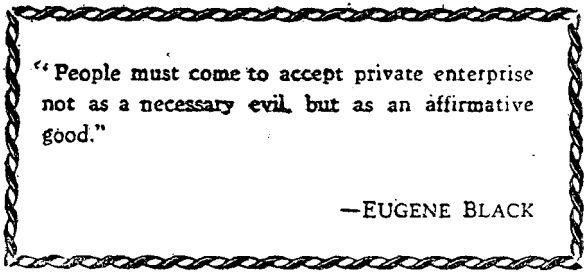
THE ROLE OF LABOUR IN JAPANESE ECONOMIC MIRACLE

JAMES D. HODGSON

FORUM OF FREE ENTERPRISE
PIRAMAL MANSION, 235 DR. D. N. ROAD,
BOMBAY 400 001.


"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."
—EUGENE BLACK

INTRODUCTION

The Bhootalingam Committee Report, as reported in the Press, has provoked varied and strong reactions. In the context of the current debate on the role of labour in Indian economy, it is interesting to study the role of labour in what is now generally acknowledged as the Japanese Economic Miracle. While advancing its own interest, the Japanese labour has put national prosperity and greatness as its main objective.

Institutions and values of life cannot be transferred from one country to another. At the same time, it is always instructive to learn what others are doing—what has built up a war-devastated nation into one of the industrial giants of the world.

This booklet reproduces the text of a lecture by Mr. James D. Hodgson delivered in November 1977 before the Industrial Research Council at the Wharton School of Finance and Commerce, University of Pennsylvania. This is reprinted from a booklet, entitled "The Wondrous Working World of Japan", issued by the American Enterprise Institute (1150, Seventeenth St., N. W. Washington D. C. 20036) which is renowned for its studies on public policy matters.

THE ROLE OF LABOUR IN JAPANESE ECONOMIC MIRACLE

JAMES D. HODGSON *

For one who once thought he knew something about the subject of men and work, Japan was for me an unsettling experience. On the other side of the world, the world of work is indeed other worldly.

What is an American to think, for instance, when he finds himself in a nation where such cherished American shibboleths as "equal pay for equal work" are neither found in practice nor sought as a goal? What indeed is one to think of a modern industrial economy that features such mind-bogglers as these :

- where 2 percent is considered an unacceptably high unemployment level; an upper level reached only in periods of economic trouble;
- where *young* workers have a *lower* than average unemployment rate with a wide choice of jobs normally available immediately for all school graduates;
- where workers repeatedly vote *against* a shorter work week (which in Japan still averages well in excess of our five-day or less pattern);

---

* James D. Hodgson was U.S. ambassador to Japan from 1974 to 1977 and U.S. Secretary of Labour from 1970 to 1973. He is also adjunct scholar of the American Enterprise Institute.

- where workers are promoted on the basis of length of service rather than on the basis of demonstrated competence;
- where a worker's pay level is almost wholly unrelated to his individual productivity;
- where assertiveness and go-getting individualism among workers is discouraged as being "unsuitably disharmonious";
- perhaps most surprisingly, where the workers are obviously pleased with this state of affairs.

After digesting all these puzzling truths about the world of work in Japan, I next turned to examine the Japanese union movement. Here, something called "enterprise" unions prevail—unions with a membership limited to a single employer. Naturally, I suspected they are really what Americans would call "company unions", which, of course, implies they should be pushovers for clever management negotiators. But then I watched as these same unions in three successive years extracted wage gains averaging 22 percent, 34 percent, and 14 percent from their reluctant bosses—more than twice as much as their American union brethren gained in those same years.

At about this point one starts to speculate that these unions must strike often and long to achieve such whopping gains. Yet, this is not so. The figure for man-days lost through strikes in Japan has so many zeros following the decimal point it is hardly worth calculating. One then learns that in Japan ten days is considered a *long* strike. The shattering realization follows that Japanese workers rarely strike without giving advance public notice. The reason for such notice, they say, is that they do not wish to "inconvenience" anyone, especially not company management. Later one learns that for the strike-minded unionist in Japan, perhaps the most effective tactical manoeuvre is for him to appear on the job wearing a red arm band. This gambit causes his boss to suffer such an embarrassing loss of face that the poor fellow tries to sneak into his carpeted office through a rear entrance in

the morning, whence he refuses to emerge during the workday, not even to go to the restroom.

And so it goes. To an American versed in employment and labour matters, Japan presents a remarkable learning experience, or perhaps even more, a disconcerting *un*learning experience. In Japan an observer's accepted truisms regarding the behaviour and aspirations of men and women in the workplace crumble and collapse one after another. This experience forced me to one reluctant conclusion. I had to admit to myself that most of the things we accept as gospel about what it is that makes people work—makes them work well and happily—actually are true only in the context of one's own culture.

Thus chastened and humbled, eventually I sought to gain a deeper understanding of this seemingly curious society, which, though it does not play by familiar rules, seems to win more than its share of games in the global economic big leagues.

In this search for enlightenment it becomes necessary to go back to basics. Perhaps it is best to start by reflecting that our American society is first and foremost underpinned by that venerable Judeo-Christian objective of *individual justice*. The Japanese, however, spurn individual justice as a priority goal. Instead they seek something in many ways the opposite; they seek *group harmony*. We American justice-seekers speak proudly of our *rights*. The harmony-minded Japanese stress not rights but *relations*. They reject our emphasis on individual rights as being divisive and disruptive.

The distinction that emerges from all this may be capsulized simply. In American life the individual strives to *stand out*. The Japanese citizen, however, seeks to *fit in*. And fit in he does—into his family, his schools, his company, his union, his nation. Japan is a nation where the parts fit.

In the United States we make a virtue of engaging in public controversy, of extolling what we call "the free competition of ideas in the marketplace." In Japan the marketplace is for Japanese products. Ideas are too fragile a commodity to be at home there.

We Americans make our national policy decisions and settle our many differences largely through *adversary* proceedings—we compete, we sue, and we vote. In Japan "adversarism" is *out*. Consensus is *in*, and it has been for centuries. The Japanese do not consider 51 percent a "majority," at least not a workable majority. Their consensus decision-making process demands support of about two-thirds of those involved, and even then a bone must often be tossed to the remaining third.

With their low priority for rights and justice, it might be concluded that the Japanese have a certain indifference to law. In the sense that they rely but little on litigation and tightly drawn contracts, that would be an apt conclusion. Neither do they have many lawyers in Japan. They actually have fewer than 15,000 lawyers for their 110 million people. With our quantitative American genius, we outmatch them nearly twenty to one in lawyers-per-capita.

An unknowing observer might think that with few lawyers and de-emphasis on individual rights, an inequitable and lawless society would emerge. As most of us are aware by now, however, Japan has the lowest crime rate and the least of what is trendily called "alienation" of just about all contemporary civilized nations.

Based on the foregoing I'm sure it is more than apparent by now that in undergoing my Japanese "experience" I became afflicted with a considerable case of culture shock. Having perhaps belaboured that impression, I will now return to a few considered observations on the Japanese world of work.

Let's start with an examination of the fundamental industrial relations practices of the worker's world today in Japan. There are three:

(1) *Life-time employment.* This practice simply involves a reciprocal commitment. Following graduation the employee commits his working career to the company. The company in turn agrees to provide him with work and income throughout his career. No matter how green the grass elsewhere, little job-hopping occurs. No matter how troubled economi-

cally the employer becomes, he eschews layoffs of regular employees.

(2) *A seniority based wage and career advancement system.* With limited exceptions the Japanese employee will normally advance up the job rungs of his career ladder in lock step with all others from his school class or his year of hire. His compensation will have little to do with his personal productivity. His wages will advance only with his service tenure and, at times, his family size.

(3) *The enterprise or "company" union.* A union's jurisdiction is limited to the company whose people it represents — that is, to *one* company. Ties with what Americans would call union "brethren" who work for other companies in the same industry are frequently marked more by suspicion than by commonality of purpose.

Naturally, differences other than these three exist, but in the weblike warp and woof of Japanese industrial relations practices, these three are the strong fibres.

Now let's turn from a discussion of Japan's industrial relations practices to a review of their national employment policies. As we know, the Japanese have indeed become experts at selecting what is useful from other nations and putting it to work for their own uses. I am impressed, however, that they have *not* found it desirable to emulate our American federal government employment policies. For instance, consider the following contrasts:

- Instead of aping our penchant for piling one federal manpower programme atop another in pursuit of a better labour market or wider or more equitable employment opportunity, the Japanese have clearly *not* provided much of a role for government in employment activity.

- In attempting to gain a decent life for lagging members of their citizenry, they, unlike us, have *not* invested billions of the taxpayers' yen in a myriad of government social welfare and income transfer programmes.

- Though they have created a top flight government career service corps in many spheres, they have *not* built up a big bureaucracy in the employment, manpower, and social service functions.

In spite of these seeming omissions the Japanese *have* realized some impressive employment achievements. Certainly these include:

- a broadly skilled, highly motivated, and incredibly talented national work force;
- nearly full overall employment, in both good economic times and bad;
- almost no *youth* unemployment at any time (too few jobs for young people is, of course, our number one structural employment problem);
- a comparatively equitable distribution of national income among their citizenry (pay disparity from top-to-bottom is far less in Japan than in the United States);
- a commendably high level of job safety;
- finally, of particular significance in this era of widespread citizen unrest, a remarkably high level of worker job satisfaction (most surveys show that well above 80 percent of the Japanese enjoy their work and do not want a job change).

One conclusion from all this seems inescapable; the Japanese must be doing something right. What is it?

To me, three fundamental features of Japan's society help explain why that country has found it neither necessary nor desirable to follow the American course and undertake a wide array of government employment measures.

(1) Uniformly, the Japanese people like to work. They take great pride in their work. Their work ethic is unquestioned. The worth of work in Japan is unchallenged.

(2) The young Japanese man or woman who comes out of school into the workplace invariably brings with him or her a disciplined outlook and full literacy, often complemented by a usable, marketable skill. (The Japanese do not understand our term "functional illiteracy." They simply do not have such a problem.)

(3) Not only do the Japanese enjoy work, they enjoy and excel at working *together*. Group harmony prevails in the workplace and elsewhere. Cooperation among workers and between workers and management rarely has to be encouraged. It is automatic.

I conclude, then, that these are the three underlying strengths of today's Japanese workforce:

- their positive attitude towards work,
- their excellent preparation for entering the working world,
- and, once there, their unexcelled capacity for working co-operatively.

Success not only commands respect, it inspires imitation. Japan's economy is a notable success. In consequence, in recent years many inquisitive Americans have beaten a path to Japan's door intent on discovering the seeds of that success. They hoped to find that those seeds were transplantable. If Toyotas and Sonys could make the trip to this side of the pacific and flourish, may be Japanese industrial relations practices also could. Such was the hope. Sadly, most hopes were dashed. In this sphere at least, Kipling was right: the twain continues unmet.

Does that mean we Americans can learn nothing from Japan's working world that could be of use to us? I think not. We may not learn much that is useful at the practices or methods level of things, but I believe we can learn some important things at the *priorities* level—at the level of national and industrial policy priority.

To examine what these priorities may be let's start by asking ourselves just how it is that, in this contemporary world

of widespread grass roots ferment, Japan has been able to achieve its economic miracle without sacrificing advancement of worker living standards and without losing the support of working people for its political system. Any answer to such a question would be arguable but one strikes me as enormously persuasive. As I see it, the answer will be found in the existence in Japan of two widely accepted national priorities, a national consensus if you will.

That consensus, developed through the years, consists first and foremost of almost unqualified popular support for the proposition that the best way for Japan to achieve its goal of improved living standards and of an expanding national prestige lies in creating and sustaining a flourishing industrial economy. A strong economy is number one in the Japanese priority parade of national objectives. Such is the national consensus. This consensus is reinforced by equally strong popular acceptance in Japan of the following corollary propositions:

- that the basic institutions of Japan's society—such as government, business, and labour—should work together in concert to promote the nation's economic advancement (rather than to joust as avowed adversaries as we do in the United States);
- that the value of hard work and good work should be unquestioned, that work of any nature dignifies those who perform it;
- that young people entering the working world should be equipped with the skills, attitudes, and literacy levels needed both to find personal satisfaction in their work and to perform their jobs effectively.

Japan's industrial policy priorities are equally explicit. Here again a consensus exists. It adds up to something like this—in the Japanese industrial heirarchy of values the number one resource is the *human* resource. In the United States the human resource is the *most flexible* of our industrial

resources. In Japan, it is the *least flexible*. In the United States we nimbly expand and contract our manpower levels; we hire and lay off workers at will as we attempt to dance in tune with the uncertain economic ups and downs that affect a company, an industry, or the national economy. In Japan a company will accept lower profits and go into debt. It will, *in extremis*, submit to huge losses, and even start dubious new projects and businesses just to keep its workforce intact. This, of course, reflects a complete reversal of our industrial priorities. In keeping its workforce together, a Japanese company knows it is protecting a heavy investment both in yen and in what is there called "face." In the Orient, face is still a powerful ingredient in setting standards.

So in Japan two priorities commend themselves to us—in national policy, a number one role for a strong economy, and in industrial policy, a number one role for human resources development.

To me these are the two priorities of contemporary Japanese economic life to which we Americans might properly and profitably direct our national attention.

In essence I am suggesting that we as a nation would do well to place a stronger national commitment, first, on a flourishing economy and, second, on achieving a healthier, more positive relationship between American workers, their jobs, and their economic system, and do this through giving greater priority to treatment of our human resources in industry. I am suggesting that as a means of producing more satisfying jobs and broader employment opportunities this course holds far greater promise for the United States than does adoption of yet another parade of high-cost, fragmented governmental programs, some of which may serve somewhat to ameliorate various national employment "problems," but which in the end do little to achieve the fundamental change needed to keep such problems from occurring in the first place.

In concluding, we should recall that Japan is sometimes thought to be an unfortunate nation in that it lacks resources

—meaning, of course, natural resources. Japan has recognized this shortcoming. Lacking natural resources, it has planned its postwar march to the forefront of modern free world economies around two fundamental thrusts: (1) it placed a concerted national commitment behind a strong and sustained economic effort, with all segments of Japanese society playing a supportive role; and (2) it concentrated national attention on the creation of a highly motivated, talented, rewarded, and employed workforce.

Having focussed their national effort on these two strong points, the Japanese then proceeded to capitalize on their strengths. They diverted little of their national effort into shoring up possible employment weaknesses with expensive government programmes. In effect, Japan bet that this two-pronged effort would minimize the need for a government role either in direct job creation, in regulation of employment conditions, or in remedial manpower measures. Japan won its bet. Its concerted economic thrust produced plenty of genuine satisfying jobs. Its concentration on creation of a superior workforce produced top quality workers of high morale—a workforce able to compete with any anywhere. As a result, whatever national postwar problems Japan may have had, employment has not been one of them.

What does all this mean for America? Perhaps this. In attacking our many national employment problems, we in the United States migh well consider reversing our past practice of concentrating on cushioning weaknesses and instead proceed to adopt the Japanese approach of capitalizing on strengths. We just might discover that most of the weaknesses that have plagued our employment picture for years would largely disappear.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. SHROFF
(1899–1965)
Founder-President,
Forum of Free Enterprise.

379

Have you joined the Forum?

The Forum of Free Enterprise is a non-political and non-partisan organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15/- (entrance fee Rs. 10/-) and Associate membership fee Rs. 7/- (entrance fee Rs. 5/-). Graduate course students can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3/- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary. Forum of Free Enterprise, 235 Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-400 001.

Published by M. R. PAI for the Forum of Free Enterprise 235 Dr. Dadabhai Naoroji Road, Bombay-400 001, and printed by H. NARAYAN RAO at H. R. Mohan & Co., 9-B Cawasji Patel Street, Bombay-400 001.

14/June/1978