

RACE FOR THE EXITS

*The Unraveling of Japan's System
of Social Protection*

LEONARD J. SCHOPPA



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RACE FOR THE EXITS

For Munakata Miyo

Preface

Because I grew up in Japan, that nation's social safety net—or its “system of social protection” as I call it in this book—has been something I've been observing for almost forty years. In the 1960s, when I first experienced life in Japan as the son of a missionary family in Hokkaidō, the safety net still had some very large holes in it. One family in my father's congregation was headed by a tailor. When the rapid expansion of the apparel industry destroyed his livelihood, his family was left to live in poverty with virtually no help from the state: no unemployment insurance, no pension, no government-subsidized retraining program. Life was hard for many farm families in the area as well, with some still relying on family members to plant rice by hand.

Japan has changed a great deal in the intervening years. By the time I returned to Japan in 1984 to work as an English teacher in Kumamoto, the social safety net was much more tightly woven. Agriculture was thoroughly mechanized and subsidized. When the local school board office sent me to visit a school in a farming area, my workmates told me to expect a sumptuous lunch. The district was among the wealthiest in the prefecture. Meanwhile the boys I had grown up with in Hokkaidō were by this time finishing college or training programs leading to secure salaried jobs. Most of the young men of this generation found “lifetime employment” jobs, with generous pension and health benefits. Even those hired by smaller firms were protected by state policies and economic structures that supplied their employers with stable financing and managed competition in order to prevent bankruptcies.

The girls I grew up with also found greater economic security than their parents had enjoyed, in most cases through husbands they met and married before turning twenty-five. Most are now “professional housewives” (*sengyō shufu*), as the Japanese refer to those who devote most of their time to caring for children and taking care of the home. They too are playing a distinct role in Japan's system of social protection. They provide unpaid care to children and other needy family members

in order to allow their husbands to devote most of their waking hours to their employers.

The Japanese system of social protection that grew up between the 1960s and 1984 was in many ways well-suited to its time. It gave generations born in the post-war era a degree of economic security their parents could never have imagined. There were many fewer stories like that of the Hokkaidō tailor's family. A large proportion of the young women of this era *aspired* to be professional housewives, and rapidly expanding firms had a relatively easy time living up to their lifetime employment commitments, so these groups could accommodate the roles they were expected to play. Japan's economy certainly did not suffer, for it grew at rates that surpassed most of the advanced industrialized nations.

Another twenty years have now passed since I worked as an English teacher, and Japan is today a richer country than it was in 1984. Nevertheless, my most recent visits have brought into focus some serious strains in the system I just described—the “unraveling” that is the subject of this book. Many of the daughters of neighboring families I've met during recent stays in Japan are postponing marriage—in some cases because they are frustrated by the sacrifices they would have to make if they did. Others have gone to good colleges and found career jobs but have been forced to give it all up when they've married and had children. Both choices are leaving Japan with a declining supply of workers. Meanwhile the sons in these families have had to work much harder to find employment. Some work as freelancers (*furiitaa*) who are not covered by the lifetime employment system. Many Japanese firms are struggling to keep their heads above water under the weight of a system of social protection that burdens them with high costs and an aging, expensive workforce. This book explores why a nation that built a system of social protection that worked so well for the friends of my youth has failed to reform this system in the face of growing evidence that it is unraveling.

As suggested by these opening remarks, my writing of this book benefited first and foremost from my countless interactions with Japanese friends and families over the past four decades. Although few of them are official sources cited in footnotes, I have endeavored to write a book that is true to their experiences of “real life” in Japan. I thank in particular Munakata Miyo, to whom this book is dedicated. When I moved to Kumamoto in my first year out of college, she was the “Japanese mother” who reintroduced me to the country, and she has continued to be an inspiration to me in my life and work.

Many others, more than can be named here, have also assisted in the preparation of this book. In the early stages, I benefited from the opportunity to share ideas and draft chapters with Karen Cox, Steve Green, Müge Kökten, Arnd Plaage, Herman Schwartz, and David Waldner at the University of Virginia, as well as Mikanagi Yumiko, Ishida Hiroshi, Shirahase Sawako, and Brad Glosserman in Japan. I thank all those who gave generously of their time in interviews and conversations, but especially those who met with me several times, including Yashiro Naohiro, Kawamoto Akira, and Kawamoto Yūko.

As the argument began to take shape, I had the privilege of getting extensive feedback during paper presentations at International Christian University, hosted by William Steele; the University of Tokyo, hosted by Katō Junko; Sophia University, hosted by Nakano Kōichi; the University of Pennsylvania, hosted by Jennifer Amyx; the University of Michigan, hosted by John Campbell; Harvard University, hosted by Susan Pharr; MIT, hosted by Richard Samuels; Columbia University, hosted by Hugh Patrick; the Washington Japan Seminar, organized by Edward Lincoln; the University of Illinois, hosted by Nancy Abelmann; and Cornell University, hosted by Robert Weiner. At each place, my hosts and other faculty, students, and guests contributed ideas and raised questions that helped me improve the book.

The book would have been impossible to write without opportunities to spend time in Japan. A Fulbright Research Fellowship, administered and funded by the Japan-U.S. Educational Commission and the Council for International Educational Exchange, made possible the longest period of fieldwork, in 2000–2001. The faculty and staff at my host institutions that year, at the International Christian University Institute of Asian Cultural Studies and the University of Tokyo Institute for Social Science, were generous with their time and support for my work. I especially thank William Steele and Ishida Hiroshi. A short follow-up research visit was made possible with a grant from the Japan Foundation in December 2002. Additional research support for this project was provided by a Sesquicentennial Fellowship and summer research grants from the University of Virginia, a short-term travel grant from the Association for Asian Studies Northeast Asian Council, and a grant from Shiina Motoo's Policy Study Group in Japan.

Maria Farkas, Watanabe Shino, and David Moore each provided tireless research assistance at various stages of the project, as well as helpful comments on draft chapters. During the final year, I received invaluable feedback from four individuals who read the entire manuscript and offered comments and suggested improvements at a book conference funded by the Japan Foundation Center for Global Partnership: Mary Brinton, Edward Lincoln, Ayako Doi, and Kojō Yoshiko. Additional advice came from Ethan Scheiner and Yamawaki Takeshi, who read specific chapters closely and gave me useful feedback on those parts of the book. Frances Rosenbluth and the other reader for Cornell University Press provided suggestions that further improved the final draft. Roger Haydon lived up to his impressive reputation as an editor authors love to work with. Any errors that remain after all of this feedback are my own.

Finally, in a book about families and how they are protected and constrained by Japan's system of social protection, I would be remiss not to thank my own family—my wife Gabrielle and my daughters Melina and Isabelle. My own experiences of Japan during the last fifteen years have been enriched by sharing my time with them, which has given me a richer sense of how life is experienced there by women and girls.

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Charlottesville, Virginia

Conventions and Abbreviations

Throughout the text, Japanese names are written in Japanese order (family name—given name) with the exception of cases in which Japanese authors of English-language publications have listed their names with given name first. Macrons have been omitted in commonly used place names (e.g., Tokyo).

In the text and in notes, Japanese government ministries and agencies are referred to by their official English translations. Note that the names of many ministries and agencies changed on January 6, 2001, due to an extensive reorganization of central government units. In the case of ministries affected by these changes, I refer to the name that was in use at the time of the publication or event referred to in the text (e.g., the Ministry of Health and Welfare before 2001; Ministry of Health, Labor and Welfare after that date).

All translations are by the author unless otherwise noted.

DINK	double-income no kids
DPJ	Democratic Party of Japan
EEOL	Equal Employment Opportunity Law
EHI	Employee Health Insurance
EPS	Employee Pension System
FDI	foreign direct investment
FILP	Fiscal Investment and Loan Program
FSA	Financial Services Agency
IEA	International Energy Agency
JIL	Japan Institute of Labor
JFTC	Japan Fair Trade Commission
LDP	Liberal Democratic Party
LTCI	Long-term Care Insurance
METI	Ministry of Economy, Trade and Industry

MHLW	Ministry of Health, Labor and Welfare
MHW	Ministry of Health and Welfare
MIAC	Ministry of Internal Affairs and Communications
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MOL	Ministry of Labor
NCB	Nippon Credit Bank
NHI	National Health Insurance
NIPSSR	National Institute of Population and Social Security Research
NPS	National Pension System
NTT	Nippon Telegraph and Telephone
OECD	Organisation for Economic Co-operation and Development
TEPCO	Tokyo Electric Power Company
TFB	Trust Fund Bureau (of MOF)

RACE FOR THE EXITS

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Chapter 1

Exit, Voice, and Japan's Economic Problems

The setting and the topic of conversation could hardly have been more discordant. The restaurant in which we were dining, on the top floor of a ritzy hotel in central Tokyo, featured white linen tablecloths and black-tie waiters. The presentation of the gourmet Chinese food suggested that the chef had trained in France. Yet my host, Kōno Tarō, the son and grandson of Liberal Democratic Party (LDP) cabinet ministers and now an ambitious politician in his own right, was riffing on Japan's economic decline. "Japan is the last socialist country on the planet," he said, "and like the rest of the socialist countries is headed toward collapse." The fault, he continued, lay with his own political party, the LDP, which should actually be called "the Communist Party of Japan."¹

Kōno is known for hyperbole, so it was tempting to dismiss his analogy as mere theatrics. Yet the more I thought about it, the more valid it seemed. Japan's poor economic performance in the period since 1990 is now well known. After growing economically by an average of 8.4 percent from 1950 through 1973 and 3.5 percent from 1975 through 1990—rates that placed Japan at the top of the growth charts for the industrialized world over both of these periods—Japan has grown by an average of just 1.01 percent from 1991 through 2003.² After recording just one year of negative growth over the first four decades of the postwar period (in 1974, following the oil shock), Japanese endured four years of negative real growth in rapid succession, in 1993, 1998, 1999, and 2002. Because of deflation, the nominal economy has grown even more slowly. In 1995, the nation's gross domestic product stood at ¥497 trillion. In 2003, it was exactly the same size: ¥497 trillion. These statistics were not nearly as dire as those experienced in the Soviet Union, but given Japan's record up until 1990, its performance over the past decade and a half ranks with the Soviet collapse as one of the great reversals of fortune of our age.

Less well known outside of Japan is another parallel between Japan's economic system and that of the old Soviet Union: the "socialist" way in which Japan's eco-

nomic system made sure most Japanese shared in the nation's economic gains. Between 1963 and 1993, the income gap between those in the top and bottom quintiles of the nation's households shrank sharply, from a factor of 5.6 to 3.4.³ Midway through this period, a famous study by the Organisation for Economic Co-operation and Development (OECD) declared that Japanese levels of income distribution were among the most equal in the industrialized world, just below those of Sweden and Norway.⁴ By the 1980s, 90 percent of Japanese routinely told pollsters that they were members of the "middle class."

What was amazing about the Japanese version of socialism was that it was able to build such an effective safety net for society without massive government expenditures—unlike Sweden and Norway, and completely unlike the Soviet Union. Rather than redistributing income through government spending and providing care through public services, Japan built a system of social protection that relied largely on firms and families (especially women) to provide a safety net of income, benefits, and care.⁵ Japan's secret was a system of regulations, taxes, and benefit rules that encouraged and enabled firms to offer "lifetime employment" to their core male workforce while encouraging women to care for children and other needy family members. These private actors were expected to help make sure all Japanese advanced economically together, like a convoy of ships moving ahead at a slow but steady pace, with the government providing a naval escort through its regulatory interventions.

Japan's system of "convoy capitalism," with its bank-centered financial system, cartels, and extensive regulations, all carefully managed by the state, has been known mostly for the role it played in facilitating the success of Japanese export industries and the rapid economic growth of the nation as a whole.⁶ But this system was also designed to protect vulnerable members of Japanese society, including workers and their families, by keeping firms in business so they could keep their commitments to employees and business partners. Convoy capitalism, like the welfare state regimes of Europe, had productive *and* protective elements that were mutually reinforcing.⁷

This system worked quite well during Japan's high-growth years, producing a "miracle" combination of growth and equity. Yet by the 1990s, like the Soviet version of socialism, the system was in trouble. Not only did national growth slow abruptly but levels of equity declined as well. The income gap between the bottom and top quintiles of the nation's households widened from a factor of 3.4 in 1993 to 4.6 in 1998, reversing much of the progress made over the previous three decades.⁸ Many Japanese still had the money to enjoy expensive meals at rooftop restaurants, but many others were struggling to get by. The number of homeless living in Tokyo's parks and other public spaces grew sharply, and high school graduates around the country struggled to find work in a terrible job market.⁹ Describing the new inequality trend in Japan as the most rapidly emerging one in the industrialized world, economist Tachibanaki Toshiaki argued that Japan had become one of the most *unequal* nations in the OECD, right up there with the United States and Britain.¹⁰

Along with the troubling decline in growth and the rise in inequality came signs that it was taking growing sums of taxpayer money to keep the leaky convoy system

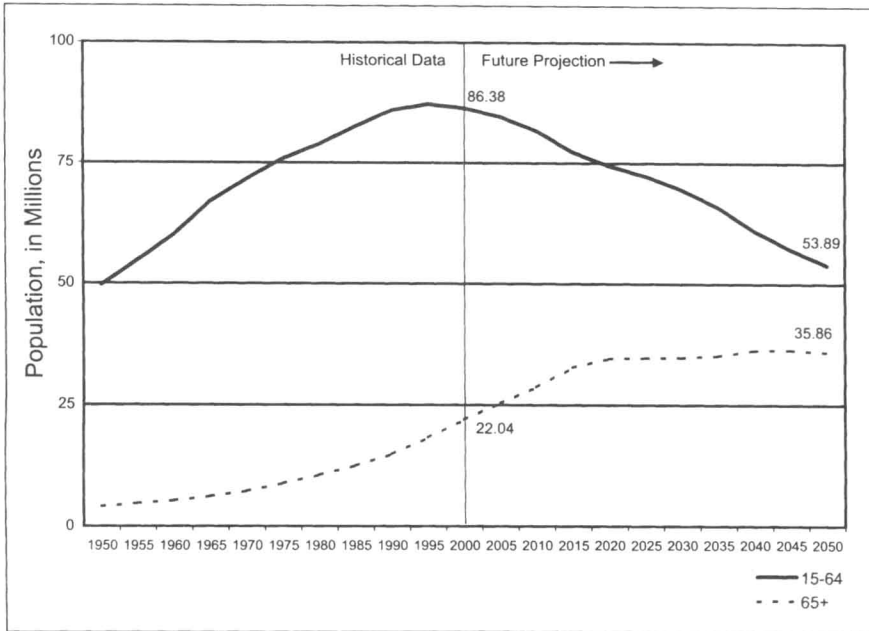


Fig. 1.1. Japanese population trends and projections

Source: Historical census data is from National Institute of Population and Social Security Research, *Population Statistics of Japan* (Tokyo, 2003), 13; projections beyond 2000 are based on the medium-case scenario reported in NIPSSR, *Population Projections for Japan: 2001–2050* (Tokyo, 2002), 12.

afloat. By 1998 it became clear that the banks could no longer carry out their assigned role in the system without taxpayer help. The government attempted to bail out financial institutions in ways that would allow them to continue protecting firms from pressure to restructure, but these bailouts only seemed to buy troubled banks and firms a few extra years. As insolvent firms desperately attempted to maintain cash flow without regard to profits, their excess production contributed to the phenomenon of deflation, which forced the government to ramp up public spending in a desperate attempt to keep the economy from sinking into a deflationary spiral.

By 2000, Japan's public expenditures had risen to almost 37 percent of GDP, up sharply from the level of 30 percent in 1990.¹¹ Because taxes are kept low to stimulate the economy, the nation is now adding about 7 percent of GDP to its public debt every year—a mountain of debt that had risen to 166 percent of GDP in 2003.¹² All of this is taking place as Japan's aging baby-boomer generation is just years away from retirement, a demographic jolt that is being made worse by the continuing drop in Japan's fertility rate. With the population of working-age adults expected to shrink by 16 percent in the next twenty-five years and another 22 percent by 2050 (see figure 1.1), Japan is entering a period of even slower growth and