

Liberalization, increasing corporate diversity, and rising inequalities

The great transformation of Japanese capitalism

Sebastien Lechevalier¹

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Abstract: Financial and employment systems in East Asia and Europe have experienced decades of reforms (liberalization, deregulation, privatization, etc.). Mainly inspired by the US experience, their aim was to improve the efficiency of financial and labor institutions by giving more place to market mechanisms. Although the importance of institutional changes is not the same in all these countries and is still sometimes a matter of debate, this process did not lead always to the expected results. In particular, there is no straightforward convergence towards the US system and within each system, an increasing corporate diversity has accompanied the process of liberalization. The purpose of this paper is to understand why structural reforms did produce institutional and corporate change but not in the directions that was thought by the promoters of the reform. We conduct this research by focusing on the particular case of Japan. In order to conduct this case-study, we adopt an approach whose expected originality lies in the articulation of a microeconomic analysis and of a political economy perspective. We get the following results: 1) Japanese capitalism has evolved over 30 years, and now may be clearly distinguished from the ‘model’ of the 1980s; 2) the major engine of change has been the implementation, in a progressive and non-linear fashion, of neo-liberal reforms from the beginning of the 1980s; 3) This transformation of Japanese capitalism does not signify convergence towards American or European capitalisms.

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¹ Associate professor at the Ecole des Hautes Etudes en Sciences Sociales (EHESS, Paris). Email : sebastien.lechevalier@ehess.fr

1. Introduction

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

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

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

We conduct this research by focusing on the particular case of Japan. Japanese capitalism is indeed a particularly interesting case as the issue of its change is a controversial one. This is partly due to the fact that the common wisdom is influenced by the myth of “Japan that never changes”. Two types of argument that are supporting this “vision”: the cultural interpretation of Japanese capitalism (e.g. Morishima, 1984) and the misuse of international comparisons (e.g. choosing one indicator such as the ratio of Foreign Direct Investment (FDI) to the Gross Domestic Product (GDP), stating the absence of convergence, and concluding about the stability of the “model”). A variant of this statement – much more sophisticated but nonetheless wrong to our view – is the vision proposed by Lincoln (2001) of an “Arthritic Japan”. Here, the absence of change – i.e. the absence of convergence towards the U.S. model – is explained by the inability of Japanese government to radically reform the model in a context of a fast changing – global and technological – environment. This vision of Japan is similar to a certain vision of Europe, popular in the 1990s, the so-called “eurosclerosis” (see Lechevalier, 2014a).

By contrast to this myth, our purpose is to understand changes in different domains (institutions, industrial structure, inequalities, etc.) that have characterized the Japanese economy from the 1980s and to articulate them. What is particularly interesting in the Japanese case is the fact that institutional change actually preceded the crisis the so-called lost

decade of the 1990s. The start of the dynamics of change took place under Prime Minister Nakasone (1982-1987) who first introduced a program of structural reforms. A new step occurred in the 1990s, characterized by an increasing corporate diversity, which concerns firms of similar size and belonging to the same narrowly defined sector (Ito & Lechevalier, 2009, 2010). Over the period, this change has been also characterized by rising inequalities that can be linked to the increased corporate diversity (Lechevalier, 2014b; Kalantzis et al. 2012).

In order to conduct this case-study, we adopt an approach whose expected originality lies in the articulation of a microeconomic analysis and of a political economy perspective. More precisely, we propose to combine an analysis of the forms of organization at micro level, the forms of co-ordination of this diversity at meso and macro levels, and social compromise. In other words, the theoretical contribution of this paper is to attempt to reconcile micro approaches to diversity of capitalism with political economy perspectives such as those proposed by Amable & Palombarini (2009).

In doing so, we get the three major results: 1) Japanese capitalism has evolved over 30 years, and now may be clearly distinguished from the ‘model’ of the 1980s; 2) the major engine of change has been the implementation, in a progressive and non-linear fashion, of neo-liberal reforms from the beginning of the 1980s; 3) This transformation of Japanese capitalism does not signify convergence towards American or European capitalisms.

The rest of this paper is built as follows. In the next section, we introduce our theoretical framework. In section three, we review few stylized facts characterizing the Japanese economy since the 1970s and we try to summarize the specificities of neoliberal policies in Japan. The three following sections are dedicated at one dimension of change in the Japanese economy (micro level; meso and macro level; social compromise and inequalities). The seventh section concludes.

2. Theoretical framework: political economy of institutional change

Before specifying our own approach, it is important to recall the bases of the diversity of capitalism. To oversimplify, we may distinguish two main ones: on the one hand history (including initial conditions and trajectory, which we may call ‘path dependence’), and on the other hand institutional complementarities.

Taking into account historical evolution is fundamental to the very existence of the diversity of capitalism, but also and in particular to the persistence of this diversity. Indeed, the fact that national economies have developed original institutions in a relatively closed context does not rule out *a priori* the convergence of various forms of capitalisms, for example under the impact of globalisation. Much published research, however, has shown up the importance of phenomena related to *path dependence*, which largely run against the grain of various pressures towards convergence. The risk is certainly to hold back from considering institutional change. A richer concept of path dependence, however, has been developed from recent research, allowing one to reconcile the acceptance of institutional change with a degree of inertia (David, 2007; Deeg, 2005; Garud & Karnoe, 2001). This concept allows us to understand the following apparent paradox: why should a particular shock, such as the Asian crisis of 1997, or more recently that of the 2008-9 crisis, produce different effects depending on the national economies discussed? This basically comes down to the fact that every form of capitalism is constructed according to its own trajectory, that it certainly could have been affected by exogenous crises, but that these crises are essentially the product of its own development, eminently contradictory. In other words, the crisis of each economy stems from that economy's own structure (Boyer, 1986).

As for institutional complementarities, they may be defined thus: to simplify, there is institutional complementarity when an institution reinforces the impact and the characteristics of another institution (Boyer, 2005a). We define here institutions as social rules, which implies a form of sanction in the case of failure to respect such rules, and not merely of practices (Amable & Palombarini, 2009). In addition, they have a formal character and have to be distinguished also from conventions, which are informal rules. Let us return to institutional complementarities. The best known form, studied in depth in the case of Japanese capitalism at the end of the 1980s, is that existing between the system of long-term employment and bank finance: the adoption by a given firm of long-term employment, that is to say the guarantee that it grants to its employees not to fire them, except in extreme circumstances that threaten the firm's very survival, requires that it should be insulated from financial market fluctuations and their requirements for short term profit. In general terms, the existence of institutional complementarities implies that we should not consider institutions of a particular form of capitalism independently of each other. This is why institutional configurations tend to be reasonably stable: reforming a given institution will only be deep

and positive if it is accompanied by change in the other institutions with which it maintains complementary relations, and this is not easy.

2.1 How to study the diversity of capitalism? Micro-heterogeneity, types of co-ordination and social compromise.

Before turning to our methodological approach to the issue of change, it is important to specify our perspective on analysing the diversity of capitalism, which differs from the so-called “varieties of capitalism” (VoC) approach. Without entering into too technical details, which are not our main task here, we may summarise the originality of our approach as articulating a microeconomic analysis and a political economy perspective. More precisely, we propose to combine an analysis of the forms of organisation at micro level, the forms of co-ordination of this diversity at meso and macro levels, and social compromise, which must be seen as an attempt to mediate, necessarily temporary and local, between contradictory interests. In other words, the theoretical contribution of this paper is to attempt to reconcile micro approaches to diversity of capitalism (Hall & Soskice, 2001) with political economy perspectives such as those proposed by Amable & Palombarini (2009).

The first dimension of our approach starts with the assertion of the heterogeneity of actors within each form of capitalism, that which is manifested both at the level of the differentiation of interests (Amable & Palombarini, 2009) and at the level of the organisational diversity of firms and of their performance (Sako, 2007; Deeg & Jackson, 2007; Sako & Kotosaka, 2012a, 2012b). On this last point, going beyond the tautological assertion of differences between firms according to their size or their sector of activity, many works (often of evolutionary inspiration) have indeed demonstrated the great diversity of firms in terms of performance and of organisation within a given form of capitalism, so much so that we cannot define capitalism by a mode of organisation that would serve as an ideal type (Lechevalier, 2007). Here is where we find the second and third dimensions of our approach, the political economy of forms of co-ordination and of social compromise. That which defines a given type of capitalism is at the same time the heterogeneity of the firms that make it up, the ways in which this heterogeneity is co-ordinated, as well as the underlying social compromise, which determines especially the inequalities.

The concept of co-ordination that is understood here must be specified. The source of the problem of co-ordination is neither the division of labour nor the structure of the game but the fundamental heterogeneity of organisations, which makes it necessary to go beyond an approach centred on the market as co-ordination. The theoretical origin of this concept is found in the kind of mathematical economics developed by Kirman & Zimmermann (2001), as well as Aoki & Yoshikawa (2006), who propose a concept of equilibrium as distribution of probabilities. The principal theoretical interest is to analyse the interaction between micro and macro levels and the conditions of aggregation of micro behaviour in a decentralised environment. In this framework, the locus of co-ordination is not at the centre of organisations – as in Hall & Soskice (2001) for example - but between them, at macro and meso levels. We may distinguish two forms of co-ordination, private and public, which has to lead us beyond the classic dichotomy between States and markets. To put this in another way, the co-ordination we are concerned with here is co-ordination outside the market, but is not synonymous with State intervention. So far as the impact of co-ordination is concerned, it is twofold: at a given level of heterogeneity of actors (e.g. firms), co-ordination defines the conditions of interactions between micro and macro levels, going beyond a simple aggregation; it influences just as much the evolution of heterogeneity at the level of the actors.

To give a more concrete idea of what is meant by co-ordination outside the market, let us now specify its benefits and limits. Among its benefits, we may distinguish three broad categories. They include first of all the diffusion of technical and organisation innovations, making it possible to exploit potential externalities. Examples that come to mind is that of ‘spillovers’ – the effect of which is anything but automatic – and also the diffusion of a mode of production such as ‘Toyotism’ (among subsidiaries or overseas plant: see Boyer, Charron, Jürgens & Tolliday, 1998). Another benefit of co-ordination concerns insurance and risk sharing. Co-ordination should allow diminished fluctuations in a firm’s profits, as well as at the macroeconomic level. And a third benefit relates to distribution: Co-ordinated capitalism opens the possibility of negotiating in a co-ordinated fashion the sharing out of value added, and also to limit the growth of inequalities, and this links in with the question of social compromise (see below). On the other hand, besides potential benefits, non-market co-ordination brings with it a certain number of limitations. Thus, the risks of developing a rental economy are higher, the more limited is market co-ordination. Besides, if the crises that affect co-ordinated capitalism are generally less brutal than those of liberal capitalism, it is often more difficult to escape from them. In this respect, Japanese capitalism is a good example. In

the end, we need to think about the capacity of the State to play the role of arbiter - just like the market in liberal capitalism - in the contemporary context which is characterized by criticism of the legitimacy of government intervention, which makes it *de facto* more difficult

The third dimension of analysis concerns social compromise. This is an integral part of wage labour nexus in analyses of *régulation*, of which Boyer & Yamada (2000), who put forward an original interpretation of Japanese capitalism, is representative. The concept of social compromise, which we utilise in the framework of this paper, is inspired by this work, as well as by that of Amable & Palombarini (2009). In terms of this last perspective, it is essential not to concentrate merely on compromise within firms (whether this follows the Toyota model or not), but to analyse it at the level of the whole society, taking into account political mediation. Amable & Palombarini (2009) thus define institutions as political economy compromises. Methodologically speaking, this requires analysis of the formation of ‘dominant social blocs’, that is to say social groups which, by their situation within the society, are able to influence in a decisive fashion the nature of social compromises and their embedding in institutions. Institutions are at the centre of the regulation of social conflict, which cannot be abolished or eliminated but only partially and momentarily neutralized. It is essential here to underline the link with heterogeneity of actors, mentioned above. Social conflict has indeed as its origin the differentiation of socio-economic interests of individual and collective agents, as well as the diversity of social expectations, and the demands that emanate from them.

To put this in other terms, one of the issues of our concept of social compromise is to offer a theoretical framework to study the inequalities which, in our view, are neither just another measure of the performance of a given form of capitalism nor an element determined by global forces that act beyond each type of capitalism (for instance, globalisation or skill-biased technological progress). They are an element of the very definition of the nature of each form of capitalism, which the concept of social compromise allows us to analyse in a reflexive fashion. We should also note that this concept also embraces the reproductive sphere; our analysis does not focus on wage labour nexus as such, but equally embraces the family and gender relations (Arai & Lechevalier, 2005; Takeda, 2005).

In the framework of the theoretical perspective that we have just presented, how can we clarify the nature of the ‘classic’ model of Japanese capitalism, which was probably at its height in the 1980s? To summarize, Japanese capitalism was eminently decentralised, co-

ordinated and segmented. These three structural characteristics, which corresponded to the three dimensions that we have already outlined (micro diversity; meso, macro and institutional co-ordination; social compromise) must be understood in a comparative and historical perspective.

2.2 How to study the evolution of the diversity of capitalism? Institutional and organisational changes

The critics against some comparative capitalism approaches regarding their static nature are fair and we try to address them within our framework by adopting a dynamic approach, which is basically inspired by historians. Indeed, the most innovative contributions of the theories of the diversity of capitalism have adopted a dynamic perspective allowing the study of institutional change at the macro level and organisational change at the micro level (Boyer 2005a; Deeg & Jackson, 2007; Deeg, 2009; Lane & Wood, 2012; Storz et al. 2013). The major ambition of this paper is to follow this line of analysis and to apply it to the Japanese capitalism in order to understand the nature and the causes of institutional change that have characterized it from the early 1980s.

There are indeed three lessons we can learn from historians. Learning from historians implies first being sensitive to different scales of time. Whereas most economists care only of crises, we have learned from Streeck & Thelen (2005) - who are not historians but who propose a very careful and original analysis of change - that we have to pay attention to gradual or incremental changes that can become critical after some time. A great transformation such as the one experienced by Japanese capitalism from the early 1980s does not always mean of a total breakdown (e.g. a crisis that leads to a radical or discrete type of institutional change) but can be understood as a gradual but nonetheless significant (and certainly irreversible in the mid-run) change that may take various forms such as displacement, layering, drift, conversion, or exhaustion. Connecting this form of institutional change to organizational diversity may help us understanding the former, as convincingly shown by Lane & Wood (2012), or Sako & Kotosaka (2012a) in the case of Japan. Moreover, another important point is that this gradual institutional change is often endogenous and in some cases is produced by the very behaviour an institution itself generates, rather than emanating on the outside.

Second, learning from historians should also lead us to analyse change at different scales. More precisely, our main methodological proposition is that the study of change at the aggregate level is not appropriate when it is gradual. It is necessary to include the micro dynamics, especially the corporate one, in the study. This is a key argument of our paper to show that the Japanese capitalism has indeed experienced a great transformation, contrary to the common wisdom of an institutional inertia. In particular, identifying an increasing corporate diversity in terms of both performance and organization implies that it is not correct to characterize a form of capitalism based on the analysis of one firm, even it is emblematic such as Toyota or Ford. Also, our concept of coordination allows better articulating micro and macro dynamics by analysing the role of institutions in this coordination.

Finally, the most important lesson that can be learnt from historians concerns the causality of change. While, according to most economists, change is driven by technology, one may learn from historian that things are much more complex in reality. There are various causalities interacting with each other and often going in different directions. In this paper, we pay a particular attention to social and political dynamic of interests that led to the introduction of a new set of public policies. As for the causes of institutional changes, without entirely putting aside the impact of globalisation and of technological progress, this paper seeks to explore the impact of another force, neo-liberalism, whose effects have been confirmed in works on political economy (Vogel, 1996; Campbell & Pedersen, 2001; Tiberghien, 2007; Simmons, Dobbin and Garret, 2008), but not sufficiently taken into account either in works on economics in general or in those on Japan in particular, with a well-known exception being the research of Ronald Dore (Dore, 2000). We should note in passing that the neo-liberal discourse favouring change often makes reference to technological progress and to globalisation to demonstrate the inevitability of convergence towards the purer forms of market economy.

Emphasising the role of neo-liberal policies in the evolution of Japanese capitalism over the past thirty years means adopting a non-functionalist approach to institutional change, inspired by the work of Bruno Amable and Stefano Palombarini (2009), who reject both the dominant view – which concludes to an “arthritic Japan” and an “eurosclerosis” as shown above - and the VoC perspective. Indeed, the dominant approach insists that institutional change is necessary in Japan, given the growing incompatibility between the new economic context (which is said to be marked by globalisation and a new wave of technological progress) and the institutions of post-war Japanese capitalism. This incompatibility is then said to find concrete expression in the phase of economic stagnation between 1992 and 2004,

regarded as the “lost decade”. So far as the VoC approach is concerned, it is no less functionalist in that it assumes the superiority in performance terms of the ‘pure’ forms of capitalism, whether they be liberal or co-ordinated, which then play the role of a magnet for mixed or hybrid systems, which are necessarily transitory in this sense. This not the case for Japan, as shown by Hideaki Miyajima in various works (see for example Miyajima, 2012, 2011).

Now what the Japanese case shows us is the fact that institutional change actually preceded the crisis. The start of the dynamics of change was the end of the period of catch-up and the attempt under Nakasone to construct a new social compromise, according to a certain interpretation of Japanese society, judged too homogeneous and thus requiring increased diversification. We may thus consider the period of the bubble (1986-91) and the frenzy of consumption that accompanied it, as a first move in this direction. This is why institutional change in Japan from the 1980s is eminently political, inspired by a certain normative vision. The end of the catch-up period could have given rise to an alternative vision, insisting on social demands, in favour of the institutionalising of social protection and of greater socialisation of funds for education, health and housing, giving rise to a new definition of the middle class. This alternative vision manifested itself by the attempt to put in practice a new compromise at the beginning of the 1970s under Prime Minister Tanaka, which, however, was short-lived in the context of the first oil shock and of a very hostile reaction on the part of the most conservative fringe of the Liberal Democratic Party (Peng, 2005).

To adopt a non-functionalist approach to the institutional change does not mean putting aside the question of the performance of the Japanese economy, nor to deny the role of the ‘crisis’, the so-called ‘lost decade’. But it does imply that we should provide a nuanced view of its role in the dynamic of institutional change. On the one hand, it led the supporters of ‘reform’ to emphasise the limits of the previous model, even if, as we shall see, it is possible to show that it was these policies that contributed to the crisis in the first place. However this may be, the mediocre performance of the Japanese economy from the start of the 1990s *de facto* justified policies aimed at transforming Japanese capitalism. On the other hand, in the same way as neo-liberal reforms, the “crisis” is one way of explaining a key rupture with the past that occurred over the period studied, namely increasing inequalities. There is a current argument to the effect that it was not the Koizumi reforms that provoked the rise in inequality but rather the long stagnation of the economy (Ota, 2006). This argument is *a priori* defensible, and one of the aims of this paper is to test its validity.

3. The case study of institutional change in Japan

3.1 Japan since the end of the 1970s: stylized facts and interpretation

The primary aim of this paper is not to understand why Japan passed from one period – the 1980s – when the majority of analysts believed that the Japanese model would allow it to become the first economy in the world, to a period of stagnation, which seems to correspond more and more to a relative – even absolute – decline. Having said this, it is true that the performance of the Japanese economy has itself affected the transformations of the model: the willingness to question the model of co-ordinated capitalism was necessarily limited while its performance remained acceptable. This was no longer the case from the second half of the 1990s (Yamamura & Streeck, 2003). From then on, neo-liberal policies seemed to be a more and more credible means to escape from the crisis. This voluntarist option for institutional reform had certainly been explored before the crisis, but it later appeared better adapted to the problems Japan was encountering.

This is why it may seem useful here to give a brief account of the macroeconomic, sectoral, and microeconomic performance of the Japanese economy. Our ambition is indeed also to contribute to the understanding of contemporary Japan from the viewpoint of economic history. How should we summarise the path taken by Japan from the start of the 1980s until today? The easiest way of putting it is to consider that we are dealing with a process in two stages: a success in the 1980s, with its apex at the end of the 1980s, followed by a long decline. At the time when Japan appeared to be coming out of this period of stagnation around 2005, the world crisis in fact pointed up the fragility of this recovery. This way of seeing things seems to be supported by an analysis of the principal financial variables, such as the world ranking of the Japanese banks in terms of capitalisation, or also the Nikkei index (Figure 1). Even if one may criticise this index in terms of how representative it is (to the extent that the Japanese stock exchange became relatively marginal in the financing of firms after the bursting of the bubble), its evolution effectively symbolises the high point at the end of the 1980s, followed by a long decline; after moderate rises in the first half of the 1980s, the bubble phenomenon becomes clear as it passes in four years (1985-9) from 10,000 points to approximately 40,000. After the stock market collapse, the index has stagnated at around 10,000 points right up to the present.

Figure 1 near here.

A complementary and certainly more precise image is provided by the evolution of real GDP, especially if we compare it with that observed in the US (Figure 2). We may then distinguish three phases: during the 1980s, the rate of growth, averaging 4.5% per annum, was considerably greater than that of the US; then comes the lost decade (1992-2004) with an average of 1% as against 3.5% in the US. At last, the Japanese economy appeared to have escaped from the lost decade in 2005... until the current crisis. Talking of which, the international engagement of the Japanese economy appeared to follow an identical trajectory, with the contrast between the 1980s, during which Japan was considered as the great winner from globalisation, and the lost decade, which seemed to reveal Japanese capitalism's inability to adapt to the new global realities, even if, in this case, Japan's trade surplus projected the image of a greater continuity.

Figure 2 near here.

In short, the dichotomous image of success and failure is not completely false, but leads us to underestimate the institutional changes in Japanese capitalism during this period. This is why it is useful to attempt to grasp the path travelled by Japan through concepts such as liberalisation, deregulation and financialisation (Dore, 2000). This kind of evolution is not peculiar to Japan, but Japan in this respect traced a different path from those of the US and Europe. This is why we propose here a reading of the situation on the basis of the institutional analysis that we outlined above, namely, combining an analysis on three levels, heterogeneity of actors (especially firms), forms of co-ordination and social compromise.

In relation to the first level of analysis, the 1980s may be seen as a continuation of the 1960s, being marked by a compression of the dual structure of the economy according to the size of firms (Lechevalier, 2007). The turn-around followed in the second half of the 1990s (1996 for manufacturing, 1998 for non-manufacturing), when we could observe growing dispersion in firm performance (Itō & Lechevalier, 2009). So far as non-market forms of co-ordination were concerned, from the beginning of the 1980s they were affected by

deregulation. As for market type co-ordination, it showed its inefficiency with the emergence of the bubbles. In fact, it was only at the end of the 1990s that new forms of co-ordination emerged, such as new types of collaboration in R&D, and new policies on innovation. In other words, in this framework, it is possible to interpret the lost decade as the result of a lack of co-ordination (or of ineffective co-ordination) of the growing diversity of Japanese enterprises (Lechevalier, 2007). The third dimension of this institutional analysis concerns the evolution of inequalities revealing changes in the social compromise. From this point of view, although inequalities started to grow in the 1980s, it was not comparable to what was observed in United States during the same period, even though this was the period of the bubble economy in Japan (Moriguchi & Saez, 2008). Inequalities began to grow significantly in the 1990s, but the mechanism underlying this evolution has still to be identified: and then, in the 2000s, a new and indisputable phase in the growth of inequalities took off, through mechanisms that were essentially occurring in the labour market.

This analysis opens the way to an understanding of the way Japan developed, emphasising neo-liberal policies in general and deregulation in particular. While neo-liberalism is an object of study in political economy, it is rarely studied by economists, except when they are engaging in polemics. That, however, is not our approach, which is sustained by works of political economy on the subject, from a non-normative perspective. The point of departure for our analysis of neo-liberal causality is the chronology presented by Yves Tiberghien in Lechevalier (2014a). To summarise, we may distinguish three phases: the initial transformation put in train by policies of deregulation and privatisation under Nakasone (1982-7); a phase of little change and of stability (1987-96); and a phase of progressive structural reforms across the board under Prime Ministers Hashimoto, Obuchi and Koizumi (1996-2006). After Koizumi (2006-) and right up to the change of government following the 2009 elections, we may observe a form of stabilisation and consolidation.

Thus, the main difficulty facing analysis of the changes that affected Japanese capitalism lies in the discontinuity of neo-liberal policies since the beginning of the 1980s, so that, even if neo-liberalism really is a concept that allows us to conceptualise the period as a whole, it does not apply to each of its stages. It has ebbed and flowed. An important turning point occurred around 1998, when a consensus formed that Japan would not be able to revert to the state of affairs before the bubble burst, whereas the recovery of 1995-6 had led people to hope that this might be possible. To put it another way, it was above all the loss of confidence in the Japanese model that favoured the emergence of a new neo-liberal wave

from the end of the 1990s, and not simply the assumption of power by Koizumi in 2001. This is a very important point regarding the chronology of change in Japan: the turning point – especially regarding institutional change and firms’ diversity – is less the mid-2000s (corresponding to Koizumi government) than the end of the 1990s and the early 2000s. Anyway, it is reasonable to ask whether the elections of 2009 marked a real transition, the moment when Japan turned the page on 30 years of neo-liberalism, or rather, whether Koizumi could assert, like Thatcher in relation to Blair, that the Democratic Party of Hatoyama, Ozawa and Kan was his greatest success.

These questions lead us to summarise what, in our opinion, constitutes the originality of the neo-liberal transition in Japan.

3.2 The Specificities of the Neo-Liberal Transition in Japan

Before we specify what is involved here, we should first of all define as precisely as possible what is meant by ‘neo-liberalism’ in the framework of this paper. Indeed, we shall note, with Stephanie Mudge, that we have here “an oft-invoked but ill-defined concept in the social sciences” (Mudge, 2008: p. 703). We shall here concentrate on the ‘bureaucratic’ dimension of neo-liberalism rather than on intellectual or political dimensions (Mudge, 2008). Consequently, our aim is not to give a history of neo-liberal ideas in Japan, which would indeed be fascinating. Rather, we shall concentrate on analysing their embodiment in neo-liberal policies, and on the impact of these policies on the Japanese model of capitalism. This point of view must be understood in a broad sense, going beyond structural reform policies (Jabko, 2006) and including especially the social compromise as a whole. This also means that we understand neo-liberalism as one of the forces liable to initiate institutional change rather than as a form of capitalism, contrary to what Amable (2003) asserts. We here fully agree with Stephanie Mudge in her idea that neo-liberal politics have affected not only Anglo-Saxon countries but also continental European countries and Japan (Mudge, 2008).

In consequence, the definition of neo-liberalism that seems to us most appropriate to our approach is that proposed by Campbell & Pedersen (2001). We agree with their argument regarding the very nature of neo-liberal policies. More precisely, neo-liberalism can be defined as follows (Campbell & Pedersen, 2001: p. 1):

“The last two decades of the 20th century (...) have been described as the ones of rising neo-liberalism – that is, a time of market deregulation, state decentralization, and reduced state intervention into economic affairs in general. Cast in these terms, neo-liberalism has been a political project concerned with institutional changes on a scale not seen since the immediate aftermath of the WWII and a project that attempted to transform some of the most basic political and economic settlements of the post war era, including labour markets accords, industrial relation systems, redistributive tax structures, and social welfare programs. Integral to these changes has been a shift away from Keynesian economic ideas to a more conservative discourse based on monetarist, supply-side and rational expectations theories.”

If we are to specify the Japanese form of neo-liberal policies, we must first of all note that they have ended up covering a vast field. They have taken the form of progressive deregulation of financial markets, goods markets and the labour market; privatisation of several key industries and institutions (notably the telecoms operator NTT, the railway company JR, the airline company JAL and the Post); reduction in the scale of the public service (for instance in education) - which was already relatively small by comparison with other countries such as France (Sautter, 1996) - in the context of the growth of public deficits from the 1990s; a tax reform on the American model, even though it was already not particularly burdensome, considering especially the low rate of VAT and revenue taxes (Dewit & Steinmo, 2002); reform of the system of innovation, after the Silicon Valley model, as well as greater openness to foreign direct investment. These policies, moreover, designed more or less directly to overturn the ideological foundations of institutions such as the enterprise, the family and the school. These policies as a whole led to a redefinition of the role of the market in relation to other institutions, of which it is crucial to understand the origin.

The neo-liberal transition in Japan is itself not without ambiguity, and indeed contains several peculiar aspects. First of all, even if it has had some standard-bearers such as the prime ministers Nakasone (1982-6) and Koizumi (2001-6), several brains such as Kaoru Yosano and Heizō Takenaka, it was not pushed as strongly and visibly as the programmes promoted by Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States. Nor did it excite a wave of opposition as strong as, for instance, in continental Europe, which stemmed to a large extent from the peculiarities of the Japanese political system.

Secondly, it was not put in place rapidly in a coherent programme; it was, on the contrary, installed over time, in successive waves, up to a basic shift that we may identify with the very end of the 1990s or the early 2000s, when the assembly of reforms reached a critical threshold. From this point of view, a comparison with France and Korea is revealing (Tiberghien, 2007). We may conclude that we should not speak of ‘neo-liberal revolution’ in Japan, but only of a transition.

A third peculiarity comes from the nature of Japanese ‘classic’ capitalism. For example, the neo-liberal revolution in Japan did not seek to dismantle the welfare state since it did not really exist (Tachibanaki, 2000)...although it is true that welfare retrenchment has been active in the 1980s, in order to turn the page of the timid attempt of the 1970 to establish the foundation of a real welfare state (Peng, 2005). Similarly, the question of social democracy was not challenged given that it was little developed. There are, however, two essential keystones of neo-liberal programmes throughout the world (Supiot, 2012). We may say that its introduction has been made easier by the extremely decentralised functioning of Japanese capitalism, centred on the firm, and the informal character of a great number of the rules defining it.

Indeed, a fourth specific feature concerns the diffusion of neo-liberalism in Japan. The question here is simple as phrased by Tiberghien (2007): how was it possible to put into effect policies that contradicted the demands of the population? In following Amable & Palombarini (2009), we may relate it to the dynamics of dominant social blocs and mediation by politicians, who are not necessarily entrepreneurs. The interest of this approach is that it allows us to think about several cases that correspond more or less to different stages of the diffusion of neo-liberalism in Japan. First of all, this policy could correspond to the demands of a group coming from the dominant social bloc without the totality of the bloc being in favour of it. We think here of the demands of multinationals and of certain Japanese financial institutions since 1970 to liberalise the financial sector. They obtained what they wanted, despite opposition from certain members of the dominant social bloc (regional banks, for instance), because their power to negotiate within the group was particularly strong. Subsequently, this policy could also correspond to the Japanese Government’s wish in the mid-1980s to preserve the dominant social bloc while creating new conditions for its preservation. And then, from the end of the 1990s, we may observe new political mediation, in a context of prolonged crisis. The aim was then to create a new dominant social bloc, accepting in the process the exclusion of certain members of the former dominant social bloc

(farmers, small businessmen, small and medium firms). This way of understanding is backed up by a number of research projects that put conflict at the heart of their analysis of contemporary Japanese society, at different levels from the firm to political dynamics (Krauss, Rohlen & Steinhoff, 1984; Stockwin, 2008). The principal result is the revelation of a specific way to deal with conflicts (mainly through internalisation), which negates the image of a highly consensual society. Another interest of the way of understanding in terms of dominant social blocs is that it was mainly forged from reflection on the Italian case (Palombarini, 2001), whose proximity to the Japanese case has been emphasised by numerous scholars (Bouissou & Lazar, 2001).

To finish entirely with this question, let us emphasise that the mode of diffusion of neo-liberalism in Japan had consequences for the nature of the policies put in train. Jabko (2006) also shows that, in the European case, the policy corresponds both to liberalisation and to federalisation, which is therefore not a pure neo-liberal programme. In the case of Japan, something rather similar was taking place: there was liberalisation and at the same time, the retention of costly programmes of public expenditure.

4. Liberalization and increasing corporate diversity in Japan

Many characteristics of the classic Japanese firm have been put into question from the early 1990s. We will limit ourselves here to two examples: long term employment and main bank dominated corporate finance. On the first, various indicators suggest a profound change in this practice. The first indicator is the rise in the number of non-regular workers. Certainly, the classic system of employment included a non-negligible part of the workforce that did not benefit from long term employment. This part, however, tended to increase in number from the 1980s to the point that Jeff Kingston and Machiko Osawa commented: “The future Japanese employment system is likely to more resemble the on-going adjustments at the edges than the core they are designed to sustain” (Kingston & Osawa, 1996).

The main bank system has been made fragile by the bursting of the bubble in the early 1990s. We may observe in fact the erosion of a certain number of practices that had been seen as intrinsic characteristics of the Japanese model. The most striking change concerns the *keiretsu*-type structure whose weight in the economy has been declining rapidly; another phenomenon has been the reduction in cross-shareholding. These changes lead us rightly to

pose the following question: are we witnessing a convergence of the model of the Japanese firm with the Anglo-Saxon or liberal model of the firm?

In our view, it is nothing of the sort. The main weakness of earlier analyses is that they confine themselves to average relations without looking at the dispersion of practices. This is all the more detrimental to the analysis that the major stylized fact since the middle of the 1990s is precisely the increasing diversity among Japanese firms. Of course, classic Japanese firms were more diverse than the image we have given would suggest. Thus, from the 1950s, profound differences of organisation according to firm size were pointed out. This was the famous dualism of the years 1950-1960. The aspect most often cited in this regard was the wage differential between large firms and SMEs, coupled with differences in productivity and in capital intensity. Moreover, many works have shown particularly high productivity differentials between manufacturing and non-manufacturing sectors in Japan relatively to other countries. To put it differently, if Japanese manufacturing sectors were very competitive at the global level, this was not the case for non-manufacturing industries (Yoshikawa, 2002).

What, however, is new since the 1990s is not so much the diversity of Japanese firms but rather the two following characteristics. First of all, this diversity is growing. This is particularly evident in respect of productivity performance. Keiko Itō and Sébastien Lechevalier demonstrate this, mobilising firm-level panel dataset taken from a large-scale administrative survey (the *Basic Survey of Japanese Business Structure and Activities* or *Kigyo Katsudo Kihon Chosa*) including around 20,000 firms from manufacturing and non-manufacturing industries between 1994 and 2003 (Itō & Lechevalier, 2009). For each sector, they measure the productivity gap (labour productivity and total factor productivity) between a group of firms with the highest level of productivity and a group of firms with the lowest level of productivity, and analyse how this difference evolves over time. Their main result is that this gap within each sector has on average significantly increased since 1998. This tendency varies according to industry but is valid for a great majority of them.

Secondly, what is striking is that this growing disparity is evident for firms of similar size and belonging to the same narrowly defined sector. The best known case is certainly that of the automotive sector. Work by GERPISA (Permanent Research Group on the Automobile Industry and its Employees) reveal great diversity, with the Toyota model having spread very little in the Japanese automotive sector (Boyer, Charron, Jürgens & Tolliday, 1998).

Going beyond the automotive sector example, this kind of observation may be easily generalised. Concerning growing diversity of the corporate finance and governance of Japanese firms, Masahiko Aoki, Gregory Jackson and Hideaki Miyajima (2007) give a fairly complete picture of it, analysing it on several dimensions. Let us take two of them here. The first dimension concerns relations between banks and firms. Despite the deregulation of the bond market in the second half of the 1980s, the recourse to bank credit by Japanese firms has in its totality increased during the 1990s. The large firms have loosened their links with banks and have had recourse in a growing fashion to the market for their financial needs. Even so, the smallest firms, including those quoted on the stock exchange, continue to prefer bank credit to other financing modes. In sum, in this dimension, size is an important criterion of differentiation. But it is not the only one: firms that already had high levels of bank debt before the 1990s, have broadly contributed to the increase in the role of bank finance in the financing of firms as a whole. Secondly, the institutional investors (and among them American and British pension funds) play a more and more important role. They are concentrated on a relatively narrow segment of large manufacturing and exporting firms, with a high level of capitalisation and good performance.

By virtue of the complementarities that exist between employment system and corporate finance, we may estimate that these changes in the management and financing of the firm will have durable consequences for the organisational choices at within firms.

The next question is the following: why did the diversity of firms increase in Japan? Our goal is to assess the impact of neo-liberal policies. Going beyond these policies, we should also take into account an assembly of centrifugal and centripetal forces of which the result is a dynamic equilibrium translated into an increase or reduction in the diversity of firms. Indeed, there are no universal rules, following which enterprises would become more and more, or less and less, diverse. Given the space constraint, we will however restrict ourselves to the analysis of the impact of liberalization. In this area various analyses have been made, but they tend for the most part to emphasise the role of deregulation. Although this is not the purpose of their analysis, it is possible to interpret the contribution of Aoki, Jackson and Miyajima (2007) in this way as help to understand the following mechanisms. First of all, the firms are not equally exposed to pressures that might bring about changes in their organisational modes. Thus, foreign investors concentrate on a certain type of firm, leaving the others shielded from pressures exercised by investors on corporate governance or on the management of human resources. And then, the very nature of a certain number of

reforms, which do not impose new obligatory practices but give more choice to enterprises, introduce *de facto* greater diversity. This was, for instance, the case with the reform of the board of directors in 2002 and with the legalisation in 1997 of holding companies, which had been banned after the war. In these two cases, the reforms had the effect of opening up a range of organisational choices for firms.

The main result of our analysis in this section is that we are not seeing the end of the classic model of the Japanese firm. Rather, we are witnessing a growing diversity of the organisation and performance of Japanese firms. In other words, the classic model of the Japanese firm has not disappeared but it is now no more than one option among others.

What can we say about the impact of neo-liberalism on the ways in which Japanese firms are organised? The growing diversity of Japanese firms is a phenomenon too complex to be interpreted as merely the result of neo-liberal policies put into practice in Japan since the beginning of the 1980s. These policies, however, occupy a dominant place in this dynamic, as for instance Jackson (2003)'s analysis indirectly shows, as well as that of Aoki, Jackson and Miyajima (2007). In addition, the neo-liberal view of the firm is coming into line well with this growing diversity. Indeed, one of the neo-liberal arguments against any attempt at regulation on the national level insists on firm diversity, and this cannot be accommodated by regulation intended to go beyond individual cases. Neo-liberal policies play in fact a role on two levels: they have a direct impact on the diversity of enterprises; they have an indirect impact via the changes introduced in the forms of co-ordination. Neo-liberal reforms applied to this system have led to a growing and above all radical diversity, and this has brought with it the decay of the kinds of complementarity that characterised the Japanese economy and that was its strength, as we shall see in the next section, in which we shall propose an interpretation of the lost decade as a lack of co-ordination in the context of growing micro diversity (Lechevalier, 2007). This leads us back to a final question. Is the increasing diversity of enterprises good from the point of view of macroeconomic results? According to an evolutionary view based on Schumpeter, it is the very heart of economic dynamism (Nelson, 1991; Aoki, 2000).

In our opinion, this view is too simple since the impact at the macroeconomic level depends fundamentally on the conditions for co-ordination: Even going beyond the question of selecting the most efficient forms of organisation, co-ordination is what in concrete terms allows n firms to derive benefit from the complementarities that exist between them, for

instance, between a lower cost of labour among some firms and more advanced technology among others (Lechevalier, 2007). It is there that the political economy of forms of coordination is played out, and this will be the subject of the next section.

5. Liberalization and evolution of the coordination forms

We presented in the section 2 the foundations and the theoretical nature of the concept of coordination. Here we shall concentrate on the concrete forms of co-ordination and the ways in which they have evolved, distinguishing principally five: the structure of *keiretsu*, sub-contracting, the *shuntō*, ‘bureau-pluralism’ and industrial policy. It is possible to distinguish three types of co-ordination depending on the actor and level concerned: the level of industrial structure (*keiretsu*, sub-contracting), that of sectors and of industrial relations (*Shuntō*), and finally, that of government (industrial policy and bureau-pluralism). Even if these three types of co-ordination are very different in nature and motivation, their effects, both practical and theoretical, are fully comparable. To summarise, bureau-pluralism and innovation policies were the major forms of co-ordination available to the ‘Development State’ in classic Japanese capitalism (Johnson, 1982). The latter was not, however, entirely *dirigiste*, because private forms of co-ordination outside the market also played a major part. In sum, even if classic forms of co-ordination in the Japanese economy were subject to constraints, especially in the short run, they were a decisive factor in allowing spillovers to be promoted and in limiting fluctuations, as well as playing a role in mutualising risks.

Each of the forms of co-ordination outlined above experienced decline from at least the beginning of the 1990s. For example, sub-contracting relations have become more fluid (Isogai, Ebizuka & Uemura, 2000). In other words, if Japanese large firms have always recourse to a large number of sub-contractors (on average more important than in the case of large American and European firms), the relations between prime contractors and sub-contractors tend to be less stable, and the conditions of purchase in the short term are given priority over other considerations. The renovation plan for Nissan, announced on 18th October 1999, symbolised this evolution in itself and was certainly a turning point in this domain. It was in fact translated into a reduction in the number of suppliers over three years (1,145 in 1999, but 600 in 2002), and the putting into effect of a new principle: “purchasing materials and parts at the most optimal place” – as well as the selection and competitive placing of suppliers from outside Japan. To summarise, market principles won out over the forms of

solidarity that previously existed. Can we say that Carlos Ghosn was the Trojan horse of neo-liberalism in Japan? This would indeed be a caricature. What is important is that the government had given its green light for an ‘alliance’ between Nissan and Renault, thus explicitly favouring new practices that were very close to Anglo-Saxon ones (Tiberghien, 2007). Certain bureaucrats had then profited from a tight situation to favour the emergence of new practices. A second example concerns the industrial policy, whose role as a major form of co-ordination has been eroded (Lechevalier, 2006). Indeed, we may note, up to the middle of the 1990s, relative stagnation or decline in certain MITI budgets and less ambition of these programmes. This development is explained by at least three factors: the failure of certain programmes of MITI (for example, in computer science and engineeringⁱ), the undermining of the very foundations of industrial policy by a certain number of academic critics (Komiya, Okuno & Suzumura, 1988), as well as the neo-liberal ideology of small government, which seeks to limit to the bare minimum the spheres of government intervention.

Since the beginning of the 1990s, in a context of crisis and institutional change, new forms of coordination have emerged in parallel with the decline of the former forms that we have just described. If our analysis is correct, it is at this level that the future of Japanese capitalism is being played out, still as co-ordinated capitalism, and that a new regime of growth is potentially emerging. Let us here take two examples, in continuity with the previous paragraph, before attempting to make a synthesis of the developments that are taking place. In matters concerning production as such, the most original development is what several scholars describe as “fragmentation of production in Asia”. We may define this as the regional division of labour in the process of production and the growth in trade in intermediary goods with different factor inputs. This typically corresponds to the development of vertical intra-branch trade. In this process, Japanese firms occupy a most particular position, marked by specialisation in high value added products and advanced technological content. Japan is in fact the largest exporter of capital goods in Asia (Fukao, Ishido & Itō, 2003). Our interpretation is that this movement has the same function as post-war sub-contracting: it is its extension to the regional level. In a context of relative decline in classic sub-contracting we here witness the emergence of a more complex phenomenon at the regional level, whose function, however, is much the same.

Moreover, we may observe the emergence of new forms of co-ordination in R&D. Collaboration between firms in the area of innovation is far from being new to Japan. It tended, however, to be limited to firms in the same group. Globally, it was possible to

characterise this R&D system as ‘autarchic’ (Odagiri, 2006). In addition, a peculiar Japanese characteristic, particularly by comparison with the United States, was the very low level of collaboration between firms and universities. During the 1990s, new forms of collaboration emerged, notably between firms and universities and between competing firms, in part as a reaction of incentives introduced by the government’s new policy of innovation, and in part for reasons specific to the strategy of firms: in a context of increasing complexity of products and techniques, it became more and more necessary to seek knowledge and know-hows outside the firm and the group, especially as the competition from Korean companies for example is becoming more intense. Motohashi (2005) thus shows that the case of collaboration in R&D between universities and firms significantly increased between 1995 and 2000. In the more specific case of robotics, Lechevalier, Ikeda & Nishimura (2011) found a similar result. In addition, while this type of collaboration between firms and universities mainly concerned large firms, it has recently been extended to small firms which, according to Motohashi (2005), play an essential role in the development of these practices. Finally, and marking a still greater break with previous practices, some of the leading and competing companies in the electronics sector started to set up scientific and commercial agreements after the 2001 recession in this sector. For example, Hitachi and NEC signed an agreement at the end of 2005 to begin joint production of new generation integrated microcircuits (Berger, 2005).

In addition, several signs bear witness to a renewal of the industrial and innovation policies in the 1990s and of the desire evinced by the government to play a new role as co-ordinator. Bureaucrats responsible for the conception and the implementation of these policies have taken note of past failures and come to an uncompromising analysis of their causes. The reform consisted of reforming the very structure of those involved in research policies and of innovation, by reorganising the two principal ministries in charge of these policies, MITI and the Ministry of Education, which respectively became METI and the Ministry of Education, Culture, Sports, Science and Technology or MEXT (after the fusion of the Ministry of Education and the Science and Technology Agency, or STA); and above all by reviving and developing an institution attached to the cabinet of the Prime Minister in charge of the co-ordination of policy between the different participants, the CSTP (Council for Science and Technology Policy). This role of co-ordinator of public policy in the area was further affirmed through the setting up of framework policies for science and technology (the first, the second and the third *Science and Technology Basic Plans*, covering respectively the periods 1996-

2000, 2001-2005 and 2006-2010). These plans gained in effectiveness by comparison with the practices of the 1980s, to the extent that the definition of strategic sectors was accompanied by affirmed budgetary choices, which formed a very concrete way of co-ordinating the participants (Lechevalier, 2006).

Is it possible to go further and to argue that neo-liberal policies initiated over the past thirty years in Japan have promoted the decline of previous forms of coordination, without them being replaced in their entirety by the market? On the first point, it is clear that, directly or indirectly, neo-liberal policies in Japan have contributed to the decline of classic forms of co-ordination in Japanese capitalism. The most obvious case is that of the types of government co-ordination, both bureau-pluralism and industrial policy: in these two cases we are tempted to conclude that it is rather the power of neo-liberal ideas that, in a context of relative failure of these two forms of co-ordination, have tended to legitimise their decline. As for the increased fluidity of sub-contracting, it corresponds to a re-formulating of trade-off in favour short-term gains and relations with the market to the detriment of the long term, which is itself the by-product of the financialisation of the economy.

In concluding this section, we should suggest an answer to a key question: is Japanese capitalism still a co-ordinated capitalism? The answer that we are able to give at this stage is the following: In a first step, the classic forms of coordination in Japanese capitalism (*keiretsu*, sub-contracting, *shuntō*, industrial policy, bureau-pluralism) have indeed experienced a marked decay. However, in a second step, we have seen the emergence of new types of co-ordination following a different logic (holding companies, fragmentation of production in Asia, new forms of collaboration in R&D between firms, and new policies of innovation). This revival of coordination leads us to confirm the co-ordinated nature of Japanese capitalism, and even more so since we have emphasised the inefficiency of ways of co-ordinating through the market. However, at the same time, it is important to recognize and to emphasize that the forms of coordination have significantly changed and that compatibility between them is not without its problems. How ought we to interpret this emergence of new ways of co-ordinating outside the market in a neo-liberal context? Our hypothesis at this stage is that it corresponds to a type of institutional and organisational innovation by economic actors in a new context of incentives and of trade-off between short term and long term. Neo-liberal policies have of course contributed to the decline of earlier forms of co-ordination, but they have not worked to promote forms of co-ordination through the market that would be

efficient and shared between all the actors. In this context, they have really invented new types of co-ordination whose mutual compatibility remains to be demonstrated.

6. Liberalization and rising inequalities

In our approach to the diversity of capitalisms, inequalities are neither one of the outcomes of a given form of capitalism, in the same way as growth, nor a fact that goes beyond the diversity of capitalism, because determined by the impact of globalisation or of technological progress. In our view inequalities (their intensity, their form), reveal something profound about the very nature of each kind of capitalism, in that they allow us to comprehend the nature of the underlying social compromise, notably concerning the division of value added and of risks (Lechevalier, 2011c). The social compromise is present in the concept of the Toyotist wage labour nexus developed by the *régulation* theory (Boyer & Yamada, 2000). Even so, in following Amable and Palombarini (2009), it seems more relevant to separate the analysis of the firm from that of social compromise, to study the latter in the perspective of political economy, even in the framework of the company-centred analysis of Japanese capitalism.

The least that we can say is that the debate on the nature of the Japanese social compromise has been lively. This debate has not been concluded even today, in the sense that the most recent developments have led to a revision of the bases of post-war capitalism, which requires a new kind of analysis (Lechevalier, 2011c). In our opinion, although it was segmented in the classic form of Japanese capitalism, it was fundamentally egalitarian in outcome, and even in intention. This is shown by the low level of inequalities reached during the 1970s, comparable to what we could then observe in Scandinavian countries, following the admittedly imperfect indicator of the Gini co-efficient (OECD, 1976; Tachibanaki, 2005).

However this may be, it is in the sphere of inequalities and of the social compromise that the turning point, or even the real rupture in contemporary Japanese capitalism, is most visible. This is characterised by a remarkable increase in the level of inequalities, whose evaluation, however, is the object of heated debates. We interpret this rise in terms of ‘re-segmentation’ of the labour market, which is essentially the consequence of implementing neo-liberal policies as a whole, and in some smaller measure, of the crisis, following on from restructuring.

At this stage, it is important to understand how this social compromise was formed. Should we see in it archaic remains of a Confucian vision of society? In this area as well, cultural explanations find it hard to explain the changes that have affected the Japanese social compromise. Indeed, as the long-term history study by Moriguchi & Saez (2008) has shown, Japan between the wars was very unequal, and marked by remarkable concentration of income. It was in fact at the end of the Second World War and during the post-war period that the classic Japanese social compromise emerged. More precisely, we may distinguish three strata. We should first of all acknowledge the existence of a ‘traditional’ base which, on the one hand, constitutes the foundation of forms of intergenerational solidarity and, on the other hand, ensures a place for all men and women, whatever this place is. In the post-war context, this was manifested mainly in “jobs for all”, in other words an absolute and radical preference for full employment that acts as a dimension of welfare (Kume, 1998). In addition, the classic Japanese social compromise was also the result of social struggles which most of all made it possible to reach a compromise on employment security (Gordon, 1988, 1998). Finally, we must not forget the contribution of the American occupation, whose democratic dimension we often recall, but of which we tend to forget that it contributed very strongly to the formation of an egalitarian compromise and to the establishment of a structure less unfavourable to wage earners, notably by putting in place a real labour law (Tsuru, 1996). We should recall here that the American administration was much influenced by the ideas of the pre-war New Deal, in the sense that some American representatives came from the left wing of Roosevelt’s team. In our opinion, it was the essence of this social compromise that came to be put in question progressively from the 1980s.

The principal manifestation of the breakup of the social compromise was the growth of inequalities. The term ‘unequal society’ (*fubyōdō shakai* –不平等社会) became a current expression following the publication of the book having the same title by the sociologist Toshiki Satō (2000). More precisely, the 2006 issue of the OECD Study of Japan estimated that wage inequalities in Japan had surpassed the OECD average and had experienced the strongest growth of any developed country (OECD, 2006). Moreover, the percentage of persons living in absolute poverty grew by 5% between the middle of the 1980s and 2000, Japan being the only country in the OECD having experienced such a rise of poverty. This tendency only became more marked during the course of the 2000s.

While there was a debate about it in the 1990s (see below), this growth in inequalities was indisputable from the 2000s, both in terms of wages and incomes and in terms of

employment security (Lechevalier, 2011c). This was even more the case when we consider subjective data. The survey conducted by the Cabinet Office since 1963, in which a sample of individuals are asked to place themselves in a social class (upper, middle-upper, middle, middle lower, lower), shows that from the second half of the 1990s fewer and fewer individuals have considered themselves to belong to the middle class, whereas such people had been more than 90% at the end of the 1970s.

How may we explain this increase in inequality in Japan, in the more general context of a transition in the social compromise? Here again, it is particularly interesting to place the issues in historical perspective, as has been done in various works of Chiaki Moriguchi. Her studies, inspired by the methodology developed by Thomas Piketty and Emmanuel Saez in the case of France and the United States, and focusing on the analysis of high incomes on the basis of fiscal data, lead to several conclusions essential for our understanding of the development of inequalities (and of the associated social compromise) in Japan over more than a century. The first collection of results concerns chronology. The concentration of revenues was very high during Japan's industrialisation, from the Meiji period up to the Second World War. It was during the war (notably between 1938 and 1945) that a drastic reduction in high income concentration could be observed, in the context of the collapse of revenues from capital due to inflation and regulations put in place during the war. Concentration of revenues remained at low levels during the second half of the twentieth century, even though at the end of that period some modest signs of growth could be observed. The second type of result concerns the composition of high incomes, which showed a transition from revenue from capital to revenue from work. The third result was that by contrast with developments in the United States from the 1970s, the extent of high incomes in Japan remained relatively stable over the past thirty years. Two further results emerge from this comparison between the United States and Japan: Technological change and new fiscal situations do not explain the differences between Japan and the US. Rather than this, it was institutional factors, such as internal labour markets and the union structure, that were the most important determinants of the concentration of income from work.

Various studies conducted by Ryō Kambayashi support this analysis (Kambayashi et al., 2008; Kalantzis, Kambayashi & Lechevalier, 2012). They show that the situation completely changed in the course of the 2000s. Wage inequality began to rise strongly without aging, globalisation and technical progress actually accelerating. This means that the literature that explained the rise in inequality in the world up to the 1990s can no longer

explain either Japan or even the OECD countries as a whole, in that the development seen in Japan may correspond to what we may come to see later in other countries. The central point is that, in the Japanese case, it is the labour market that is the matrix of inequalities. Analysis thus should focus on it, directly or indirectly. It leads us to introduce our own interpretation of the rise in inequalities in Japan, the 're-segmentation of the labour market'. A labour market is considered 'segmented' when it is divided by a cleavage between two or several segments between which there is very little mobility, and characterised by differentials in wages, in employment security and more generally in conditions of work and career possibilities. This segmentation concerns both jobs and workers. The problem is not so much that the jobs are different, but that a part of the workforce is confined to a certain type of work. The key for the segmentation hypothesis is the discontinuity between the different segments (Berger & Piore, 1980; Lechevalier, 2014b).

The point of departure for our analysis is the idea that the debate on inequalities in Japan is too much focused on wage inequalities and that it has left aside the essential point that in Japan, more than in other countries, because of the characteristics of the employment system, wage inequalities are essentially determined by inequalities in employment security. This needs to be analysed in three dimensions: the job status (regular or non-regular), which forms in a sense the basis of inequality of job security; secondly mobility (voluntary or involuntary; upwards or downwards), which is an aggravating factor; and thirdly, the risk of unemployment, which has played a key role in each of the crises that the Japanese labour market has experienced. In other words, to focus on wages or job status is not sufficient. It is imperative to analyse conjointly and in a structured way the different dimensions of employment security. Following this perspective, we need to recognise two types of loser from labour market dynamics: first of all, those who have lost their jobs and who have therefore experienced an interruption to their career (Lechevalier, 2014b); secondly, young people for whom it is more difficult to enter the labour market (Genda, 2003). The hypothesis of the re-segmentation of the labour market concentrates on the former category. Without denying the importance of the problems facing young people, our aim is to challenge an interpretation of the Japanese labour market dynamics in terms of insiders and outsiders, because it assumes that the insiders are able to manipulate the turnover rates in the labour market, and this does not remotely fit the Japanese case, which is marked by a general decline in the bargaining power of workers (Dore, 2000). It is possible to show that the most significant determinants of lay-offs are the characteristics of firms rather than individual

characteristics such as sex, age or education (Arai & Lechevalier, 2005; Chūma, 2002). It remains to determine the characteristics of firms that matter. This research is complicated by the fact we have treated as crucial in section 4, namely the growing heterogeneity of firms, and more precisely the growth in the productivity dispersion that concerns firms of similar size and belonging to the same sector. In fact, following earlier works about the US and the UK (Faggio et al., 2010), Kalantzis et al. (2012) show that the rise in wage inequalities correlates significantly with increases in the dispersion of firm level productivity, following a negative productivity shock at an aggregate level.

Going beyond the impact of the crisis, this collection of results may be interpreted in the framework of a political economy of analysis of inequalities in Japan, inspired both by Krugman (2007), Dore (2000), and the analysis of the development of forms of co-ordination of the Japanese economy presented in section 5. This interpretation is summarised in Figure 3. If the labour market is really the matrix of inequalities in Japan, we should at the same time recognise that the increase in inequalities also plays out in other areas, principally at the level of the industrial structure, described in section 4. In its turn, it is determined in part by neo-liberal policies that have contributed to the decline in forms of co-ordination.

Finally, it is important to insist on the historical dimension of interpreting labour dynamics in Japan in terms of “re-segmentation”. On the one hand, it means that segmentation is not a given but that it evolves. On the other hand, this interpretation aims at making, at least implicitly, a parallel between the contemporary period and the period 1910-1930, in the course of which the differentiated introduction of foreign technologies was the basis of the dual structure of the Japanese economy in the 1950s (Shinohara, 1970). In the context of the 1990s, it was less the impact of the introduction of information and communication technologies (as shown by Itō & Lechevalier, 2009) than that of financial innovations and the diffusion of international accounting norms. The contemporary mechanism at the base of the re-segmentation of the economy concerns the differentiated introduction, by firms, of opportunities created by the new financial environment (Lechevalier, 2014b).

Figure 3 about here

7. Conclusion

We may summarize in three propositions the principal results of this paper:

1. Japanese capitalism has evolved over 30 years, and now may be clearly distinguished from the 'model' of the 1980s. The transformations that have been a key feature of Japanese capitalism over the years may be summarized thus: increasing heterogeneity of firms in terms of their performance and their mode of organization; decline of earlier forms of co-ordination (e.g. *keiretsu* structure and industrial policies conducted by MITI), rise in inequality putting in question the post-war social compromise.

2. The causality of these changes is complex. However, our second result is that they stem less from responses to challenges posed by globalization, by a new wave of technical progress or by the crisis, but rather by the implementation, in a progressive and non-linear fashion, of neo-liberal reforms since the beginning of the 1980s.

3. This transformation of Japanese capitalism does not signify convergence towards American or European capitalisms. After an idiosyncratic trajectory, Japan still constitutes a pole of capitalist diversity.

To put this in different language, we have here the confirmation of a quite general paradox, the fact that, often, institutional changes associated to liberalization lead to increasing diversity of firms instead of convergence towards the liberal model of firm's organization.

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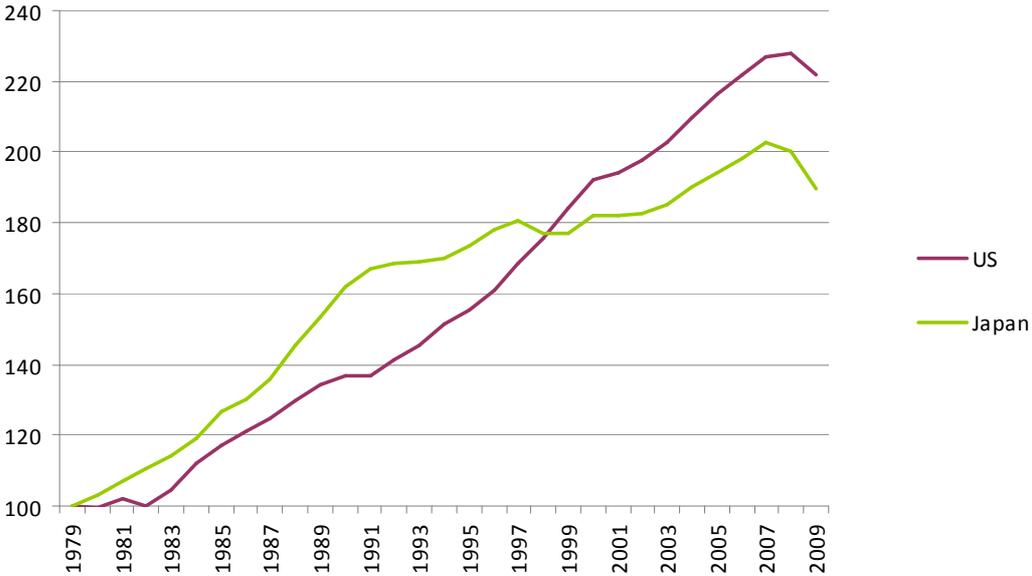
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Figure 1: Evolution of Nikkei index (1980-2010)



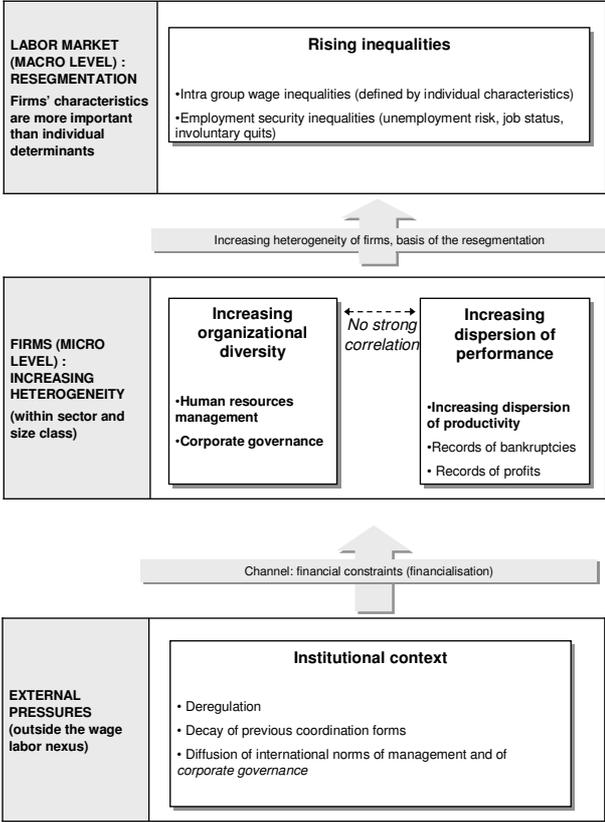
Source: Tokyo Stock Exchange (monthly data).

Figure 2: Evolution of the Real GDP in Japan and in the US



Source: OECD (base 100 in 1979).

Figure 3: The ‘Resegmentation’ of the Japanese labour market



Source: author

ⁱ See Lechevalier (2006)