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Political-Economic Analysis of the Bubble Economy and Stagnation

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Abstract | After the bursting of the economic bubble in 1990, the Japanese economy has continued to stagnate. Abenomics has managed to weaken the yen and increase stock prices through the Bank of Japan's extending lines of credit. However, it failed to bring the overall economy back on track. This article will look at the reasons behind the stagnation of the Japanese economy from historical points of view. First, it argues that the economic bubble was created in order to reconstruct the US economy. It also emphasizes that the stagnation of the Japanese economy comes from two reasons—innovative efforts in the Japanese economy being unfruitful and "long-term employment practices," which used to sustain Japanese-style management," becoming no longer viable after the economic bubble burst in Japan. Furthermore, it highlights that the stagnation also comes from the fact that the Japanese government has accepted structural reforms that the US demanded. It is important for the Japanese people to establish an administration that would not heavily rely on the US in order to overcome the stagnation.

Keywords | Abenomics, bubble economy, Japanese management, long-term employment practices, innovation, US government, structural reform, reliance on the US

Introduction

Three years have passed since April 2013, when the Bank of Japan (BOJ) started monetary easing in coordination with the Abe administration. It aimed at economic recovery, but today its results are unclear. According to a front-page article from the *Asahi Newspaper* on April 2, 2016 entitled, "The Stagnation of Abenomics," many large corporations in export-oriented industries, including automakers, gained significant earnings thanks to the weak yen, a result of the monetary easing policy from last three years. However, the article assesses that this did not produce positive results in the overall economy because it was not

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sufficient enough for struggling small- and medium-sized businesses. In other words, household consumer spending continues to deteriorate as the number of irregular employees increases and real wages decrease in the market. According to the research published by the BOJ in March 2016, large corporations did not have a positive outlook for the economy. A special report called, "The Collapse of Abenomics," from *Sekai Magazine* published in April 2016, states that Abenomics has failed without bearing any fruitful results, despite the Governor of the BOJ Kuroda Haruhiko's "formidable weapon." The article also quoted Takenaka Heizō, the former minister of Internal Affairs and Communications, who argued that the trickle-down effect is not sufficient at all, as the profit among large corporations did not generate positive impacts on small to medium businesses, which would have increased consumer spending.[1]

This paper will review why Japan has faced economic challenges over the last two decades from international and historical perspectives. It is difficult to find research that has conducted in-depth, holistic analysis on this subject. *The Sustainable Growth of the Japanese Economy*, published in 2016 by Fujita Masahisa from the Economic and Industrial Research Institute under the Ministry of Economy, Trade and Industry is an analysis of up-to-date results. However, this analysis does not analyze results from the financial sector, as it only focuses on industries. This is mainly because fundamental challenges of the Japanese economy come from "real" problems. The key to bring the economy back on track should be innovation, as Yoshikawa Hiroshi states in the beginning of the book. This book offers a different approach from that of Hamada Kōichi who argues that deflation is the main reason for the long-term economic recession (Fujita 2016).[2]

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1. Former minister of Internal Affairs Takenaka's "comment" referred to Nakajima Takashi's (2016, 106) following quote: "'There is no use waiting with your mouth open. Nothing will fall from the sky.' Takenaka Heizō said this during 'Live until the Morning,' which was aired on New Year's Day. It was a remark of the LDP's economic brain, who used to promote that the 'benefit of trickle-down effect would widely spread among people.'" It shows that even the LDP had no other option but to admit the reality that the trickle-down effect did not occur in Japan.

2. Yoshikawa Hiroshi is a professor at the Graduate School of Economics of Tokyo University and Hamada Kōichi is an emeritus professor at Yale University and an economic advisor to the Abe Administration. This book explains the policies promoting innovation and argues that long-term employment policies promote R&D in Japan. However, this argument is inconsistent, as the book does not point out the fact that the government's employment policies are destroying long-term employment practices. Therefore, it is difficult to say that this policy proposal reflects the reality of the management side in the Japanese economy. Also, there is much criticism about the monetary policies of the Abe administration. Obata (2016, 16-17) offers one such criticism as follows: "The extreme monetary easing that supports the Abenomics strategy, Kuroda-nomics [the policy of the governor of the BOJ] is a way to shock the market with a surprise strategy. Such shock tactics used to be effective in drawing people's attention. … However, it isn't good. Why? First, the magic works

This paper argues that the financial crisis started from the burst of the bubble in 1990, and it aggravated the crisis in production systems in the 2000s. In this context, it will investigate the reasons that Abenomics, starting from 2013, only remained the BOJ's monetary easing policy, without allowing the real economy in Japan to recover, by taking a political-economic perspective and focusing on changes in "Japanese Management."

The End of the Cold War and Bubble Economy

The root of Japan's current stagnation originates from the burst of the economic bubble in the early 1990s. It is not a coincidence that Japan's economic bubble burst as socialism in the Soviet Union and Eastern Europe was collapsing. Japan faced the economic bubble crisis in the late 1980s because it played a leading role within the Western Bloc in saving American capitalism, which was on the brink of collapse due to the Cold War confrontation with the Soviet Union. On the other hand, it is important to consider that the remarkable economic growth of Taiwan, Singapore, Hong Kong, and Korea contributed significantly to the collapse of the Soviet Union.

In the 1980s, both the US and Soviet Union faced an economic crisis due to their high military spending during the Cold War. Table 1 shows military expenditures and percentage of GDP of major countries between the late 1970s and early 1980s. In this period, the world's total military spending increased fourteen percent, with the US increasing by twenty-three percent. Both the US and the Soviet Union had tremendous military budgets that took up about half of the world's military spending. The average GDP percentage of military spending for the entire world in the 1980s was 4.7 percent, while the US and the Soviet Union were at 6.1 percent and 15.1 percent, respectively. Japan was at just 0.9 percent.

The Soviet Union reached an average of 10.6 percent annual economic growth in the 1950s before dropping to 7.0 percent (1960s), 5.4 percent (1970s),

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only once, but Kuroda thought that this would work at all time. Mr. Kuroda launched the second round of the 'Kuroda Bazooka' in the fall of 2014 and launched the third round of negative interest rates in February this year. When shock therapy is used three times, the system breaks down. ... Japanese banks are also stuck and cornered. Politicians and economists have been telling us that the loss of profits from negative interest rates is an opportunity to reform local banks and that we should not make it easy to hold treasury bonds, but lend funds only to the companies selected by strict criteria, and design a new business model. However, local banks are already lending them to where they are needed. ... Local banks and financial institutions are in a serious crisis."

Table 1. Military Spending of Major Countries and Percentage in GDP[3]

	Average Spending 1975-79		Average Spending 1980-84		Average Percentage of Spending 1980-84 in GDP
	(USD $1M)	%	(USD $1M)	%	%
World Total	528,594	100.0	604,614	100.0	4.7
US	136,970	25.9	169,104	28.0	6.1
Soviet Union	126,120	23.9	136,260	22.5	15.1
West Germany	25,515	4.8	26,849	4.4	3.4
France	23,962	4.5	27,421	4.5	4.1
UK	23,755	4.5	27,625	4.6	5.0
Japan	8,694	1.6	10,506	1.7	0.9

Source: Stockholm International Peace Research Institute (1985).

3.7 percent (early 1980s), and 2.5 percent (late 1980s). This trend continued even after perestroika in 1985, and military spending was one of the reasons behind this decrease. While the US decreased the percentage of GDP it spent on the military, after peaking around twelve percent during the Vietnam War in 1968, the Soviet Union spent a similar amount during peace time as the US did in war time. This delayed improvement in people's livelihood, and durable goods such as automobiles and consumer electronics were not supplied. Japan in 1960, Hong Kong in 1965, Singapore in 1974, Taiwan in 1983, and South Korea in 1988 overtook the Soviet Union in GDP per capita. The population in the Soviet Union, to a certain extent, accepted their subpar living conditions to other Western countries; however, it was enormous shock to them when East Asian countries had overtaken the Soviet Union's economy (Nakayama 1993, 100-101; Maddison 2004; Vogel 1993).[4] This reality triggered outrage among the population and the communist system in the Soviet Union started to collapse from within.

After the Vietnam War, the US continued to decrease its military spending until the Reagan administration. From 1981 to 1987 the military budget rose as part of an armament expansion program with the slogan, "For a Strong America." The Reagan administration expanded the military and reduced taxes to revitalize its economy while the country issued government bonds with high

3. Average GDP refers to simple average of the years 1980-84. GDP for the Soviet Union was calculated by using data from Maddison (2004) compared to the US.

4. The growth rate here is the year-on-year increase in the production of national income.

interest rates to compensate for the shortage of tax revenue. As a result, money from across the globe flowed into the US, strengthening the dollar and deepening the trade deficit. In fact, trade frictions between the US and Japan intensified around the automobile industry in this period. The top three US automobile companies, GM, Ford, and Chrysler, suffered negative profits. It was a symbol of how the US' main industry was losing its competitiveness in the global market. Therefore, the strong dollar was not a result of trade surpluses or increased competitiveness, but from purposely setting high interest rates in order to issue more government bonds (Udagawa 2013).

In September 1985, the governors of central banks and the finance ministers from the US, Japan, England, France, and Germany convened in the Plaza Hotel in New York City. Takeshita, the minister of Finance, and Sumida, the governor of the BOJ from the Nakasone administration, attended as Japan's representatives. The exchange rate value of Japanese yen to the US dollar declined from 240 yen to 150 yen in the following year as the governors and the finance ministers of the five countries reached an agreement for the Japanese yen and German deutsche mark to intervene in the currency market. The countries again reached an agreement at the Palais du Louvre in February 1987 to implement policies reducing the interest rates of the central banks in Europe and Japan while raising interest rates in the US in order to increase the value of US dollar. In accordance with the Louvre Accord, the BOJ lowered its official discount rate to 2.5 percent while the bank planned to raise the rate at the end of the year in order to prevent overheating its economy.[5]

However, the New York stock market crashed in October of the same year as investors pulled their money out and invested in Japan and Germany, anticipating that Japan may raise its interest rate later that year. But Japan and European countries coordinated with one another to lower interest rates in order to prevent capital outflows. West Germany lowered its interest rate to 2.5 percent in December 1987 and prevented capital outflows in the US. However, a problem soon arose. The Deutsche Bundesbank started to raise its interest rate after seven months, starting from July 1988, as it was concerned about the overheating of German economy. Japan, on the other hand, faced a significant

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5. Suzuki Yoshio (1993, 91-92), director of the BOJ at the time, stated, "The domestic economy has begun to recover. It is dangerous to maintain the base rate at the "lowest" level, at 2.5 percent. There is a risk that the economic recovery will be short-lived as the economy accelerates and becomes inflationary. West Germany faced the same situation at the time. Therefore, the BOJ and the Bundesbank of Germany (West Germany Central Bank) started 'inducing high market interest rates.' … Along this line, it was expected that Japan and West Germany would raise the official discount rates in order to correct the ultra-low interest rates. In fact, the BOJ considered raising interest rates by the end of the year in order to put this back on track before it went too far."

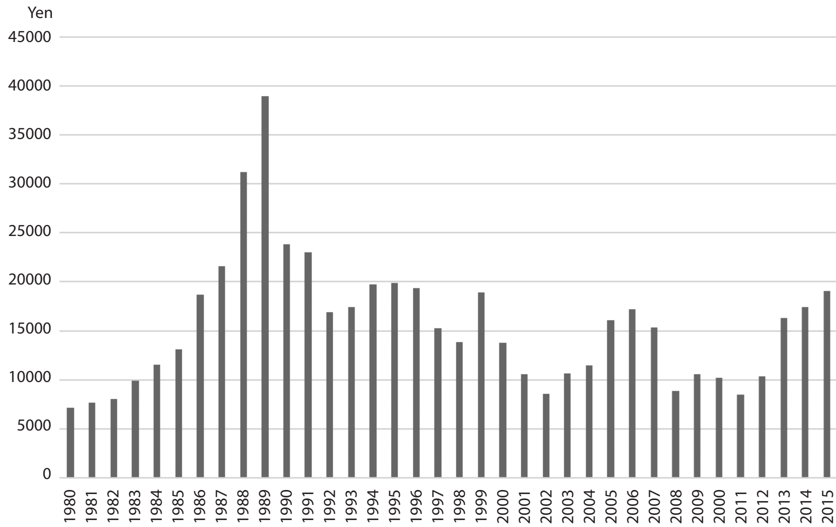
economic bubble, especially around stock and land prices, as the BOJ maintained its low interest rate of 2.5 percent for two years and three months, until May 1989.

Why did the economic bubble take place only in Japan and not in West Germany? It was because the BOJ assumed that the US stock market and the value of the US dollar would crash, should the BOJ increase its interest rate. However, this was not an acceptable reason for Japan to delay raising its interest rate while West Germany continued doing so. There must have been political pressure behind this economically unreasonable judgement. Japan had to be the one sacrificing for the US economy because the US contributed to Japan's national defence. It could be seen as Japan paying the price for its economic growth under the nuclear umbrella provided by the US.[6]

The Institute for Monetary and Economic Studies under the BOJ denied that external political pressure had any impact on the decision. The institute reviewed the BOJ's preserved data up to 2014 and argued that the BOJ did not raise the interest rate during that period, as the general price level was stable in the economy. Although the "general price level," which the BOJ considered as a critical factor, did not include stock and land prices, it is still difficult to believe that the BOJ did not know about the existence of the economic bubble in Japan's economy (Itō et al. 2015, 119-20).[7] In addition, it is critical to look at the relationship between the US Treasury Department and the Japanese Ministry of Finance. However, the report dismissed such a process by claiming that there is no evidence. This report clearly ignores the basic foundation of historical studies. Gyōten Toyoo, the chief of currency policy in the Ministry of Finance, negotiated with the US Treasury representative and the West Germany deputy treasury minister. In retrospection, he said, "It was impossible to make changes to monetary policies when we were in panic shortly after Black Monday. It was unfortunate for the BOJ, but we completely missed the timing for policy changes. And that was a critical mistake. I was not sure about what was going on within the BOJ, but I felt that there was nothing I could do when there was

6. This point is based on my opinion that after the Second World War, the Japanese economy became a highly consuming society in which consumer goods, such as home appliances and automobiles, spread. This is the result of two stages of economic growth, the high growth (1955-73) and stable growth (1974-85), under the US' nuclear umbrella. This also includes criticism of the conventional high growth theory. See Ishii (2015, ch.12) for details.

7. I used to have lunch with Governor Sumida after the advisory meetings in the late 1980s, as an advisor to the BOJ Banking Institute. I recall that one day, the special advisor, Tachi Ryūichirō, a professor at Tokyo University, criticized Sumida because, even though consumer prices were stable, the soaring monetary supply raised stock prices and land prices. It is impossible that the governor did not know about the problem of rising asset prices.



Source: Historical Data·Nikkei Average Profile.

Figure 1. Nikkei Average Stock Price

significant political pressure, such as that which came from the US" (Nikkei Business 2000).[8] Gyōten Toyoo clearly testified that political pressure from the US had a significant impact on the Ministry of Finance, the BOJ, and its monetary policies.

As shown in figure 1, the average Nikkei stock price increased from around 7,000 yen in 1980 to 20,000 yen in 1987 and 38,000 yen toward the end of 1989. Land prices also skyrocketed until late 1990, beginning with metropolitan areas such as Tokyo, Osaka, and Nagoya to other regions with foreign financial institutes. The issue was that the banks started focusing on high land prices as they found it difficult to sell loans to large corporations. These banks started issuing loans without credit checks if there was land to use as collateral. Also, loans were provided through subsidiaries such as "non-bank lenders," should

8. Sumida, the governor of the BOJ, as former deputy of the Ministry of Finance, would have been aware of the intention of the Ministry of Finance. The *Tokyo Newspaper*'s "Economic History of Revival: Seventy Years after the War" (*Sengo 70-nen yomigaeru keizai hishi*) referred to an article featured in the same newspaper on December 16, 2015 entitled "One Blank Year of the Japanese Bank" (*Nichigin kūhaku no 1-nen*). In the article, a former executive member of the BOJ stated, "Considering the US' concern about the financial crisis, the Ministry of Finance was putting great pressure on the BOJ to postpone the interest rate hike." This was the reason that the interest rate hike plan was thwarted and the directors of the BOJ were silent on the issue of economic overheating.

difficulties arise. This practice started with Sumitomo Bank. Key players in the securities sector, such as Nomura Securities, also started actively seeking opportunities in land loan services through its non-bank subsidiaries.

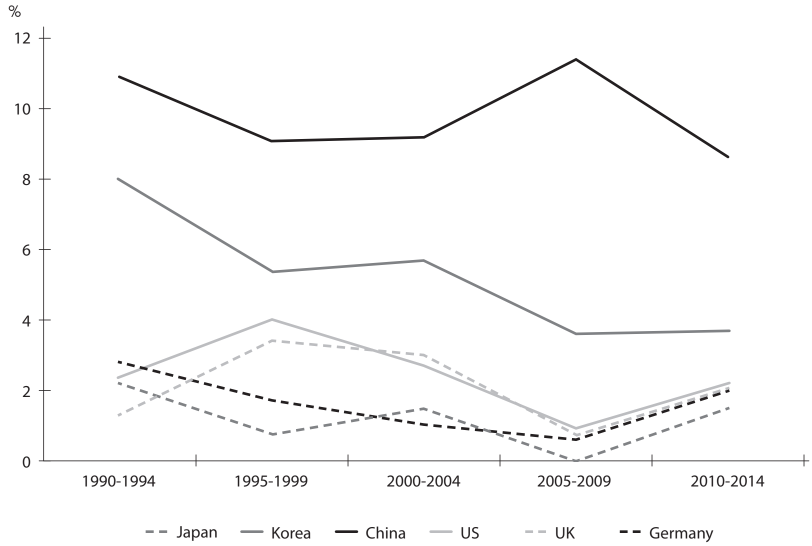
In May 1989, the BOJ decided to raise its official discount rate, as it faced significant criticism due to soaring land and stock prices. Later, the interest rate was raised again to 6.0 percent starting from December 1989, when Mieno Yasushi was appointed as the governor of the BOJ, until August 1990. As a result, the economic bubble finally burst.

Dealing with Insolvent Bonds under International Financial Policies

As the economic bubble started to burst, scandals from securities companies and commercial banks broke out in Japan. First, large securities firms like Nomura Securities began compensating large investors for the losses they suffered. When the president of Nomura Securities stated that this was done with approval from the Ministry of Finance, it became an even bigger issue. Nomura Securities was also under heavy criticism after it was discovered that the company made payments to the mafia. Sumitomo Bank also suffered significant losses from issuing property loans to one of its trading firm clients, Itoman, which was later found to have mob connections. In such cases, the Japanese government was afraid of being accused of participation in the scandals, along with the company management, and delayed allocating government funds. This ultimately resulted in even bigger losses for the securities firm and bank.

Large financial players, including Yamaichi Securities, Hokkaido Takushoku Bank, Long-Term Credit Bank of Japan, and Nippon Credit Bank, eventually went bankrupt in the midst of the financial crisis in late 1997 to 1998. In response to this crisis, the commercial banks were integrated and three mega banks were born—Mizuho, Sumitomo-Mitsui, and Mitsubishi Tokyo UFJ. Non-performing loans (NPL) were supposed to be taken care of once the three mega banks were established. During the process, however, a large-scale credit crunch took place, which was significantly influenced by international banking regulations.

In 1988, finance ministers and central bankers gathered at the Bank for International Settlements (BIS) in Basel, Switzerland and agreed that "internationally-operating banks are required to maintain a minimum amount (eight percent) of capital based on a percent of risk-weighted assets including



Source: UN Statistics (http://data.un.org).

Figure 2. GDP Growth Status

the fifty percent of profit from securities." The actual purpose behind this BIS accord was to restrain the overseas businesses of large Japanese banks that were quite active at the time. According to the BIS, Japanese banks owned up to thirty-five percent of the total assets owned by all global banks in 1990. Since then, the percentage has drastically dropped. By 1998, it was at eighteen percent, similar to that of German banks (Mitsui Sumitomo Ginkō 2013, 123). After the burst of the economic bubble, the value of securities owned by large Japanese banks dropped significantly.

This made the banks focus on retrieving the loans in order to maintain an adequate capital ratio. This eventually caused a large scale credit slowdown of up to 4.8 billion yen in 1997. Ultimately, it became the main cause of the long-term stagnation in the Japanese economy from 1998 (Kikuchi 2014, 131-34). The long-term stagnation following the burst of the economic bubble can also be seen as failure of Japanese banks to compete against huge bank capitals in Western countries, especially the US.

The burst of the economic bubble brought significant changes to financial systems, while stacking up NPLs. Because of this, some researchers argued that the fundamental cause of the economic crisis in the 1990s was the financial system, while the production system remained healthy (Kikkawa 2003, 93).

However, as depicted in figure 2, Japan's GDP growth rate from the 1990s until today is slower than those of the US, Europe, and other Asian countries. And it is clear that the economic crisis had a significant impact on the production system as well. What happened to "Japanese-style management" that was a driving force behind long-term economic growth between 1955 and 1985?

Transitioning from Long-Term Employment Practices to Short-Term Employment Practices

Generally, long-term deterioration in consumption and corporate investment are considered significant causes of the Japanese economic slowdown, yet they require in-depth explanations. First, the consumption decrease originates from companies' decisive efforts to depress wages and reduce employment to compensate for poor management. Thus, in 1998, the average wage decreased for the first time since the Second World War while temporary workers in part-time, subcontractor jobs replaced traditional long-term employment that used to exemplify the Japanese employment system (Itō 2002, 278-86).[9]

Table 2 shows a rise in total employment, but number of irregular workers has steadily increased while long-term employment has decreased since the late 1990s. Here it is important to note that in May, 1995, the Japanese Business Federation (*Nihon Keizai Renmei*) published a report entitled *The New Era of Japanese Management: Challenges and Solutions* (*Shinjidai no Nihon-teki keiei: chōsensubeki hōkō to sono gutaisaku*). The report suggested a policy known as the "Employment Portfolio" as a possible solution. This idea is based on the idea of an investment portfolio and suggested replicating the idea in an employment structure. In other words, it suggested employment structure diversification away from long-term workers to include part-timers, contract workers, and dispatched laborers (Yashiro et al. 2015). At the time the report was published, many newspapers were critical. They claimed that "the actual aim of the program seems to strongly repress wage increases" ("Nikkeiren hōkoku," 1995) and worried about de-structuring traditional long-term employment practices.

In the following years, the director general of the Japanese Business

9. According to the website of the Ministry of Health, Labor and Welfare, the percentage of irregular employees in 2011 was 40.1 percent for companies with one to twenty-nine employees, 37.4 percent with thirty to ninty-nine employees, 34.8 percent with 100 to 499 employees, 34.2 percent with 500 to 999 employees, and 32.6 percent with more than 1,000 employees. At larger companies, one in three workers were irregular (http://www.mhlw.go.jp). In other words, long-term employment practices began to collapse in large corporations.

Table 2. Trend of Full-Time and Part-Time Employment Ratio

(Unit: 10,000 people, %)

Year	Regular	Irregular(A)	Total(B)	A/B(%)
1984	3,333	604	3,937	15.4
1989	3,452	817	4,259	19.1
1994	3,805	971	4,766	20.3
1999	3,688	1,225	4,913	24.9
2004	3,410	1,564	4,974	31.4
2009	3,395	1,727	5,122	33.7
2014	3,278	1,962	5,240	37.4

Source: Ministry of Health, Labor and Welfare.

Federation, Naruse Tateo, analyzed the impact of the report as follows:

> Due to the burst of the real estate bubble and the Plaza Accord, the Japanese economy suffered a “lost decade.” How to accept the situation and think about the companies’ survival is square one. … If temporary workers comprised twenty percent of the labor population, they could make do in the short term if they are laid off. However, the current [October 2010] percentage of temporary workers is thirty-five percent. This means that fifteen percent do not have anywhere else to go, should they lose their current jobs. Unfortunately, each one-percent increase in temporary workers over the twenty percent that we predicted is shocking evidence of how society is deteriorating. … The more I think about the cause of this problem, I am strongly concerned about agreeing to the US’ decision to revalue the Japanese yen in the Plaza Accord. As discussed in many reports published by the Wage Commission, we tried to avoid the rise in costs by depressing wages after the oil shock, yet everything became hopeless after appreciation of the yen. (Yashiro et al. 2015, 91, 95, 97, 98)

The report of the Japanese Business Federation suggested the inadequate solution of turning to temporary workers as a way to get through the economic slowdown and yen appreciation for Japanese companies. Naruse recalled that during the oil shock, instead of depressing wages, management offered job security to workers. However, when the real estate bubble burst, management decided to unilaterally depress wages, due to the yen’s appreciation.

In opposition to the management, Suzuki Hujiichi, one of the researchers at the Research Institute for the Advancement of Living Standards of RENGO, the Japanese Trade Union Confederation, said the following:

> Accumulation of human capital through long-term employment and a seniority-based wage system are important and straightforward incentives to nurture employment loyalty within a company. However, a rigid labor market and vocational qualification systems inevitably create inflexible labor costs and oversupply of labor. At the same time, having a fixed labor structure does not prepare companies to deal with an unpredictable future. … I believe inducing regular employment is one of the pathways a company can take. … At the same time, they need to confront the reality of the diversified job structure and the emergence of new employment types. Labor union cannot function or establish a new employment structure without ignoring market principles (Yashiro et al. 2015, 36, 338).

These statements seem to represent managements' support of the necessary increase in the number of irregular workers. From the perspective of the Japanese Trade Union Confederation, even if they supported the "inducement of regular employment," they may have noticed in advance the impractical nature of achieving such an agenda in the companies. Also, Japanese labor unions usually consist of long-term employers, who lack motivation to deal with issues of irregular workers in the first place. The increase in irregular employment spurred the decline of labor unions.

Changes in the traditional Japanese long-term employment structure cannot have occurred without changes in the government's labor policy. Both the Hashimoto cabinet in 1996 and the Koizumi cabinet in 2001 strongly advocated the "neoliberalist approach" in support of small government and market principles.[10] According to the revision of the Worker Dispatch Law in 2001, professional occupations subject to the law, including secretary, translator, software developer, and office technology operator, were increased from sixteen to twenty-six. In addition, the amendment of the Labor Standard Act in 2004 increased contract time spans for dispatched workers from one to three years and allowed dispatched laborers in manufacturing plants and social welfare centers. This contributed to firms' decisions to lay off long-term workers and employ dispatched workers instead. Japan strongly regulated dispatched laborers in the post-war period, since exploitation of women laborers in factories hired via brokerage or recruitment agencies was one of the most serious issues in society. Thus, the Worker Dispatch Law of 1986 only allowed dispatched

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10. Neoliberalism is not only a type of "market fundamentalism" that excludes Keynesian policy interventions with the belief that it is best to leave economic operations to the market, as Thatcherism or Reaganomics did. "Social market economy" in European countries such as Germany and France recognizes policy intervention if necessary. The latter is the extension of social democracy, and the mechanism of the labor union's intention is reflected in the government policy regarding working hours and employment adjustment. For the two types, see Gonjō (2015).

workers in exceptional fields that required highly professional skills. However, the revised Worker Dispatch Law expanded the scope of application, but in effect, reduced wages. In September 2015, the Worker Dispatch Law was revised again to restrict the indefinite extension of contracts for professionals in these twenty-six fields to a maximum of three years. This placed greater burdens on dispatched workers.[11]

The working environment for regular employees worsened as well. During the first Abe cabinet in 2006, the Labor Policy Deliberation Committee under the Ministry of Health, Labor and Welfare began to discuss an exemption for white collar workers from restrictions on working hours. The Ministry tried to codify flexible working conditions, such as working only two hours the following day when laborers have to put in overtime, a reference to the US' law of "white-collar exemptions." However, Japanese labor groups opposed the idea for "not paying overtime and fixing long working hours," so the legislation did not pass ("Koyō rūru o tou," 2006). However, during the second Abe cabinet, the agenda was renamed "The Policy for Highly-Skilled Professionals" and an attempt was made to pass the legislation. In the case of Japanese firms, it is too complicated to evaluate the capacity of each worker by performance instead of working hours because it is habitual to work in teams. Therefore, long hours of work may occur without guaranteeing an overtime allowance (Morimoto 2016, 103-108).

The amendment of the Labor Standard Act in 2004 allowed a company to freely and unilaterally discharge workers if it had a reasonable explanation for its decision (Kikuchi 2014, 145-46, 155-56). However, redundancy is often regarded as an abuse of this authority in the Japanese legal system. Thus, it is not easy to lay off workers. The second Abe cabinet aims to codify the law to terminate labor contracts by introducing "settlement money" between a company and a worker, even after the judge nullified the redundancy issue (Morimoto 2016, 108-18). Nowadays, the worry of becoming an irregular worker is not just a problem for the younger generation, but it is also spreading to middle-aged workers. These workers are part of the second baby boom generations, born during 1971-74. Many of them were affected by the burst of the economic bubble in the early-1990s and inevitably became irregular workers, particularly as dispatched and part-time laborers, even after they

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11. At the time of revision, there were about 1.26 million dispatched employees nationwide, of which about 490,000 were in the twenty-six highly specialized jobs. A woman working as a researcher in a large company expresses her concerns that if she moves to another research institute, the know-how learned at the company would be lost ("Yatoidome senmonshoku mo," 2015). See Morimoto (2016, 92-103) for this issue.

graduated from high school and college (Amamiya et al. 2016, 22, 67). In Japan, it is particularly difficult to get a regular job in large corporations if one is not a new college graduate (Sugayama 2010). The government tried to improve the flexibility of the labor market by establishing "Hello Work" (a government employment service center), which provides job training programs and job-matching services to the unemployed, but it is hardly effective in improving unemployment (Amamiya et al. 2016, 236). Thus, the middle-aged workers who continue to work in temporary jobs constantly fear unemployment and work in low paying jobs while opportunities for marriage, social activities, and staying healthy fade away (Amamiya et al. 2016, 70).

In principle, the increasing number of temporary workers and deteriorating living conditions for regular workers are likely to decrease consumption and increase savings to prepare for an uncertain future. Interestingly in Japan, the nominal wage since 1998 has been declining (Yoshikawa 2013, 174), and not many people can afford to save what they have earned. The increase in temporary workers may have a positive effect on companies' short-term profits due to lower labor costs, but from the macroeconomic perspective, overall consumption has become stagnated and companies' potential gains in the future are adversely affected.

Lack of Innovation by Engineers and Management

The appreciation of the yen after the Plaza Accord weakened the competitiveness of the Japanese economy compared to neighboring countries. Creating demand through innovation in new products and services could have been a driving force for Japanese companies, but they chose instead to rely on short-term countermeasures, such as lowering production costs by reducing workers and labor expenditures. As a result, many companies still suffer from a lack of innovative ideas to escape from the economic downturn.

According to Suzuki Jun (2015), domestic patent applications peaked in 2001 at 440,000, while in 2014, the number was only 330,000. Also, the number of scholarly articles published by Japanese researchers dropped five percent between 2004 and 2012. The number of patent applications and published articles in the world increased by 1.7 times and 1.5 times, respectively, during the period. It is also important to note that Japan is the only major economic power in which research publications decreased. There were arguably two reasons for this. First, the burden of providing education and social services had increased among researchers in Japanese universities, while time spent on research had dropped three-fourths in the previous decade. Second, research funding converged toward a handful of large universities, which ultimately decreased researcher productivity.

We cannot overemphasize the importance of research and technology development in companies and universities, but whether or not such development would lead to business innovation needs more scrutiny. It is important to understand the obstacles to innovation in the case of Japanese companies. Based on the recollections of Yunogami Takashi, who used to work in semiconductor development for the Hitachi Manufacturing Company, Japan led the industry at the time he was working in the mid-1980s, commanding eighty percent of world market share in DRAM memory manufacturing. He remembers his experiences as follows:

> DRAM was one of the components for large-scale computers and telephone switchboards. At the time I was working, companies that manufactured these items asked for "unbreakable DRAMs." More specifically, they wanted a twenty-five-year warrantee for the computers and twenty-three years for the telephones. Such requests were too much to ask for. However, Japanese companies somehow managed to create high-quality, reliable DRAMs. As a result, Japan began to dominate the market. It is around that time when the Japan semiconductor industry established its reputation for creating detailed and high-quality DRAMs throughout the world. (Yunogami 2013, 60-61)

The problem was that Japan continued to provide DRAMs only for large-scale computers with a twenty-five-year warrantee while personal computers began to dominate. Sooner or later, Korean competitors like Samsung Electronics, who sold mass-produced DRAMs at lower prices started to surpass Japanese producers. Yunogami argues that the idea of "Japan as a world leader in high-tech production" is merely a myth. In other words, to be an advanced technology leader, companies should have advantages, such as low cost production of high-tech goods and short lead time. It is incorrect to say that a company possesses high-tech capabilities by focusing solely on one of these conditions. In addition, Yunogami heard from technicians who transferred from Japanese semiconductor companies to Samsung Electronics that Japanese companies may have been competitive in developing new technology, but in terms of mass production, Samsung was overwhelmingly superior. Samsung Electronics encouraged competitiveness among their teams as part of their strategy. Only those who were most productive were allowed to integrate with the development and mass production processes so that the technology could be produced at a low cost in relatively short time. By comparison, Japanese semiconductor companies had a strict hierarchical structure of research centers, R&D departments, and factories, which lacked flexibility among them. In this system, the factories were at the bottom of the hierarchy. Thus, because of this structure, Japanese semiconductors became less competitive than Korean ones.

During 1999, Japan established the Elpida Memory Corporation, initially formed by the merger of the Hitachi and NEC DRAM businesses in order to protect the Japanese semiconductor industry from risk. Yunogami was transferred from Hitachi to the Elpida Memory Corporation but retired after a year due to his inability to compete in the technology development process of NEC. Following the company's inception, sales were strong, but actual profits were insufficient, and it went bankrupt in 2012. The chairman of Elpida Corporation said in an interview that the main reasons for the company's bankruptcy were the decline in the price of DRAM products and the appreciation of the yen, not the company's level of technology. Contradicting this claim, Yunogami believed that it was wrong for the management to blame external factors for the company's bankruptcy. Furthermore, he argued that the direct cause of the failure was their low level of technology, which prohibited them from producing DRAMs at low costs. Yunogami became a professor at Dōshisha University after retirement and continued to investigate the failure of the Elipda Corporation. He continued to argue that its failure resulted from high DRAM production costs and excessive technology and quality in the world market. The company, however, disregarded his opinion.

In addition to Yunogami, the memoir of Harada Setsuo (2012) provides insightful analysis of his time at Sony from 1970 to 2010. Sony developed into a leading electronics manufacturing company with advanced technology by Ibuka Masaru and Morita Akio. However, from 1982 to 1995, during the time of former musician Oga Norio's presidency, Sony adopted a divisional headquarters strategy. The strategy tasked each of the headquarters to take charge of both technology development and sales performance. As a result, Sony bought CBS Records and Columbia Studios for the purpose of expanding its interests in "soft" industries while still maintaining its "hard" businesses. Oga's reforms seem to have saved the company from serious management risks (Ikushima 2004). In Harada's memoir, he tends to focus more on the management methods of Idei Nobuyuki, who became both chairman and president from 1995 to 2005 after Oga. Harada wrote, "The risk to Sony's management became apparent after 1995, during the management transition from Oga to Idei." He specifically criticized "social discrimination" as follows:

> From my perspective, social discrimination exists mainly between employees who are in close connection with the chairman and those who are not. Generally, in the business world, if you take the management's side, you are parted from the field (*genba*). However, Sony used to have a flexible business environment connecting the two groups, and thus, no social discrimination existed within the company. (Harada 2012, 114-15)

When Sony was established by Ibuka and Morita in 1946 under the name Tokyo Tsūshin Kōgyō, the mission of the company was to "establish a free, active, and delightful idealistic factory." Harada criticizes faded traditional values that emphasized the importance of the field. For example, Sony's product designer traditionally held meetings with Chairman Morita and President Oga to make the final decision on the model designs, but such an amicable communication process did not exist during Idei's presidency. In addition, the manager in charge of development completely ignored the chance to develop a robot to replace prosthetic arms and legs in 1999, at a time when development opportunities flourished. This caused Sony to lose a huge business opportunity to boost their social responsibility credentials. Harada (2012, 30) states: "Under Idei Nobuyuki's leadership, the company closed down a public library for technicians and completely dissolved Sony's central research center, which was in charge of carrying out basic research for the whole company." In 2003, the company separated the board of directors into two positions, supervising directors and executive directors, based on a structural reform policy known as "the company committee system." This restricted technicians' involvement in business management. Interestingly, most of Idei's reform policies were based on suggestions made by an American consulting company. Harada criticizes Idei for introducing an "in-house company system" from 1994 until it was abolished in 2005:

> Sony's in-house company system is a policy that represents the short-term interests of the shareholders and increases stock prices ultimately used to raise wages for the chairman and president. It seems like a policy drafted by those who have no knowledge in business management. Under Idei's leadership, Sony granted total management-level decision making authority to subsidiaries. … This decision came from someone who is so malleable that he merely follows orders from the consultants and has interests in investors' gains, not in business management. … He wants to dominate the top management position, evaluating the company within the structure of a holding company, like an investment bank, while being far removed from business itself. (Harada 2012, 140-41, 153)

Under Idei's leadership, the company abolished the traditional business practice of emphasizing on-site factories and the value of "*monozukuri*" (manufacturing), adopting the American management style that strongly reflected the short-term interests of shareholders.

The introduction of these reform policies resulted in a one-trillion yen deficit between March 2009 and 2015. The most recent data show some signs of recovery, with Sony being the most profitable of the world's electronic companies. Sony improved its business performance following similar progress by Hitachi and Panasonic. More specifically, Sony Life Insurance Company has been their biggest moneymaker in the financial sector, followed by their smart phone image-sensor camera device and game consoles, notably the Playstation 4. Sony's computers and televisions, which once led the world's market, lagged behind the competition, and sales rapidly declined. The company needs to decide whether it will break off from the electronics sector or adopt a new, innovative structure as a mature company ("Tokushū: Sonī nekkyō naki," 2016).

The two memoirs mentioned above criticize the Japanese business practices and level of technology since the 1990s. Yunogami, technician from Hitachi, argues that the failure of Japanese companies compared to neighboring countries comes from too much emphasis on producing high-quality products and ignoring the importance of low-costs production. According to Harada, Sony's management ignored the company's advanced technology while stressing American-style short-term gains, which caused its lackluster performance. A company can develop only when technology and management work in close coordination with one another. But in the 1990s, Japan lost this balance and therefore lost their competitiveness to the US and neighboring countries.

Heavy Reliance on the US and the Crisis of "Japanese Management"

Not all players in the Japanese manufacturing sector were stagnating. Unlike the electromics, automotive companies, such as Toyota, were performing well. Kasuya Makoto (2012, 408-409) argued that the difference originated from Japan's loss of competitiveness in the midst of the "modularization" movement among international manufacturing players. "Module" describes the construction of a complex system using interrelated subsystems. Examples of this include televisions and computers. In other words, "modular" technology is the method by which independent systems are used as parts of a product.

On the other hand, products composed of a significant number of interrelated parts, such as an automobile, use "integral" technology because they need detailed adjustment and fine-tuning from the design stage and close coordination during the manufacturing stage. For example, if an engine design is changed when manufacturing a car, the body and suspension must be changed as well.

"Modularization" rapidly changed the ways in which cathode-ray tubes and flat screen televisions (liquid crystal display televisions [LCD TV]) were manufactured. They were simply put together with modular parts. Yunogami, an engineer at Hitachi, started developing thin film transistors (TFT) at the Semiconductor Energy Research Center from 2002.

The manufacturing process for TFT, consisting of less than 100 steps, was simple, compared to the more than 500 steps for semiconductors. Yunogami was able to complete the entire TFT process within only one month. This meant that any global company could create an LCD TV as long as it secured the parts and manufacturing equipment. Based on this experience, Yunogami claimed that Japan has to channel its efforts to bring innovation in industries with "integral" technologies, whose processes are difficult to reproduce, rather than focusing on industries with "modular" technologies that others can easily copy (Yunogami 2013, 182-83, 211-13).

The automotive industry is a great example of "integral" technologies. Fujimoto Takahiro, known for his work on the "Toyota production method," foresaw where the global manufacturing industry was heading. According to him, "Comparative advantage on design, not only on production, has a great impact on trade structure. Therefore, Japan, with a well-structured integration system and controlling capabilities, can easily secure its advantage in designing products of integral technologies" (Fujimoto 2016).[12] Fujimoto also noted that:

> A company must put its effort in maintaining these systems and developing them as its competitive edge. They have to translate into the company's management. In other words, a company in a stagnated economy must compensate for a decreasing number of jobs by creating demand (product innovation) and express

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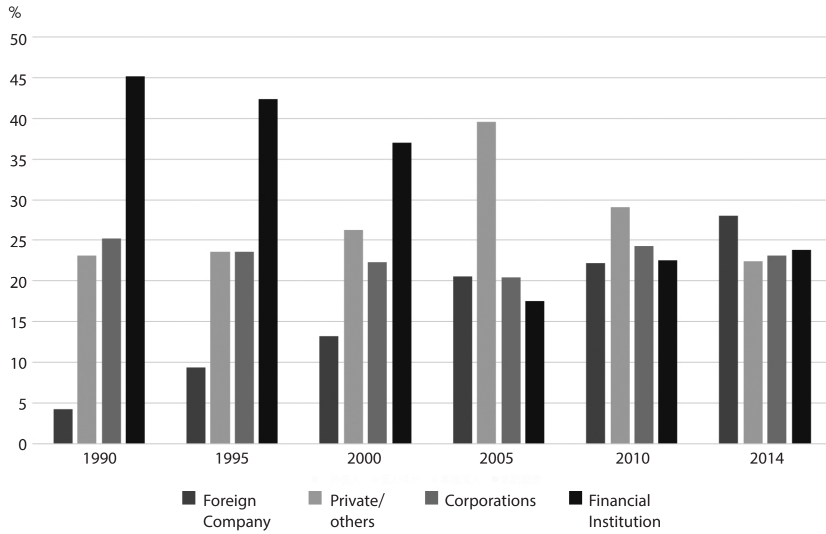
12. Fujimoto (2016), in his newspaper article about the competition between China and Japan after the end of the Cold War, argued that, "Most of the Japanese companies competing with the low price of Chinese products established factories in China, thinking that low labor costs meant a lower price for the products. Ultimately, they failed to recognize the importance of productivity." However, he also pointed out that "the excellent domestic market of traded goods will show its strength from now on. The fields that have been able to understand the difference in wages and productivity, thanks to their experience in entering emerging countries, have set goals for survival and have made efforts to improve the productivity of their field multiple times within several years." And as a result of the rise in wages in China, "I heard that in 2010 we caught up with China in unit price. We have won the long war and are getting out of a long tunnel of more than twenty years. The end of the post-Cold War era." This claim requires further investigation, but I will not comment further as it is beyond the scope of this article.

> its will to maintain employment in the field. This allows employees to focus on increasing productivity. In fact, small to medium companies in regions had long built trust between management and employees with continuous efforts to increase efficiency and creating demand from both management and employees. … Some large companies that had misread the long-term outlook while pursuing short-term gains have a lot to learn from these small to medium companies. (Fujimoto 2016)

Fujimoto defined US, European, and Japanese enterprises that aimed only to maximize their profits as "capital-oriented enterprises." Large corporations with strong ties to specific regions, such as Toyota and Mazda, as well as small and medium-sized enterprises with their production and management center in the same place, pursued both profits and employment as "field-oriented enterprises." He emphasized that the latter companies are suitable for twenty-first century Japan. Fujimoto, however, did not mention the relationship between factories and sales activities, for his argument contrasted capital and workplaces. Therefore, he ignores the fact that Nissan Motors was unable to compete with Toyota, despite having advanced technical capabilities. This led to the acquisition of Nissan by French automaker Renault Motors in 1999, as the company was unable to pay its two-trillion- yen debt ("Runō, Nissan kabu," 1999). Needless to say, it is critical to balance both technology and management.

However, the US economy was not revived by the Plaza Accord's economic support from other Western countries. In May 1995, the US announced a 100 percent tariff on luxury cars, including Toyota's Lexus, citing the closed nature of the Japanese market during the two countries' automotive trade dispute. A series of intense negotiations between the two countries took place, and Japan was asked to purchase more auto parts from the US in order to avoid the 100 percent tariffs. In the end, both countries reached an agreement, as Japanese automakers would voluntarily expand its production facilities in the US. As a result, Japan made significant contributions to the US by creating employment and transferring technologies, and the trade dispute entered a new phase. However, the US automotive industry did not fully recover, and General Motors and Chrysler filed for receivership soon after the Lehman Brothers collapse in 2008. This was a clear example that a company could not last long without strengthening its competitiveness, even if its foreign rivals are kept at bay with political power ("Sengo 70-nen Nihon no katachi," 2015).

Recently, as the US has continued to lose ground in numerous industries (except defense, information technology, finance, and others) the country has sought new opportunities in global loans and investments. This trend can be seen among non-financial companies, such as manufacturers, making more



Source: "Stock Distribution Survey," Japan Exchange Group Website.

Figure 3. Trend in Proportion of Stocks owned by Entities

payment to the financial market for interests and dividends from profits and depreciation. This proportion continued to increase from an average of twenty percent in the early 1960s to thirty percent in the 1970s and up to seventy-five percent in 1990. In other words, control over large companies in the US shifted from management to owners, a movement from "managerial capitalism" to "investor capitalism" (Dore 2011, 35-36).

According to recent research on 3,117 foreign companies in Japan (with capital over fifty-million yen and more than forty-nine percent foreign capital), the number of foreign companies in Japan headquartered in the US is decreasing. However, they still comprise a significant proportion at thirty-seven percent, similar to European companies, forty-two percent, and Asian companies, seventeen percent. This research also indicates that there is an increasing number of new players, with fifty-nine percent of companies entering Japan after 1991 (*2015 Gaishikei kigyō sōran*, 2015, 147). As depicted in figure 3, only four percent of the shares of listed companies in Japan were owned by foreign entities (including corporations and individuals) in 1990. However, this increased to thirteen percent in 2000, twenty-two percent in 2010, and twenty-eight percent (equivalent to thirty-two percent on a market cap basis) in 2014. This trend becomes even clearer when comparing the increasing number of foreign shareholders between 1990 and 2010 with a decrease in the percentage of stocks—from forty-five percent to twenty-three percent—owned by Japanese financial institutions at the time. Japanese corporations and individuals each owned around twenty percent of overall shares in the market in 1990. By analyzing the changes that took place after 1990, it is possible to see how foreigners started to own more shares while Japanese financial institutions reduced their impact on the market.[13]

Japan has been very conservative when acquiring foreign capital, even after the Second World War. The country tended to adopt technologies from outside; however, there was a strong tendency to prepare the necessary capital by its own efforts. There were several barriers for foreigners seeking to invest capital in Japan. In order to eliminate the barriers and reform the system to make it easier for US capital investment in the Japanese economy, the so-called "Annual Reform Recommendations" have been submitted by the US to the Japanese government since 1994. According to the research on recommendations submitted by the US until 2007, they have come in various types: (1) 1996: freedom to dispatch workers; (2) 1997: abolition of the Large Scale Retail Store Law; (3) 2000 to 2007: adopting US management structure, simplifying processes for mergers and foreign businesses to enter the Japanese market; (4) 1999 to 2004: abolition of postal insurance and privatization of postal services; (5) 2001 to 2007: medical system reform, mixed medical care, and entrance in the stock market. A majority of these reform requests have been accepted and reflected in law, except for the number five (Daimon 2007, 33). We will take a closer look at number four, the privatization of the postal services.

The Koizumi cabinet, which was established in 2001, advocated postal privatization, and after several twists and turns, the postal privatization bill was enacted in 2005. Koizumi argued that postal service reform was the essence of structural reform because the thirty-four-billion yen from postal savings and insurance would be transferred from the government to the market sector upon privatization, the largest such transfer in the world. This would deter issuing government bonds and would help fiscal reconstruction. However, his argument was without any reasonable or sufficient explanation as to why fiscal austerity had to be imposed in the midst of stagnation that has been ongoing since the 1990s. This development must be seen in light of Koizumi's personal beliefs and the intent of banks and businesses, as well as in regards to external pressure from the US demanding the privatization of the postal services.

13. In figure 3, government and local public organizations (0.1 to 0.6 percent) and securities companies (0.8 to 2.5 percent) are omitted.

For example, "Annual Reform Recommendations from the Government of the United States to the Government of Japan under the US-Japan Regulatory Reform and Competition Policy Initiative," submitted in October 2003, states in the foreword:

> The United States welcomes Japan's continuing efforts to achieve meaningful economic reform and is encouraged by Prime Minister Koizumi's statement on September 22, 2003 that his new cabinet will continue to put its energies into regulatory reform and that he remains committed to his policy of no growth without reform. The recommendations included in this submission put an emphasis on reform measures pertaining to key sectors and cross-cutting areas and are designed to facilitate a return to sustainable growth and to further open markets in Japan. Furthermore, the United States has made a concerted effort to focus on issues that Prime Minister Koizumi and his Administration have identified as important areas for reform, such as telecommunications, information technologies, medical, energy, and competition policy. ("Annual Reform Recommendations," 2003)

In the statement, the US provided detailed demands for overall economic reforms to be carried out by Koizumi and his administration and "interfered" in the internal affairs of Japan under the guise of "recommendations" to further "open markets in Japan." The postal services reform was outlined in "V. Postal Banking Institutions" under Article 7 ("Transparency and Other Government Practice"). Although the detailed contents are not publicly available, the US was very interested in the postal savings and insurance for the postal privatization agenda. The US applauded efforts toward reform and especially recommended providing sufficient information to and hearing opinions of US-based insurance companies in Japan.

In September 2004, Koizumi and his cabinet decided to separate financial services from postal services within ten years, in accordance with the basic principles for privatization established in the National Economic Advisory Council. Key discussion topics were whether the postal service could be successful without any support from financial services and if there was any risk for the acquisition of financial services by foreign entities. In April 2005, during debates on postal service privatization bills, questions were raised regarding external pressure from the US and the risks of being acquired by US capital. On May 31, Koizumi Ryūji from the LDP, a former member of the Ministry of Finance, stated during the Special Committee for Postal Services Privatization under the House of Representatives that "pressure from the US is mentioned frequently." He pointed out the following:

> There is a report entitled "The Annual Reform Recommendations" received from the US every fall. This is divided up and sent to around 900 officers in the central government. We gradually make concession to these demands to accomplish our goals set for the following year. Just like in the play called, "What is the time, Mr. Wolf?" we walk slowly yet diligently toward our goals. Then we suddenly realize that a majority of these recommendations have been reflected quite accurately. They can almost serve as guidelines if you want to foresee the near future of Japan or purchase stocks. The US sent us very detailed instructions regarding the privatization of the postal services, including its insurance, as if the US is interfering in our internal affairs. ("Dai 62-kai Kokkai Shūgiin Yūsei Min'eika ni Kansuru Tokubetsu Iinkairoku [Dai 5-gō]," 2005, 14)

According to his statement and his experience in the Ministry of Finance, "recommendations" from the US have been reflected in and carried out by government bodies in Japan. Kiuchi Minoru, a former member of the Ministry of Foreign Affairs from the LDP also raised questions during the Committee meeting on June 7 regarding the bank that was established with the postal service's finances. He asked, "Will we be able to buy all the shares of the Japan Post Bank and acquire the management, like the previous case of the Long-Term Credit Bank of Japan?" He also raised the question, "Isn't it necessary to impose restrictions on foreign capital to a certain extent?" However, Takenaka Heizō, the minister of State, only provided answers with little substance, stating that, "defence mechanisms and measures against hostile takeovers" were being developed. He also answered, "Ultimately, new management for newly established entities will come up with effective and appropriate solutions for all." Kiuchi then criticized such measures for failing to prevent foreign capital from taking over the bank, arguing that, "I think you've just told me with nuance that such measures would prevent foreign capital from taking over the Japan Post Bank, but I think that is not true" ("Dai 62-kai Kokkai Shūgiin Yūsei Min'eika ni Kansuru Tokubetsu Iinkairoku [Dai 9-gō]," 2005, 23-24). Eventually, the bill did not pass the House of Councillors that August, with concerns and voices against the bill even within the LDP. However, it was later passed, as the party won the general election after Koizumi had dissolved the Diet.

The postal services privatization case demonstrates that the US government's will is strong and powerful enough to penetrate deep into the Japanese government. Unlike the Republic of Korea, which was forced to accept the International Monetary Fund's demands for fiscal and monetary austerity, trade and capital liberalization, deregulation, and structural reforms in 1997 upon receiving emergency aid, Japan accepted the US' demands willingly. Government officials, politicians, journalists, and academics were generally in agreement with the US' demands (Kikuchi 2015, 97-112).[14] However, this does not mean that the Japanese government has always agreed with the US. For example, the Hatoyama cabinet in 2009 consisting of members from the Democratic Party of Japan, occasionally put the brakes on postal services privatization, reassessed the US Forces Japan in Okinawa, and sought to establish "independent" diplomatic channels between Japan, Korea, and China in East Asia. However, the US soon used various means to have Hatoyama resign under pressure (Magosaki 2012).

One of the US-based investment firms was planning on purchasing shares of the Japan Post Insurance and Japan Post Bank, becoming involved in management, and using the companies' budgets to purchase US government bonds to use as foreign capital. This is the reason that the government wanted to expedite the privatization process. This was possible, given that the US had persistently "recommended" privatizing the postal services since the 1990s. Funding these services would be a great source for the US "investor capitalism" to achieve its global goals (Kikuchi 2014, 177-78).[15]

Yet it will not stop at postal services privatization. The more important issue is that the US has been paving a way for its capital to enter Japan via the plans in the "Annual Reform Recommendations." This is collapsing the very foundation of "Japanese Management" that has supported the Japanese economy and the conditions for innovation, based on long-term employment practices and long-term perspectives. In that context, it is important to look at the dialogue between Takahashi Nobuaki and Mizuno Kazuo, pointing out several factors regarding long-term employment:

> When Japanese-styled employment systems were well placed and implemented, management was very sensitive about the employment status deteriorating. However, now the paradigm shifted, with foreign capital entering the market, considering employees as replaceable parts, rather than talent to foster and grow. I think this is why the labor market is getting worse very quickly. Of course, it may be prevented if there is a system to foster and develop employees outside of companies. However, both blue-collar and white-collar employees are fostered and trained in the field. If employees are not given any spare time or incentives to

14. On Minister of State Takenaka, who was in charge of the Koizumi cabinet's structural reform and postal privatization, refer to Sasaki (2013).

15. This problem was pointed out earlier by foreign researchers. For example, Gavan McCormack (2008, 82), an emeritus professor at the Australian National University, stated, "Postal privatization was at the top of the US demands for Japan, and Koizumi's cabinet has already bought US long- and mid-term government bonds. The postal privatization was a gold mine that the Bush administration anticipated. It supported the US' policies by helping the US government deploy its troops to Iraq. The barriers to postal privatization will soon be removed and private investment institutions in the US are excited as Japan's huge savings funds will soon be released."

> train successors, no talent will be fostered or trained. In this context, long-term employment has a great impact for fostering and developing new talent in the field. (Takahashi and Mizuno 2013, 85-86)

Government labor policy is responsible for aggravating poor labor conditions. Scholars and bureaucrats who studied in the US firmly believe in easing labor regulations to diversify labor structures and increase mobility as necessary "reform" policies. But they insufficiently understand the nature of Japan's labor market. Takahashi notes that unless there are "external job training programs" or job opportunities for those other than college graduates, the reform policy cannot resolve the fundamental problem of Japan's labor market structure, making it almost impossible for irregular workers to transition to full time jobs. Once a person become a temporary worker, it is almost impossible to transition into a long-term job. Thus, reforms should consider the reality of the poor labor conditions. From the US perspective, poor management performance in rival Japanese companies may be an opportunity for its own economic recovery. But the Japanese government and companies should not be disturbed by external threats, instead concentrating more on fixing internal problems.[16]

Conclusion

Prime Minister Abe has followed Koizumi's cabinet in supporting market principles and neoliberal policies, but this has led to Japan's increased dependency on the US with no clear outcomes. The Lehman Brother's collapse in 2008 revealed the fundamental flaws of the neoliberal, US-driven "investor capitalist" policies, causing some people to reconsider Japanese-style management.[17] At the

16. Of course, the government is also reviewing employment policies and planning to implement a new law in 2019 ("'Dōitsu rōdō dōitsu chingin,'" 2016). But things are not that simple. In practice, it is difficult to judge the same labor based on the contents of the Japanese wage system because it is based on the ability of "people" and their "job level," rather than the contents of "work" ("'Dōichi chingin' keizaikai," 2016). It is difficult to accept government proposals because of the economic advantage of reducing regular employment and replacing it with irregular workers. I would argue that turning irregular employment into regular employment should be the centerpiece of improvement.

17. *The Economist*, on August 11, 2015, published a special feature, "Seventy Years after World War II: Japan's Economic History and Future" pointing out that "long-term involvement by employee-centeredness" is the essence of Japanese style management and that it can change throughout the era. In the 1970s and 1980s, the Japanese economy became praised worldwide, but in the 1990s, when its performance deteriorated, it suddenly underwent criticism, and US-style management became the global standard. The Lehman Brothers shock has questioned US-style management, and the direction of the wind changed again in the mid-2010s. Tezuka (2015) argues that only

government and business level, however, there are no signs of change, as they continue to follow the US.

The media has started to publish reports that assess the failure of Abenomics. One of their arguments is that private enterprises tend to ignore the support provided by the government and the BOJ, and instead sluggishly engage in investment opportunities.[18] On the other hand, business managers blame poor investment conditions as the main cause for the failure, stating that, "Although interest rates have decreased, the future business outlook is still unpredictable, so any investment in production could be risky" ("Motatsuku keiki 2," 2016). The government cannot force private businesses to increase investment or raise wages. It can, however, provide favorable investment conditions. In the world market, major countries like the US and China are still struggling to find engines for growth. The world needs "strong political leadership that can promote borderless free trade and infrastructure investment and ignite major engines for economic recovery. Unfortunately, the political situation is in turmoil. … The political risk cannot be underestimated when it comes to achieving economic growth" ("Motatsuku keiki 3," 2016). Nowadays, Abe administration's economic policy encourages private companies to use large amount of accumulated capital on facilities, investment, and wage increases. Diplomatically, the administration is preparing to send Japan's Self Defense Forces abroad, in close coordination with the US' defense strategy. Thus, under Abe's leadership, it seems natural for private companies to not engage in investment activities due to the risk of war.

The best policy to improve the investment environment for Japanese companies is to reestablish favorable conditions for capital investment based on a long-term perspective. This used to be a hallmark of Japanese management practices in the past. At the same time, it is also important to create a socially-favorable environment for employees to have stability and protection at workplaces while social safety nets are guaranteed to retirees. Innovative ideas will flourish under a stable society. Here, the idea of innovation should have

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those companies that consider human resource costs as "talent investment" will adopt Japanese-style management as a "management strategy" for building competitive advantage.

18. For example, a *Japanese Economic Newspaper* (*Nihon Keizai Shinbun*) column ("Mainasu kinri," 2016) states, "There is no action from the private sphere to pursue prosperity that reflects the genuine intent of government policies. Somehow we try to develop the technology that can succeed globally and adopt this technology in equipment investment. This improves the situation in Japan by improving overall productivity and avoiding deflation. This kind of consciousness and sense of duty does not spread to the private sector, and the policy effect does not spread." The column also states, "We hope the management of financial institutions have a firm philosophy that serves the nation's prosperity."

"integral" characteristics. This means being competitive with neighboring Asian countries and solving social issues, such as decreasing population and environmental problems. The role of the Japanese government is to create socio-economic stability in the world by not depending on the US defense strategy and instead maintaining friendly relations with surrounding East Asian countries for the establishment of a peaceful market-based economic system. In sum, what determines Japan's economic recovery comes down to the Japanese people's ability to act independently and self-consciously in the political and diplomatic spheres as the citizens of a sovereign state.[19]

• *Translated by KIM Hyerim*

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19. The historical reason that the Japanese cannot clearly recognize the subordinate status of the US through the Japanese government is that the Japanese did not experience a classical ancient society based on the principle of people's determination of state power, as in the Greek, Roman, and Qin Empires. Only after their defeat in the Asia-Pacific War did they acquire a constitution of peoples' sovereignty. Even though seventy years have gone by, there is still not enough awareness of sovereignty. Refer to Ishii (2015), "Appendix 2: From Individual Values to Universal Values" (*Kobetsuteki kachi kara fuhenteki kachi e*) for the negative history that the Japanese bear.

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