action taken to boost short-term share prices, such as hostile acquisitions. Companies were stripped of assets, including -- via downsizing and delayering -- their human assets.

But the world we had known is not lost: There are still organizations that pursue job stability, firm-specific knowledge, and high-performance work practices, as

Frank Dobbin reminds us. Case studies described in the book, such as U.S. Electro and U.S. Package, show that some companies have production systems and employment relations that strongly resemble their Japanese counterparts. There is little doubt, however, that the United States as a whole has shifted towards a more liberal, market-oriented approach. As the book explains, the shareholder-value model makes it difficult for companies to sustain a resource-based business strategy. If and when the latter succeeds, it is due, as in earlier years, to pressures that override those exerted by financial markets: a founder's culture, board directors with HR backgrounds, a strong union presence, bloc family holdings, or private ownership.<sup>2</sup>

So America has bi-polar tendencies; its embeddedness is a contested issue. It flips and strains between institutions infused with a communitarian ethos and those with a more liberal sensibility. Here lies part of the tension between the Chandlerian corporation and Silicon Valley, a place that some critics associate with weak ties and short time horizons (Sennett 1998). At one pole, freedom is thought to require an organizational ethic of trust and commitment; at the other, inequality and ephemerality are seen as the price of liberty. Business strategies similarly are torn between those focused on building knowledge and long-term growth and those concerned with buying what is needed to boost tomorrow's share price. Random events can push the business system in one or the other direction.

Since the demise of Enron, the pendulum has started to swing again. There is less enthusiasm about shareholder value, with some investors now worrying that too much cash is being shoveled off to investors and executives to the detriment of a firm's long-term growth prospects (Economist 2005). The bloom is off the notion that outsider CEOs are corporate saviors, that they deserve their astronomical compensation, and that options and M&As are reliable routes to creating value (Khurana 2002). Even downsizing is being reconsidered, as evidence surfaces that it failed to boost productivity in the 1990s, contrary to Wall Street's hyperbolic claims (Baumol et al. 2003).

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Modern Japan followed a different trajectory. For Barrington Moore (1966), its defining feature was a "revolution from above", which caused the state to occupy a central place in Japanese economic and social development. With business dependent on

government, there was little of the antipathy to regulation seen in the United States. Businessmen accepted their societal and patriotic responsibilities. Pre-industrial traditions were preserved or adapted to modern forms, leaving liberalism little social space to gain a foothold (Marshall 1967). In Japanese industrial society, status trumped contract; hierarchy and reciprocal obligations were the watchwords rather than individualism and arms-length ties. When liberal democracy surfaced-- in the form of union protests or oppositional parties--the state was poised to squelch it (Bix 2000).

Another concept key to understanding Japan is “late development” (Dore 1973). Late development conferred the ability to learn from other industrializers and to borrow institutions that fit Japan’s circumstances, whether in education, law, the postal service, social security, banking, or economics, where neoclassical ideas were not very popular (Tanaka 2004; Westney 1987). By picking and choosing, and by implementing on a topdown basis, a very high level of systemization was achieved, a point also made by Frank Dobbin. For example, by 1900 the Meiji reformers had created a uniform system of compulsory education, with higher rates of school enrollment than in some American states. This permitted employers to establish early on the practice of hiring school leavers and investing in their training and development (Jacoby 1993).

Late development, combined with lateral and vertical coordination of economic relationships, allowed Japan to industrialize rapidly. In less than fifty years, Japan boasted corporations whose size rivaled those of other leading industrial nations. Because heavy industry grew so rapidly--and because important parts of it were controlled by government--there were fewer backward linkages to the indigenous economy than in countries at similar stages of development. This produced a dualistic economic structure. Dualism reduced costs in the peripheral sector and created an incentive at a very early stage for big firms to favor subcontracting along with, or in lieu of, vertical integration (Broadbridge 1966).

Capital shortages and underdeveloped financial markets reinforced dualism. Big companies were favored with capital, either because of government connections or because they drew on the resources of wealthy family owners or both, as in the case of the giant holding companies known as *zaibatsu*. Each *zaibatsu* had associated with it a German-style bank that provided capital and invested shares in affiliated companies, who in turn held shares in each other’s businesses (Jackson 2001). The *zaibatsu* had an insider system for monitoring affiliates that relied on bloc holding, inside directors, and the posting of seasoned managers to restructure troubled companies (Okazaki 2004).

Another pre-industrial carryover were the *oyakata*, master craftsmen who controlled artisanal labor markets. Persistent shortages of skilled labor led the *oyakata* to set themselves up as subcontractors to modern firms. But some businesses and government-owned enterprises steered clear of the *oyakata* and created their own training units in the early 1900s. To prevent turnover, they followed up with internal promotion and job security measures.

Japanese employers saw the riots of the late 1910s as handwriting on the wall and cast about for management models to preempt unrest. Elements of scientific management and welfare capitalism---both American and European variants--were adopted. By the 1920s, internal labor markets had become intricate, with seniority rules, welfare provisions, and enterprise unions, all created with assistance from increasingly powerful personnel departments. At least in *zaibatsu* companies, long-term employment practices were supported by stable ownership (Gordon 1985; Kasuya 2005).

Controlling for per capita income, Japan's system of welfare capitalism in the 1920s was at a relatively advanced stage because late development allowed the importation of state-of-the-art organizational practices. Also, the main domestic alternative to welfare capitalism was not, as in the United States, the open-shop model, but rather the pre-industrial paternalism found in handicraft industries, a system that bore resemblances to, and smoothed the way for, welfare capitalism (Uyeda 1938). Third, shortages of capital and resources forced Japanese manufacturers to rely relatively more on human capital in situations where U.S. companies were prone to automate. Finally, to the extent that welfare capitalism required owners and executives to identify with employees as fellow stakeholders, it was easier to achieve this when, along with gender, race and ethnicity were shared characteristics.

During the 1930s and 1940s, the military government's economic regulations reinforced welfare capitalist tendencies. The state curtailed shareholder privileges, centralized capital allocation, and instructed key banks to monitor companies receiving loans (Okazaki 1993). The government sought to "fuse" labor, management, and capital in the pursuit of national goals by restricting interfirm labor movement, creating guidelines for internal promotion, and ordering the creation of plant discussion councils (*sanpo* units) that were a nucleus around which postwar labor relations were reconstructed (Garon 1987; Saguchi 1991).

Although the American occupation abolished the *zaibatsu* after the war, structures emerged in their stead -- *keiretsu*, cross-holding, and main banks--that had

prewar antecedents. M-form corporations were not common nor did finance play a dominant role after the war (Hoshi and Kashyap 2001). The big postwar change was the growth of the labor movement, which focused on elaborating and codifying the enterprise-focused employment system (Gordon 1985).

In short, although the United States initiated many experiments in welfare capitalism, in the end Japan proved to be a friendlier environment for its institutionalization. Japanese welfare capitalism was reinforced by government (instead of competing with it), by enterprise unions (who were part of the “team”), by corporate governance, and by a value system emphasizing reciprocal obligations and trust (Sako 1992). These are not uniquely Japanese values; they resonate with a strand in American culture that sees business as a cooperative endeavor in which risks and responsibilities are shared. But the United States has a counter-culture: its liberal tradition of self-reliant individualism and faith in markets over organizations, whether big business or big government.

## **MODELING CHANGE: INSTITUTIONS AND NORMS**

It’s possible for gradual change to result in institutional transformation, as Sako suggests is happening in Japan. I don’t contest the theoretical point; it’s a basic idea in evolutionary and organizational theory (unless you are a saltationist who thinks that the only kind of change is the punctuated-equilibrium variety.) But the evidence from Japan is ambiguous; there is change as well as inertia and adaptation of existing institutions to new circumstances. Hence I am reluctant to say that a “deep transformation” is in the making.

Take the example cited by Sako: *shukko* (temporary) and *tenseki* (permanent) secondments, which increase as business conditions worsen and firms reduce costs without resorting to layoffs. *Shukko* and *tenseki* moved in tandem in the 1990s: peaking in 1994 and then rising again after 1996, such that *shukko* in 2000 reached 1994 levels. The sharing between sender and receiver of the transferee’s salary is a contentious issue because both benefit from the transfer. Yet a recent study finds that sending firms still carry most of the cost, with two-thirds of senders paying more than 70 percent of the transferee’s salary (Nakata and Takehiro 2001). Evidence regarding *shukko* pay often comes from case studies; companies are reluctant to publicize these data. At Nippon Steel, which relies heavily on *shukko*, what has changed in the past fifteen years is not

the topup paid by the sender (to preserve the transferee's earnings) nor the percentage of employees receiving it but the duration of an employee's *shukko* status. Increasingly, temporary secondments are being converted to permanent transfers, so that the transferees have little hope of ever returning to their primary employer (Oh 2001).

Sustaining *shukko* is a variety of complementary institutions. Take the corporate group, which can include either the nexus of wholly- and partially-owned subsidiaries or a wider group of companies that form the *keiretsu*. What holds both together are crossshareholding, relational supply contracts, and overlapping internal labor markets (Lincoln and Gerlach 2004). Although the network structure of these groups is becoming looser, they also have adopted more coordinated internal labor markets for their managerial and technical employees (Inagami and Whittaker 2005). Within these groups, some *shukko* is for the purpose of technology transfer or co-development between the parent company and its suppliers and customers. *Shukko* of this sort is actually becoming more prevalent, which suggests adaptation of an existing practice to new circumstances rather than its erosion (Lincoln and Ahmadjian 2001).

Another institution related to *shukko* are legal restrictions inhibiting economic layoffs. Statutory measures to facilitate layoff have been introduced in recent years. However, these changes have been counterbalanced by other provisions to protect career employment (Araki 2005).

To sum up, the evidence on *shukko* suggests a path-dependent process in which change is occurring but where complementary institutions constrain the pace of change so as to preserve continuities between past and present. Other research corroborates the characterization. Job hopping by regular workers remains a rarity; it has shown little or no growth between 1985 and 2002 (Dore 2004). More comprehensive studies of career employment find the dominant theme to be persistence rather than transformation (Kato 2001). Structural analysis shows that in the United States, resource-based and marketoriented HR policies are inversely related, whereas in Japan the relationship is positive, which is consistent with hybridization (Jacoby, Lau, and Saguchi 2005).

What makes analysis of recent events tricky is that it is difficult to know whether observed changes mark the onset of structural discontinuity or whether they are adjustments to cyclical conditions, in this case to the prolonged Japanese stagnation that ended in 2002. Take, for example, the 1990s run-up in the percentage of part-time employees. What appeared to be a secular trend may have topped out. Recent surveys of corporate hiring plans show a recovery in the hiring of regular full-time employees to

levels not seen since the late 1980s. While companies are still intending to hire temporary and part-time employees, the demand is less strong than in recent years (JLF 2005). Another example is cross-shareholding. During the 1990s, not only banks but also corporations unwound their crossholdings in order to raise capital. Now, however, the trend has reversed. Corporate crossholding has begun to creep up, partly in response to improved business conditions and also to preempt hostile acquisitions (Yamamoto 2005).

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Finally, what about social norms? Normative change requires different models than those we have discussed thus far. Norms are shared and involve approval of others. They “do not as a rule come into existence at a definite point in time nor are they the result of a manageable number of identifiable acts” (Ullmann-Margalit 1977: 8). To change norms is difficult because no one wants to be a first mover; hence there is a collective action problem. But given the impression that a majority is moving in new directions, norms can suddenly shift, which is one way we get fads and bandwagons, even among sober investors and executives (Bikhchandani et al. 1992). Hence an accretion of small preference changes--or the impression that change is rampant—may lead to qualitative transformation once a tipping point is reached. Normative change, in turn, can corrode institutional complementarities.

What Sunstein (1996) calls “norm entrepreneurs” are individuals who seek to undermine the normative status quo by creating the impression that a bandwagon is on the move. Through frequent public pronouncements, norm entrepreneurs make defiance of existing norms more socially acceptable. Hence norm entrepreneurs can create selffulfilling expectations. Until recently, sociologists were the main source of information on the pervasiveness of norms in economic life. Now economists and cognitive psychologists have, dare I say, jumped on the bandwagon with behavioral studies of wage rigidity, saving, fairness in price and quantity decisions, and other phenomena (Kahneman and Tversky 2000).

These ideas help us to understand what occurred in the United States in the 1980s and 1990s, when there was a shift in norms to do with hostile acquisitions, downsizing by profitable companies, shareholder rights, risk-sharing, and executive compensation (Davis and Thompson 1994). Public figures--politicians, consultants,

journalists, and academics--served as norm entrepreneurs, helping to legitimize both the necessity and inevitability of change. That there already existed a liberal tradition on which to base their claims made it easier to reach normative tipping points.

Is Japan today at a tipping point? It is experiencing some of the same transformations that occurred in the United States: the risk-averse postwar middle-class, with its “all in one boat” mentality, is being replaced by a new generation that doesn’t see the point of enterprise unions or seniority rules and who, in their private lives, are seeking “exit” from the Japanese system (exclusive housing, private schools) rather than participation or voice (Schoppa 2001). As I explain in the book, norm entrepreneurs are out in force: the media lionizes norm-violators like Takefumi Horie and Yoshiaki Murakami. The norm entrepreneurs sometimes come from abroad: foreign investors and governments who can get away with saying things that most Japanese dare not, a fact that politicians and media use to great effect. It is an old game in Japan, and even has its own term (*gaiatsu*). Is it having an effect? Seemingly yes: the percentage of Japanese who agree that inequality is a trade-off for prosperity is now about the same in Japan as in the United States (Lübker 2004: 7).

However, the Japanese have yet to experience U.S. levels of inequality. Despite a modest rise in aggregate inequality in the 1980s and 1990s, Japan has not produced a sizable group of super-rich. Top income shares have remained unchanged since the early 1950s, whereas in the United States the portion of income going to the top one percent more than doubled since 1980. Among the OECD countries Japan remains in the middle ranks: less egalitarian than Scandinavia but more equal than the United States. Its equality primarily is achieved not through taxes and transfers, as in Scandinavia, but through its labor markets (that is, through enterprise egalitarianism). Japan has the lowest level of pre-tax inequality among 13 rich nations, below Sweden and Denmark (Burniaux et al. 1998; Moriguchi and Saez 2005).

The Alchian-Demsetz model, discussed by Blair, was intended to show how teams reach decisions when their members have different objectives and utility functions. But in practice it is not easy to sustain companies or societies whose participants do not share a belief in the fairness of team procedures and outcomes. Hence if shareholder capitalism is to take hold in Japan, it will have to transform norms to do with incentives and equity. For now, at least, a majority of Japanese believe that their system is fair. They are more likely than other OECD inhabitants to say that people are rewarded for effort (42% vs. 36%) and for intelligence and skill (56% vs. 46%).

That is, despite an egalitarian pay structure, the Japanese are relatively satisfied with it (Suhrcke 2001: 34). The tax system in Japan is modestly redistributive; taxes and transfers modify income distribution to about the same extent as in the United States. Yet support for progressive taxation of high-income earners is much stronger in Japan (91%) than in the United States (65%) (Burniaux et al. 1998: 35-39).

As for stakeholding, surveys show that Japanese executives think that shareholders are only slightly more important than employees. Executives are still in favor of distributing incremental profits equally among shareholders, employees, internal reserves, and investment (Araki 2005:51). These views are shared by the general population, which is almost equally divided on the question of whether shareholders or employees are the owners of a company (Kyodo News 2005).

While introduction of a U.S.-system of independent directors potentially could sustain the Japanese “team” approach--as Blair argues--the problem is that directors in the United States today consider it their fiduciary duty to privilege shareholders over other stakeholders. Whether their interpretation of corporate law is correct or not, the reality is that U.S.corporate governance in recent years has been associated with a reallocation of risk and resources from employees and other stakeholders to shareholders (including executives who own options). Wages and employment in the United States have become more sensitive to business conditions; the greater volatility of income is occurring at the same time as corporate earnings are higher. In other words, risk has risen and been shifted to employees, yet most of them have not shared in the returns associated with greater risk (Gosselin 2004). Hence changes in corporate governance are one reason for the surge of inequality and top income shares in the United States. Because social norms in Japan are inimical to shareholder primacy, those norms are acting as a brake on the shift to U.S.-style capitalism. Many in Japan would agree with Blair that the corporation is a team but they prefer their own “J-firm” system (Aoki 1984) for governing it.

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Of course, it is a mistake to believe that *tout ça change, tout c'est la même chose*. This is the fallacy of presumptive continuity, a problem to which historians are prone, including historical economists. Alfred Marshall inscribed his *Principles of Economics* with the epigram, “*natura nonfacit saltum.*” The problem is, sometimes

there *are* leaps. On the other hand, it's also fallacious to presume discontinuity and think that the present is unlike the past or soon will be (Fischer 1970). The preference for discontinuity is partly wishful thinking, partly iconoclasm. It satisfies a yen for novelty that helps journalists sell papers and academics land grants. There are, of course, less superficial reasons why modern economics and other disciplines have a pervasive ahistorical sensibility (Ross 1991; Hodgson 2001). It arises out of a quest for universals, whether in theories of rational action or economic institutions.

The best we can do is thread our way between the synchronic and the diachronic, conscious of universalizing forces and yet at the same time sensitive to their limits and to the multiform ways they fuse with societies and with history. The academic field of industrial relations attempted that sort of synthesis in its heyday (Kaufman 2004). It was part of a wider intellectual effort to secure a pragmatic middle ground between grand theory and embedded facts (Kloppenber 1986). Today the middle way is being reconstructed in economic sociology, law, philosophy, and even in my root discipline, economics. This symposium's contributors are trailblazers in that effort and I thank them for their ideas, whacks and all.

## Notes

<sup>1</sup> Whereas 17 percent of Harvard Business School graduates went to Wall Street in the late 1920s, only 1 percent took jobs there in the early 1940s (Fraser, 2005: 473).

<sup>2</sup> SAS is a privately held software company well-known for its lavish employee benefits, flexible working hours, and employment security. When asked why the company did so much for employees, the CEO said, “At many companies the focus is not on the employee or the customer but on the shareholder. The outlook is not for long-term growth but for the next quarter. In today’s Wall Street-driven business environment, I think it’s difficult for many people to see how employee turnover or employee morale can impact a company’s performance over a long period of time. ... It all comes back to the fact that I don’t need to justify SAS’s benefits to thousands of shareholders” (in Jacoby 2005).

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