

The Light and Shadow of Japanese Capitalism after the Second World War
(The Fundamental Problem of Postwar Japan and Japanese Capitalism)

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1. Preface.

What kind of impression do you have about Japan? Take a moment to visualize. You would visualize Toyota cars, Seiko quartz wrist watches, Panasonic electronic goods, the bullet train (Shinkansen), Mt. Fuji, geisha girls. Those who thought of Mt. Fuji and geisha girls must be old. However, probably, a large majority of people, most of you, visualized a Toyota car or Panasonic electronic goods.

Perhaps the following occurred to you about Japan. Japan is an industrialized nation. And that's correct. However, I am not a salesman of Toyota or Panasonic. I wish to talk about the following things. How was Japan able to quickly accomplish its "economic revival" after World War II? And how did the Japanese economy change? I also wish to talk about what has happened to the present Japanese economy.

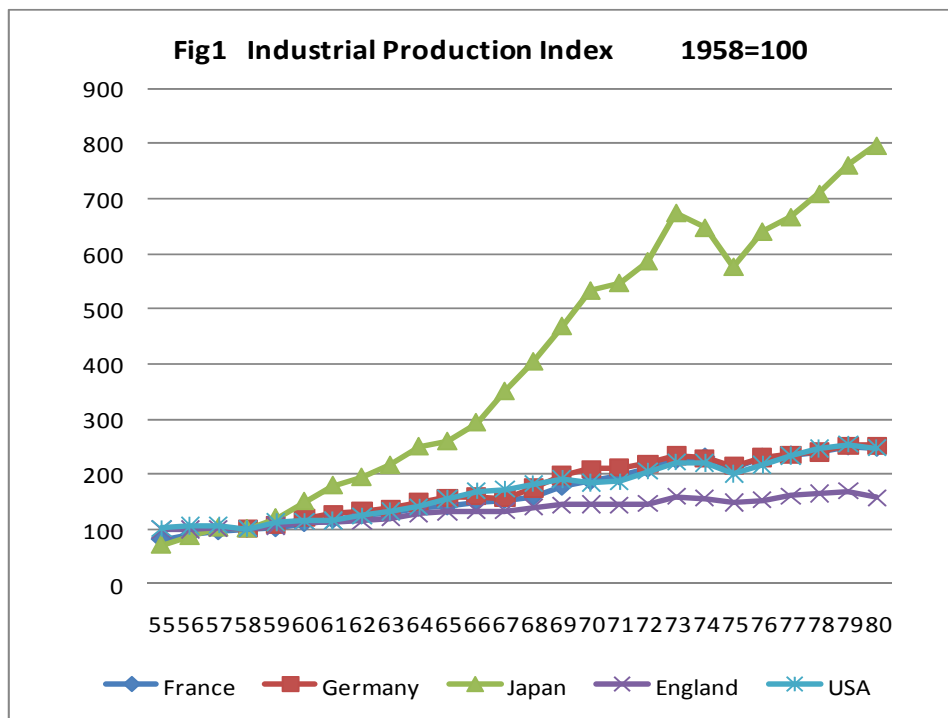
First, I would like to offer a description of how economic development in Japan was accomplished so quickly. Please see Fig. 1. This figure is an industrial production index (GDP base) in five advanced countries. 1958 is set to 100. When we look at this figure, we can see the rapid economic growth of Japan after World War II. The economy grew about 8 fold in the 25 years from 1955 to 1980. It is about 2.5 times the economic growth of the United States, Germany, and France, and 1.6 times that of Britain. It is surprising at the speed of economic growth of Japan.

This speed is the issue. How could Japan make the productive force increase rapidly? How could Japan become an industrialized nation so quickly? I think the speed shows the differences of structure in various economies. I would like to describe this problem from the following 2 perspectives (A&B) and mention the difference of structure comparing Japan with Europe and America.

The 1st perspective is from (Point A) the world-historic condition; by this I mean the Cold War structure which is the U.S. Cold War system vs. the U.S.S.R Cold War system.

The 2nd perspective is from (point B) Japanese domestic conditions; which breaks down into 3 headings of

- (1) Capital (funds; machine or technology),
- (2) Labor (person),
- (3) Land ownership (agriculture and farmers)



(Notes)The present writer makes.

(Source) OECD, Stat Extracts, Key Short-Term Economic

Indicators:IndustrialProduction,http://www.oecd.org/document/56/0,3343,en_2649_34265_2073848_1_1_1_1,00.html (data extracted on 06 Apr 2010 05:28 UTC (GMT) from OECD. Stat ; April/6th /2010)

2. Basic composition of postwar Japanese capitalism under the U.S.—Soviet Cold War structure and Japanese domestic condition

[(Point A) The world-historic condition]

World War II ended on September 2nd, 1945. Japan lost the War and the country was razed to the ground. The United States wished to turn Japan into an aggressor nation into a peaceful nation. The United States wished to transform Japan into an "agriculture and light-industries" country. However, the Korean War broke out in 1950. The Korean War was a civil war between the Korean people. However, the Soviet Union, the leader of socialist system, supported North Korea, and the United States, the leader of the capitalist system, supported South Korea. A contradiction of global proportions appeared after World War II (The Cold War structure). The Cold War era had begun.

In the first half of the twentieth century the global contradiction was the war between the imperialist countries. They were World War I and World War II. Although

(Notes)The present writer makes.

In order to keep out the Soviet Union (socialist) influence in Asia, especially in the Korean and Indochinese Peninsulas, the United States found a new appreciation of the importance of Japan, its industrial productivity founded on military strength. The United States supplied the manufacturing techniques and funds (capital) to Japan. This is a basic condition, or the precondition, for Japan to become part of the industrialized nations.

[(Point B) The conditions in Japan].

(1) Capital (funds; machine or technology)

United States found a new importance in the role of Japan. Industrial productivity is the foundation of military strength. The US needed a supplier to supply the strategic materials in Asia. The US supplied manufacturing techniques and funds or capital. The Japanese government and big companies accepted these manufacturing techniques and funds. Of course the government controlled private enterprises. The World Bank and U.S. export-import bank supplied funds to Japan. For example, the total amount of foreign introductory funds supplied from the 1956 fiscal year to 1965 was 1.84 billion USD (1 trillion 596 billion JPY). (Compare this to annual Japanese budget expenditure (general account) of 1 trillion 743 billion JPY in the 1960 fiscal year). This amount of money is worth 5.8% of the amount of capital investment of all industries in the period.

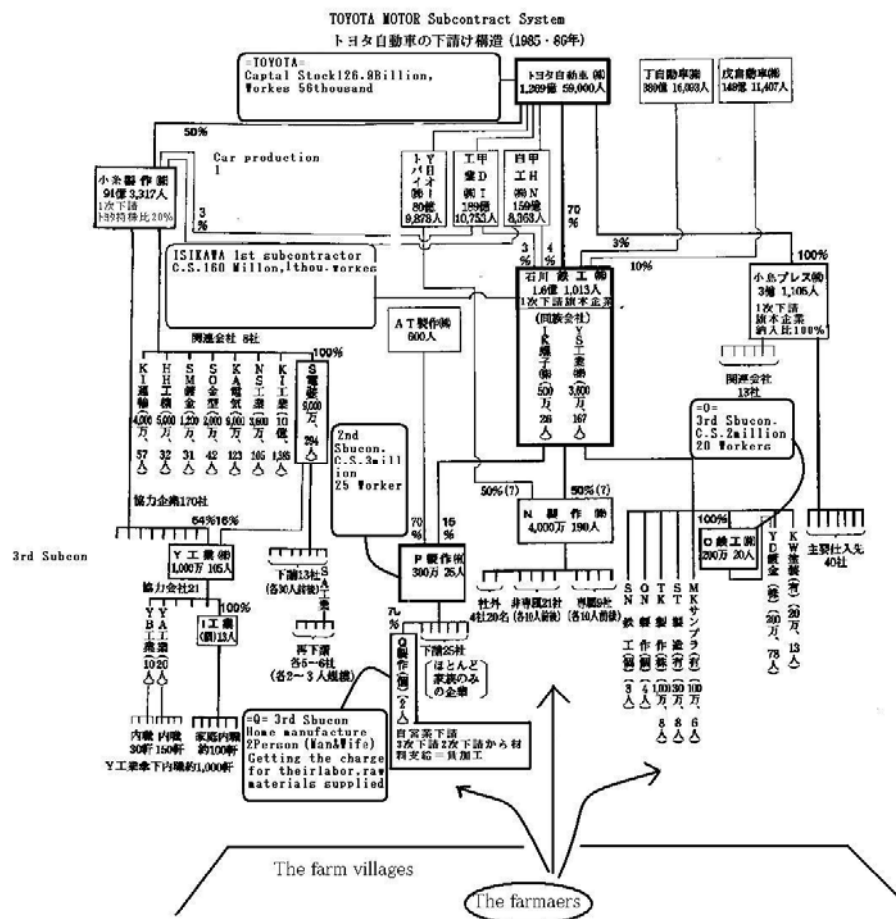
This introduction of foreign capital had considerable significance for Japan. Japan was a defeated country and lost global confidence. For 20 years after World War II Japan was a trade deficit country. The trade deficit lasted until 1964. Japan could not import the advanced industrial equipment and technology without foreign currency, the dollar of the United States.

Furthermore, in order to compensate for a capital deficit, companies used land as security for funds borrowed from the bank. They bought the machinery and materials employed laborers, and expanded production. Land is ephemeral when we use it as capital. We cannot use the land for capital. This is an unusual thing. Moreover, the Japanese government also supplied a deal of government funding to the companies (in the form of loans). Only major companies were able to accept the newest style of equipment and technologies. Neither small and medium-sized companies nor small businesses were able to accept these equipment and technologies. Medium-sized companies and small businesses turned into “subcontractor” companies which supply parts and material to major companies. In the Japanese context subcontractors have special meanings. For example, Toyota Motor has subcontractors and subsidiary

companies as shown in the Figure 3.

Toyota does not make car parts itself, and they buy car components and parts at low prices from subcontractors. Moreover, the subcontractor supplies (buys) parts at a lower price from the subcontractor under them. It is the basic industrial structure of Japan. There are several gaps between Toyota and its subcontractors. When we observe the gap in wages, 1st level subcontractor companies are about 70 or 80% of Toyota's wages, 2nd level are about 60%, and 3rd level are about 50%. And a large number of jobs is beneath 3rd level subcontractors. It goes without saying that their wages are lower than the 3rd level wages. I call this "Shitauke-Keiretu Role" system structure. It's the answer to the next question. Why are manufacturing goods in Japan internationally competitive?

Fig 3



(Notes) See the source notes.

(Source) The present Writer, *The fundamental problem of Japanese capitalism after the Second World War* (Otuki Shoten, Tokyo, 2010), p.88.

(2) Labor (laborer)

Capitalism cannot come into existence with merely capital or technology. Capitalism requires laborers. With expansion of their production the companies gathered laborers from the farm villages; the people from farm villages became laborers. But I am going to expound on this point in the following part (3) the topic of the quality of the labor force. Here I would like to describe how the companies turned the farmers to laborers.

When a company installed the equipment with new technology, how was the company able to adequately educate the laborers? Japan was the only industrialized country in Asia before World War II. Therefore, the skilled laborers were in the Japanese companies. However, they were not able to adapt themselves to new equipment or technology imported from the United States. They were not able to master this new technology, because skilled laborers did not wish to give up their existing skills. So how did the company find these laborers? Where did the companies find laborers with the required skills?

Japanese industries were destroyed during war. The director in charge of labor of the steel industry in those days testified with the following. "A company should rationalize in order to rebuild the steel industry. A company should master new equipment. Older skilled workers who have only graduated from elementary school, could not use new equipment and understand new technologies. For example, they were not able to understand the English manuals for the new machines imported from the United States. The company needed laborers who can understand English and basic electric theory. Old skills are no longer required for iron production."

Germany is the opposite of Japan. German industries had the continuity of the equipment and technology, especially in the area of skilled labor between the pre war and the post war period. German Industries have the traditional apprentice system. In Europe, laborers receive training as laborers in a vocational school and they learn different skill sets; they have mastered various techniques and several kinds of craft. For example, a lathe worker learns lathe skill in a vocational school. When a company needs lathe workers, they employ specifically trained lathe workers.

However, in Japan after World War II, Japanese companies imported the newest model machines and new technology from the United States. Laborers could not handle new equipment and technologies (skill) imported from the United States. The old-style skilled worker became redundant. Companies employ a newly graduated student with good scores in high school or university. They are not the graduates of vocational schools. Companies employ student based on his high school record, in mathematics, science,

and English etc. They are new graduates. From that time to present, Japan has been a society that set a greater value on the educational career of an individual rather than on his real abilities. This is the root of the hell of the entrance examination race.

Laborers get technological skills in a company on the job. The longer laborers work for companies, the more they can learn. And they can get better jobs in the company. So they can get higher wages. It is the reason that Japanese companies have adopted the "seniority system" and the "lifetime employment system". These systems are rational system in this situation. They promote a sense of solidarity with friends in the same company. Japanese laborers work hard and are faithful to their company. It is the reason for the high quality of Japanese industrial goods, viz Toyota automobile, the Seiko quartz wrist watch, Panasonic electronic goods. But it's also the root of Karoshi ; death from over work. I will expound on Karoshi later.

Let's get talking specifically. Toyota Motor has a high school in their company. Toyota employ the graduates of their high school; of course other high school or university graduates also. The graduates of Toyota high school are given preferential treatment in gaining employment positions in their factory. Toyota puts them into the central part of the production process and they learn production skills.

The other laborers are usually casual or part-time workers (non-regular employment). Naturally, Toyota treats regular laborers favorably. A casual worker's wages are 70% of regular laborers. Even if they work within the same production process, there are such gaps. However, even regular laborers don't have it easy. They have to work hard. Regular laborers' wages are constituted as follows. The wages are composed of 1/3 basic wages, 1/3 production bonus, and 1/3 night-work & overtime allowances. If a regular worker refuses overtime work or night-work, he is punished with ill treatment and cannot manage the family budget because of low basic wages.

(3) Land ownership (agriculture and farmer)

Now I will mention the qualities of labor power in Japanese companies or manufacturing industries. Here I would like to talk about 'the root' of the qualities of labor. It's the answer to the next question. Why is the quality of Japanese goods so high?

Man makes things to improve their life. When man makes goods, the quality of labor is the most important factor. Japanese workers can do delicate, fine and exact work. For instance, when laborers use a sewing machine, they can sew in a straight line, so exact it's measured to within a millimeter. Why are the qualities of Japanese laborers

high? The reason is that the manufacturing and production of goods is based on skills developed in agricultural labor.

The major industry before today's industry was agriculture. Agriculture was a major industry until about 150 years ago in Japan. This condition is the same in every country. Agricultural labor precedes the manufacturing and production of goods.

In Japan, rice cultivation is very important and rice is a labor-intensive crop. Rice cultivation needs delicate work in order to grow rice successfully. At the same time cooperative labor is required to produce a rice crop. There is around a twenty-day period for both planting and harvesting of rice. If this period is exceeded, planting and harvesting will become difficult due to climate conditions. So co-operation is very important. Diligent and co-operative workforces are also needed for the manufacturing industry.

Let's measure the average area of the farms in Japan, New Zealand, and France. This data is from 2005. New Zealand has 265ha per farm. 90% is pasture and is mainly used for stock-farming. France has 120ha and is mainly used for grain farming. Japan has 1.2ha. They don't need exacting work for large farm lands especially for stock-farming but we Japan need exacting and diligent work for rice cultivation in small farm lands. Therefore, Japanese workers are good at accurate and exact work. And accordingly, Japanese product qualities are high.

Fig 4



(Sources) Kazuko Tomiyama, *Water and Forest: Primal Landscapes of Japan* (Ienohikariyoukai , Tokyo, 2008),pp.36-37.Photo I. Kuroda

Let me be clear. Please look at this photograph. You should recognize a straight line. This is a seedling line. Rice crops are planted in a monsoon climate (humid). In order to prevent rice diseases, farmers have to standardize the interval between rice plants and plant in a straight line. This work shapes farmer's character to be straight. Agricultural-work makes them diligent and methodical. In this way, obedient and hard-working industrious laborers have their source in agriculture.

The rice cultivation has 7 processes. The important farm work is rice-planting, weeding and harvesting. Please watch the movies.

===Movie Rice farm work)

<http://www.meijigakuin.ac.jp/~hwakui/index.htm> =====

■Rice planting (Taue) Until the 1970's farmers planted by hand, they worked bending their back all day. From 1970's walking planting machine started to become popular, it frees farmers from the heavy back breaking work.

■Weeding(Kusatori) Weeding is important, rice cultivation is fighting weeds. Until 1950's farmers weeded in rice field by hand or with weed implements. From the mid-1950's farmers started to spread agricultural chemical such as weed killer. It frees farmers from the heavy and hard work bending their back. But new agricultural chemical questions were raised.

■Harvesting(Inekari) Farmer was obliged to work by bending the back, until a reaping machine that was pushed through the rice paddock came into wide use in the mid-1970's. (Reference; a day's work per one farmer is 10 a. in rice harvesting work. 10 a. is about 31meter square.) It frees farmers from the harvesting work bending their back.

■Lastly ,I will show you how a farmer works on a rice farm from 1990's to the present. They no longer have to stand bending over. Now they can work sitting down on a machine. But for small cultivators, where the land size is 1.2ha per farmer, problems still exist.

As we have seen, the Japanese farmers were obliged to do the agricultural work bending their back all day long untill the mid-1970's. Japanese have been performing such agricultural work for about 2500 years.

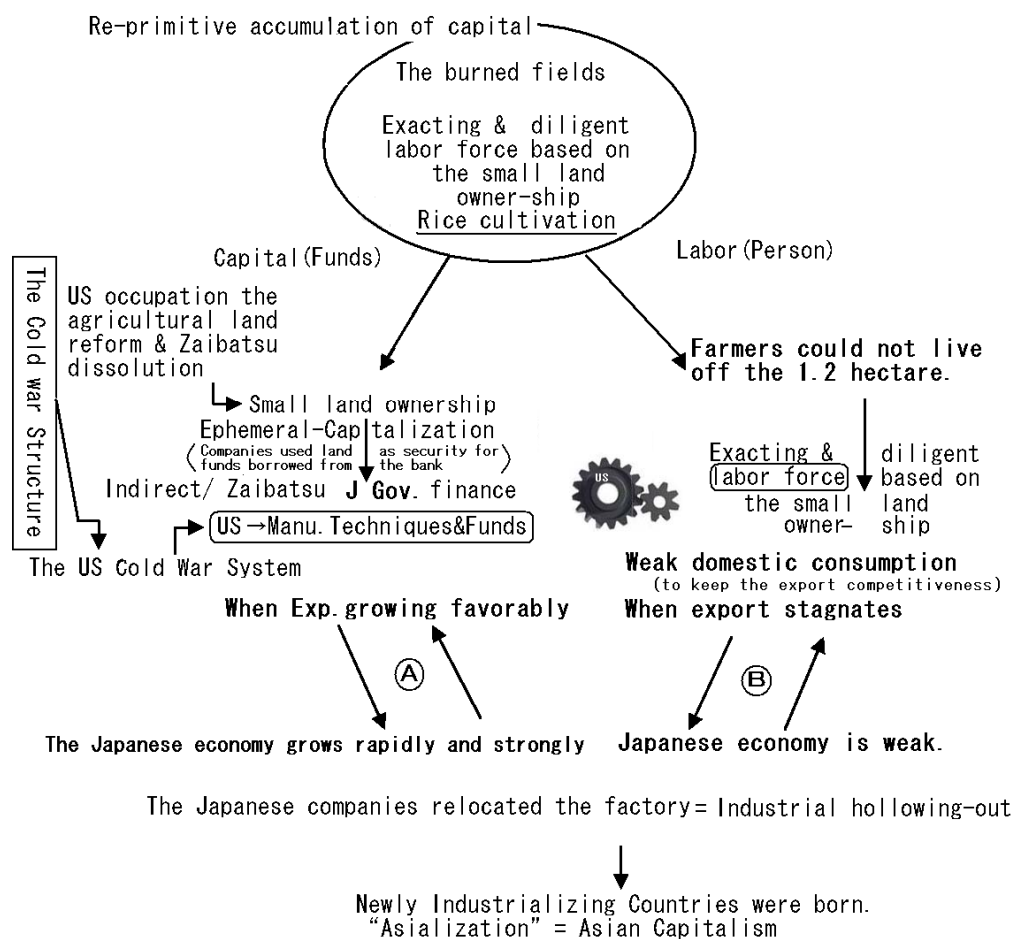
Rapid industrial development required numerous laborers after WWII. And farmers could not live off the 1.2 hectare or so of cultivated acreage. Farmers gave up farming to become industrial laborers. Japanese agriculture failed as a result. The food self-sufficiency ratio of Japan is now 40%. The economic development of industry in Japan materialized at the sacrifice of agriculture. In this connection this is the

character common to "industrialization" of all other countries in Asia (South Korea, Taiwan, Main Land China, etc.).

3. The skeleton of Japanese Economy after WWII and its contradiction (strength and weakness).

The people were only the productive resources left in the burned fields in Japan. Japanese were industrious, cooperative and precise laborers. U.S. occupation enforced the agricultural land reform and the zaibatsu dissolution. Thus house possession workers were born in cities, and the small-scale land ownership farmers were born in farm villages. This is the starting point in Japan after the WWII.

Fig.5 The post war basic structure of Japanese capitalism



(Notes) The present writer makes.

The Korean War broke out in 1950. The United States found a **new role** for its

supply base in Japan. Here, **the small land ownership** of Japan coincided with **the demand of United States**. For that reason, the US called for Japan to update manufacturing facilities and equipment to improve industrial productivity. Industrial productivity far exceeded the home consumption (domestic demand) of Japan, because the factory production was geared to the US Asian strategy. Export (foreign demand) is indispensable for existence.

History proves that the Japanese economy was revived by the Korean War from 1950 to 1953 (the war special procurements equaled export) and the Japanese economy was developed by the Vietnam War from 1965 to 1975 (war special procurements equaled export). War is the best medication for the economy. When export is growing favorably, the Japanese economy grows rapidly and strongly with it. (Fig5/6 ㉔) When export stagnates, Japanese economy is weak because of weak domestic consumption. (Fig5/6 ㉕) The consumption of people or wages must be kept low for export competitiveness. So domestic consumption power is weak. This is the basic structure of Japanese economy (postwar Japan capitalism) after the WWII.

The structure which I talked about from (Point B) was established in about 1970. Of course, this structure and system continues even now with important modification. I demonstrated the structure with Figure5.

4. The change of the structure of Japanese capitalism

(“Microelectronicsization” and “Asialization”).

The basic structure of Japanese capitalism has seen massive changes from the mid-1970's to the mid-1980's. Japan's economic growth depended entirely on export demands (foreign demand). Please recall the environment of post-War Japan. Japan would become the "factory of Asia for the US". This was the absolute order from the USA. Exports are indispensable to Japanese economy in order to maintain economic scale and growth. But the US shifted to the exchange rate system for protecting US Dollar. It changed from a fixed exchange rate to the floating exchange rate system. It's the Nixon Shock of Aug. 15th 1971. Japan was obliged to cut costs to secure global competitiveness (export competitiveness). The exchange rate increasingly progressed to Yen overvaluation. The exchange rate of Japanese yen for one US dollar progressed as follows. 1970=360JPY, 1980=242JPY, 1990=150JPY, 2000=108JPY and now is 85JPY.

The Japanese companies cut down costs by replacing laborers with micro-electronic technology. As a result, laborers work under the management of computers. Under computer management, it seems to be a Japanese version of

Chaplin's Modern Times. < "Microelectronicsization" >

=====Movie Microelectronicsization

<http://www.meijigakuin.ac.jp/~hwakui/index.htm>=====

Although Japanese companies succeeded in cutting costs, some laborers died from overwork. The "karoshi" became a term known internationally. About "Karoshi" I'm going to mention at the end of my talk.

At the same time the companies promoted "Microelectronicsization" of manufacturing goods themselves. For instance watches changed from mechanical watches to quartz watches and mechanical cameras changed to digital cameras based on semiconductor. A lot of home electrical products and office products changed to digital products based on semiconductor. These product goods price become cheaper and cheaper, and Japanese companies succeeded in cost cutting. It need scarcely be said that export grew and Japanese economies advanced strongly between 1970's and 1980's punctuated with several recessions. (Fig5Ⓐ) It was said "Japan as No1" (the title of book by Ezra F. Vogel)

Anyway the exchange rate increasingly progressed to a higher exchange rate for the yen. Japanese companies tried to cut costs further to keep the export competitiveness. Japanese companies not only promoted "Microelectronicsization" within the country but also relocated their factories to lower-paying South Korea, Taiwan, Hong Kong, and Singapore (Newly Industrializing Countries; NICs were born). "Asialization" occurred after the middle of the 1970s. After the 1990s, the Japanese companies relocated the factory to China (the coastal region). Domestic growth stopped and "industrial hollowing-out" began to appear clearly in the 1990's.

4. Conclusion (The shadow; the Japanese economy from 1990's until the present time.)

"Industrial hollowing-out" and export stagnation are keywords to understanding post 1990's Japan. It is the decline of the domestic manufacturing industry. Human labor produces goods (wealth and value). Therefore, the reduction of the number of laborers means an economic decline, if productivity does not go up. Please see the next

Numbers of laborers increased until 1970. Although laborers did not increase in between 1970 and 1990, labor productivity went up. The export competitiveness of Japan grew stronger and stronger. Japan exported all over the world. Japan's exports to the US were especially large. However, the number of laborers, wages and the amount of added value began to decrease from 1990 or so. Please see the lines in the Fig 6.

Productivity is not going up. The company is reducing personnel labor costs (wages), to make sure of profits. The result is depicted in the following photographs. The problem of today's Japan is layoff of non-regular laborers, and hard and long working hours for regular laborers.



(a) Homeless tent



(b) Support of non-regular laborers-1



(c) Support of non-regular laborers-2



(d) Preparing for sleep on road

THE YOMIURI SHINBUN approval

(a) <http://pingmag.jp/J/2007/02/13/homeless-in-osaka-reappropriate-public-space/>

(b) http://news.livedoor.com/article/image_detail/3960274/?img_id=568231

(c) <http://blog-imgs-36-origin.fc2.com/i/e/k/iekemencom/home2.jpeg>

(d) <http://www.yomiuri.co.jp/feature/20081209-206556/news/20090317-OYT1T00706.html>

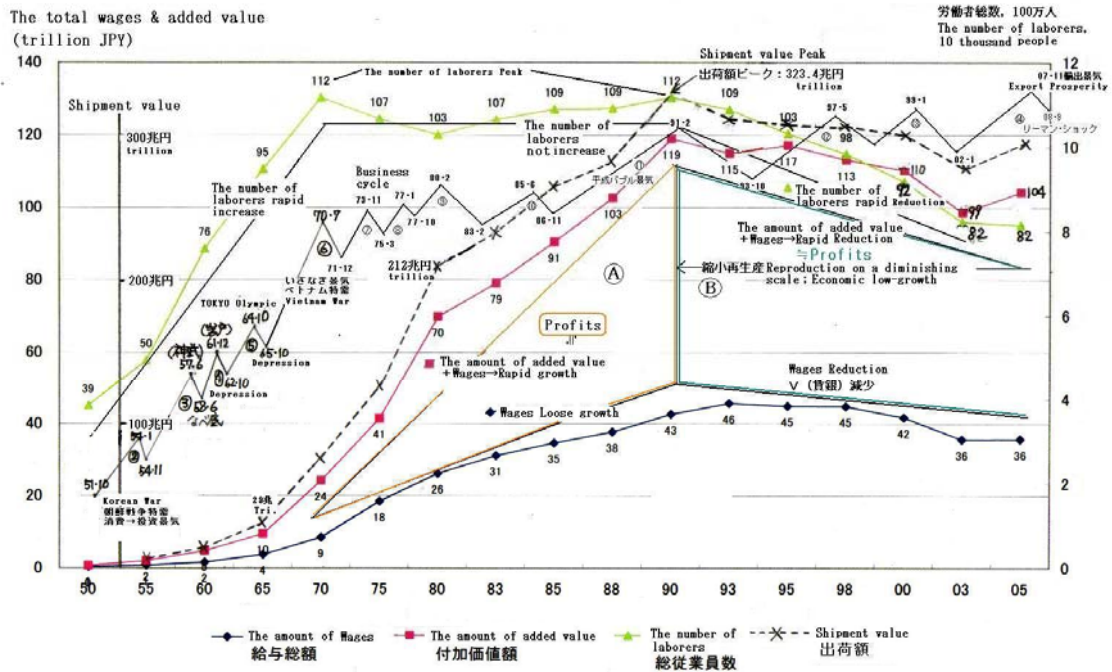
(The Yomiuri Shinbun approval)

Finally I must talk about one important thing. The key thing to say about workers is their way of living. Ordinary workers get up early and work until late. White-collar workers work from 9:00 a.m. to 9:00 p.m., and overtime work is a regular occurrence. Blue-collar (factory) workers not only have overtime work but also the midnight shift work. They work long and hard. And they have long commuting times. It is normal for workers to take between one to one and a half hours to commute. They get back home at

10 or 11 p.m.

Can you believe my story? So I will show you a couple of examples. Do you know “Karoshi”. Karoshi is Japanese, but also English. (A journalist reported karoshi in The Chicago Tribune on 13th Dec. 1988.)

Fig.6



(Sources)The present writer, *The fundamental problem of Japanese capitalism after the Second World War* (Otuki Shoten, Tokyo, 2010), p.21.

Karoshi is death from overwork. Japanese Government recognizes the fact, so announces the number every year in the book (Health Labor and Welfare White Paper; <http://www.mhlw.go.jp/houdou/2008/05/h0523-2html>). And I will introduce a news paper article.

THE ASAHI SHIMBUN, 5th July 2010.”In a landmark decision involving foreign vocational trainees, the Labor Standards Inspection Office in Kajima, Ibaraki Prefecture, has recognized the June 2008 death of a Chinese man working at a metal processing company as a case of karoshi, or death from overwork.”

Now, in Japan it is difficult for families to have dinner together. And it is a common scene for members of a family to have a meal separately. This is Japan. So,

remember my story along with Toyota and Panasonic.

Stagnation of Japanese economy is not a problem of business cycles (prosperity-depression). It is a problem of structure. The economy has shrunk. This is the present Japan.