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Japan's New Miracle Economy: Neoliberalism and the Poverty of Wealth

By Ronald Dore

LONDON -- "Economic reform" has been the banner slogan of Japanese governments for the last 10 years, and the new government promises more of it.

For Prime Minister Abe Shinzo, it is not quite the strident claim to fearless determination that it was for his predecessor, but there is no doubt about the general direction of economic institutional change. Abe's chief Cabinet secretary is a dedicated neoliberal, and the appointment of renowned market fundamentalists as academic members of his Economic Council is a clear sign of which way some of the long-standing controversial issues are likely to be resolved. Expect tax reforms to make it easier for foreign firms to take over Japanese firms, for instance.

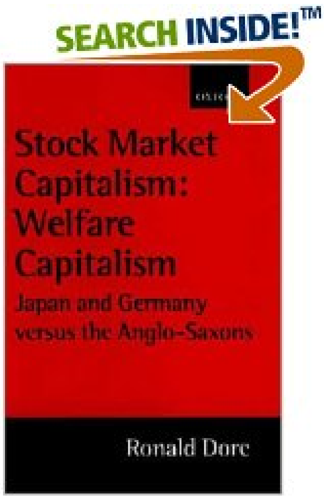
What has it all amounted to, these 10 years of deregulation, privatization, intensification of competition, rethinking welfare, flexibility in labor markets, etc.? "Trying hard, but could do better" -- the standard patronizing judgment of the Wall Street Journal or The Economist -- greatly understates the degree to which the Japanese economy has in fact changed since 1990.

Deregulation has brought greater competition and lower consumer prices in a few marginal areas like airlines and gasoline distribution (thus contributing to the deflation that has stifled the Japanese economy over the last decade). But that has nothing to do with the big change, the "shareholder revolution," the fundamental change in what managers consider their job to be.

Back in the 1980s, when the American business schools held up Japanese management as a model of long-termism and worker commitment, what managers saw as the best measure of their success, what puffed them with pride, or made them despondent, was market share -- the measure of how they were doing vis-a-vis their competitors at home and abroad.

Shareholders were treated as creditors, dividends were a kind of fixed charge, a standard percentage of the share face value of their shares. The enterprise was a quasi-community and top managers were its elders. Pay increases kept pace with those of people on the shop floor.

Today they have been Anglo-Saxonized. It is not market share, but the price of their shares in the stock market that has become their central measure of how well they are doing. Few top managers any longer bother attending meetings of the Management-Union Consultation Committee, which used to be a central enterprise institution. They are too busy preparing for their next visit to Wall Street or the City, or the next meeting with analysts. (The Stock Analyst's Association which had a mere 1,000 members when it instituted its professional examination in 1981, now boasts 21,000 qualified members.)



The contrast in objectives and results between the two periods of recovery from recession -- the late 1980s and the first years of this century -- is stark. The Plaza agreement and a 60 percent yen revaluation plunged the Japanese economy into recession in 1986. In the five years of recovery that followed (what turned out to be the fatal five years of the asset price bubble), these large corporations -- employing about a tenth of the private sector work force -- gave most of the proceeds of growth to their employees. Wages (plus fringe benefits) went up by 19 percent and dividends by 2 percent. During the recent, much slower, recovery, 2001-2005, wages went down by 6 percent while dividends went up by 175 percent. (Mild inflation in the first period and mild deflation in the second affect the real wage implications of those figures, but not their ratios.)

As for "orientation to the long term," in the first period, companies put into reserves for investment 60 percent more than they paid out in dividends; in the second period 70 percent less.

Perhaps even more striking is the erosion of the "quasi-community" assumption that managers and employees "eat their rice out of the same pot." In the first period, while wages rose by 19 percent, directors' salaries plus bonuses rose by 22 percent. In the last five years, while wages have gone down by 6 percent, directors' salaries and bonuses have gone up by 97 percent -- and that does not count the stock options that became legal a decade ago and have increased since.

There are both rational and ideological elements in the explanation of these changes. In the '80s, the expectation of everlasting capital gains kept shareholders so happy that stock prices bubbled. Now, they want income, and forcefully vocal foreign institutional investors now hold 26 percent of Japanese stock, compared with 5 percent in 1990. The network of mutual cross-shareholdings, the preponderance of "stable shareholders" that used to provide a firm guarantee against hostile takeovers, has been largely dismantled, partly because of bank distress, partly by government regulation. Firms are no longer protected against hostile takeover.

But the ideological element is probably greater. The total loss of national self-confidence after the world's No. 1 economic miracle entered its "lost decade" coincided with two important changes: First, seniority promotion has brought to positions of influence what I rudely call "the brain-washed generation" -- the high-flyers sent by ministries and companies to the U.S. for MBAs and Ph.D.s in the '70s and '80s. As true believers in agency theory and shareholder value, they have become the dominant voice in ministries and boardrooms, backed up by the media, and by the economists and the corporation law experts who sit on government committees.

The second big change is the evaporation of the Socialist Party and the emasculation of the enterprise unions once affiliated with it. The organized left is now reduced to a tiny and dwindling Communist Party, dull, doctrinaire and excluded from mainstream politics.

Realization of the extent of the shareholder revolution is slowly sinking in, and a few alarm bells are ringing. It is becoming a truism that recovery is painfully slow because the export boom, and a modest recovery in investment, is not matched by increased consumer spending or consumer confidence. And that's because wages are not rising.

More striking is the new voice concerned with growing poverty. Books on income distribution, social mobility, the withering of aspiration, pour off the press at the rate of one a week, all deploring the new "divided society." That 28 percent of children in Osaka and 24 percent in Tokyo qualify for free school meals and textbooks has become one of the most quoted statistics. The wage figures I quoted above were those for the labor aristocracy in the big firms. In smaller firms employing half the labor force, wages fell by 10, not 6 percent.

Yet, there is no effective political force to organize the backlash and mobilize sentiment among the electorate at large. Until that happens, investors can relax. The Abe Cabinet will continue to promote the conversion of Japan to Anglo-Saxon capitalism.

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