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Japanese Competitiveness and Japanese Management

SHIGEO MINABE

Japanese-style management and industrial policy are shown to serve as a source of industrial dynamism and are used as a way to illuminate what is wrong with the American system. Japanese labor practices—specifically extra hours of unpaid work—are seen as a form of insurance fee that the worker pays in exchange for job security.

MY INTENT HERE IS TO ANALYZE AND COMPARE JAPANESE and American industrial policy and labor practices in light of a thesis that I first proposed in the early 1980's (*1*). Since the beginning of the 1970's, manufactured goods produced in the United States have been losing out in international competition. American competitive power has been consistently eroding in international markets. Of course, competitiveness in exporting manufactured goods may not be the only criterion of importance for a particular country. However, the recent performance of the United States in international markets has damaged its domestic economy, which in turn has affected developments in other democratic countries in the world. As the postwar leader among the free market–oriented economies, America has been under obligation to be better and to do more. Americans have not lost confidence, but they must be convinced in which direction they should strive. I describe certain aspects of the Japanese system in the hope that some can be adapted by American businesses (perhaps initially by Japanese companies operating in the United States), thereby reviving American international competitiveness.

John Zysman has noted that in the late 1970's America discovered Japan (*2*). During that decade it became clear to many people in Western countries that the Soviet or Chinese types of economy were not useful guides or models for capitalist economies. People in both

The author is in the Department of Economics, Hiroshima University, Higashisenda, Naka-ku, Hiroshima 730, Japan, and a research associate at the Center for Japanese Studies, University of California, Berkeley, CA 94720.

the developed and the developing countries have thus come to focus more attention on the Japanese economy, although it has not yet become a subject of scientific study like the Soviet economy (*3*). Studies of the Japanese economy were not generally very good until about 1980. Recently, however, several important contributions have been published (*4*). In the United States, a group of political economists (*5*) has been examining the targeting industrial policies that have been carried out by Japanese governmental institutions—that is, the development of government policies to promote promising new industries. Recent trade frictions between Japan and the rest of the world, especially the United States, have focused attention on these policies. The economists have been trying to reveal the importance and implications of such targeting industrial policies for economic growth and international trade. Through their analyses of the Japanese economy, they have, rather paradoxically, begun to rethink the nature of economics in America.

The significance of the studies of Japanese industrial policy for America is twofold. First, the economists are not satisfied with the traditional static Ricardian or Hecksher-Ohlin theories used to explain the patterns of international trade of a given country. In a Ricardian model the direction of specialization of trade in any one country is determined by the difference in comparative costs; in a Hecksher-Ohlin model it is determined by a more complex calculation based on capital as well as labor, called the difference in factor endowment ratio. Those determining factors are, by and large, a given for a country, at least in the short run. As a result, it is said that a certain type of specialization cannot occur in a trading country under the condition of free trade. Thus, under the logical framework of a Ricardian model, it is well established that no country will specialize in an industry in which it has a comparative disadvantage; for example, a country like Portugal would not specialize in producing textiles, and England would not specialize in producing wine.

However, in reality, if one considers a country like Japan as a dynamic trade model, things look completely different. Japan, rising from the ruins of war and from being a very poor country, began actively to export capital intensive commodities to the rich countries, and recently it has even been exporting "knowledge intensive" commodities. Many other developing countries have been following the Japanese example. As a result, those people who study Japanese industrial policy in the United States suggest that a completely new theory is needed to explain the economic reality of international trade (*6*). Whether they will be successful in creating such a new theory remains to be seen.

More important, however, is the fact that in studying the Japanese economy and its operating systems, American scholars are coming to a better understanding of their own country's economy. Japan is, indeed, a mirror of America, but one that reflects an inverse image. In light of the waning competitiveness of the United States in international markets, the following findings made by U.S. studies of Japan's industrial policy are especially important.

Role of Government in the Economy

In America the government acts as an umpire or referee in domestic or international markets. It protects free and fair competition ultimately for the consumer's benefit. In Japan the government and its capable bureaucratic systems are like a coach in a football game, but one who sometimes acts as a strong player himself and can even engineer the retirement of opponents if they are too strong for the Japanese team. [In France, the government even acts as the ball in the game, in the course of its socialistic planning and price-setting (*7*).] In an earlier stage of economic development, the Japanese government was a gatekeeper to protect Japanese producers from foreign competition.

The U.S. government target has been oriented toward consumption and distribution of the world's largest national income. There has not been any distinctive targeting industrial policy, except for that directed at the housing industry, which in turn encourages consumption by Americans.

Until recently, the target of the Japanese government was to increase national income and per capita income in order to catch up with the Western countries. For that purpose, the government and the Japanese bureaucratic system explored promising candidates producing high value-added merchandise (iron and steel and shipbuilding in the early stage of economic development right after the war, and high-technology products and aircraft more recently). The government then worked with these targeted private companies, helping them obtain new technology from the West, especially from America, giving them enough foreign currency quotas to import new technologies and raw materials, and protecting them from foreign competition by offering low interest funds through government-related banks and postal savings, by giving special tax breaks or credits, and so forth. At one time the government even built a ship, which was sent forth to sell Japanese-made commodities all over the world. Thus the Japanese government was a strong player in the economy. However, the interests of domestic consumers were often neglected.

Capital and Savings

The Americans do not save much. During the past decade, the rate of savings of the Americans never exceeded 10% of the gross national product (GNP) (*8*). The Japanese save a great deal. Even during the exceptionally inflationary period after the first oil shock (1973–74), the Japanese saved more and the rate of savings exceeded 25% of GNP. The Japanese must save because the welfare program is inadequate, housing is very expensive, and educational costs for children keep growing.

The United States currently has a huge government deficit. The large-scale budget deficit of America is due to its welfare and defense expenditures. This government debt has been competing with the private sectors in the capital markets, which caused the high interest rates in America. This meant a high cost for capital and investment. In the recent past, the interest rate has been twice as high in the United States as in Japan (*8*, p. 29). The high interest rates have made investment in industries more difficult, which has had a negative effect on productivity, since generally new technology is made possible by new investment. The high rate of interest in the United States has also attracted savings from abroad, especially from Japan; this has raised the value of the dollar. A high value of the dollar damages exports of American-made manufactured goods.

Technology

American technologies have, by no means, been second rate. Americans have enjoyed both an absolute and a comparative advantage in developing original and creative technical inventions, since higher education in the United States has been outstanding. Both the government and private sectors have paid much attention to research and development.

However, the problem here is twofold. First, the huge U.S. defense and space programs would seem to be an abundant source of new technological invention and innovation. But that is not the case. The original purpose of these projects is completely different

from commercialized products. Furthermore, these projects are often too grandiose to produce market-oriented merchandise. It is like asking Gulliver to do needlework in Lilliput. Second, although the cultural and theoretical background conducive to producing new ideas has been superb in the United States, once these ideas are produced in the form of merchandise, then other countries like Japan immediately learn the know-how and produce smaller, better, and cheaper counterparts and export them. And America loses out. For example this has been the case with the semiconductor industry, where the Japanese government has done everything possible to nurture new applications (*9*). At the current level of education and culture in Japan, it is easy for the Japanese to learn new technologies from America. This also applies to the new Japans in East Asia (Korea, Taiwan, Hong Kong, Singapore, and Malaysia). Thus, America loses its competitive advantage still further.

International Trade Structures

In America, as well as other industrialized countries, exporting sectors also import the commodities that they produce domestically. For example, the Americans both export and import cars. Moreover, within a sector such as the automobile industry, Americans import parts from abroad if these are cheaper than those produced domestically. The American ratio of imports to exports of manufactured goods has been consistently increasing, causing large trade deficits. However, Japan does not like to import such manufactured goods, especially from the United States. Even if American-made manufactured goods are cheaper than the Japanese-made counterparts, the Japanese do not buy the American-made products. The Japanese are blamed for having nontariff barriers in these cases (*10*).

Some Proposals

Those political economists who have been exploring Japanese industrial policy have been issuing strong warnings about these serious causes of the decline of American competitiveness. But what, specifically, should the United States do to improve the situation? And what should Japan do?

First, Japan should open up its domestic markets completely and allow its consumers to enjoy the fruits of international trade. Japan, with the second largest GNP in the free market–oriented economies, should also import manufactured goods from abroad.

Second, turning to the American side, there are some alternatives. So far Americans have tended to do nothing in particular and accept things as they are, letting the market mechanism decide everything. If they continue down this path, the U.S. manufacturing sectors will continue to lose in international competition, and more U.S. workers will shift to the service sectors of the economy. However, most service sector jobs are poorly paid when compared with manufacturing jobs. Thus, it will be difficult for the Americans to maintain their current standard of living, let alone raise it.

The Americans could emulate Japanese targeting industrial policies. Certain selected industries could be given special attention by the government. However, this idea may not be promising, since the U.S. economic system and its entrepreneurial spirit are so different from Japan's. The quality of the bureaucratic systems is different in each country, there is no postal savings system in the United States, and U.S. businessmen do not depend on *gyosei shido* (administrative guidance).

Therefore, my conclusion is that the best way for the United States to regain its competitive edge in international markets is to rediscover its intrinsic national power. It goes without saying that America has been this century's strongest and most powerful country, with its abundant natural resources, huge capital accumulation, and highly educated human resources. It has even been embarrassing for the rest of the world to see America lose in international competition with much poorer countries. As was pointed out above, the competitiveness of one country does not solely depend on its capability to export manufactured commodities. However, the service sectors of the United States have not been able to offset the trade deficit in manufactured goods and energy imports (*8*, pp. 38–45). America must therefore restore its competitiveness in the manufacturing area. And it could do so by paying closer attention to certain aspects of Japanese industrial organization and management.

The Japanese Example

Living in a small island country with a large population (almost half that of the U.S. population) and without almost any natural resources, the Japanese have been well aware of fundamental weaknesses and the fragility of their country. Japan depends almost 100% on energy imports from abroad; its self-sufficiency in food production has already declined to less than 40%; and the Japanese have been paying for these imports by exporting manufactured goods, in which Japan enjoys both a competitive and a comparative advantage. However, as past history shows, the international markets for manufactured goods have been extremely volatile and subject to changes in business conditions and foreign consumers' tastes. Thus the Japanese, especially those who work in manufacturing sectors, have been following a slightly different principle in their labor relations than traditional marginal productivity theory might suggest. This last point constitutes what is often called "Japanese style management," and is, I believe, the root cause of Japanese competitiveness, enabling the Japanese to produce cheaper but better quality commodities.

The Japanese workers, from top executives to floorsweepers, know that under the present-day capitalism, not every business can be certain about its future, especially as these businesses are exposed to both domestic and international competition. (Japan is today being challenged by the new Japans of East Asia.) The Japanese are thus well aware that job security or economic certainty does not come free like air in an uncertain world. And they are willing to pay, in one form or another. Thus, in labor relations, the Japanese have been well convinced of three important principles.

First, under slow growing market economies, in which uncertainty about the future develops, any job contract that ensures an opportunity to work, and thus ensures wages and salaries for at least a certain period, implies a kind of "employment insurance" for the workers. Therefore, the workers must pay an "insurance fee," and companies must accumulate funds to provide job security for their workers during the contract period in return for the insurance payment. Offering a job opportunity under conditions of uncertainty cannot be free.

Second, the cost of risk that companies must bear in job contracts becomes the greatest in a lifetime employment system. In this system, a worker stays at the company for 30 to 35 years until retirement. In such an extended contract period, both the workers and the company must sooner or later experience a business downturn, especially in manufacturing sectors. In consequence, the insurance risk grows at an increasing rate. Therefore, the insurance premium for lifetime employment must be expensive for the workers. As a result, under the lifetime employment system, workers must work harder than their counterparts who have other employment contracts.

In Japan, a similar contract exists among parent companies and subcontractors who supply parts to the parent companies. Even if they are faced with a business downturn, the parent companies do not stop ordering parts from their subcontractors; however, they do so under stricter cost conditions. And these relations continue, even until the parent company fails.

This "insurance relation" among the parent company and its subcontractors makes possible the famous Japanese "just-in-time" system. In this system, all necessary parts are supplied by the subcontractors 15 to 20 minutes before the assembly line starts at the parent company; as a result, no parts are stocked at the parent company's site. This greatly reduces the costs of production.

Third, the typical Japanese wage system is somewhat like the stipend or fief of clansmen during the days of feudalism. Today, just as under feudalism, a worker has some responsibility for everything concerned with his company, and companies must assume some responsibility for everything concerned with their employees. For example, the companies take an interest in their workers' housing, vacations, marriages, and the raising of their children.

This third characteristic of Japanese labor relations, which is closely related to Japanese cultural developments, makes transplantation of "Japanese management" to other countries difficult. For the rest of the world, companies are the places where people must work to earn income and workers' private lives must be irrelevant to the companies. However, that does not hold true in Japan, since workers are, by and large, clansmen of the company.

In leading manufacturing industries in Japan, workers are employed for their lifetimes. They have a lifetime employment insurance, and the insurance fee is paid in kind or by doing extra work without being paid. For a given wage, workers may carry out different kinds of work and also work extra hours. In a representative manufacturing company, a worker comes to his or her work place 15 to 30 minutes before the assembly line starts. He or she cleans up his or her workstation and examines and lubricates the machinery and tools. When the work-hour starts, the worker does the assigned work for which he or she gets a wage. While carrying out this job, the employee also actively looks for any defects in the previous process of the production line. If any are found, the worker immediately stops the assembly line and fixes the defects. Workers do not pass over defects because they must share at least a part of the responsibility for their predecessors' mistakes under the stipend system of Japanese wages. While a worker is fixing the previous defects, the entire production line is stopped. A worker does two or three different types of jobs at the same time, which challenges traditional economic theory about the greater efficiency of a strict division of labor. In the Japanese manufacturing system, in each stage of the production process (for example, there are about 300 divisions in automobile industries along the production process), a worker carries out his own assigned work, looks for defects in the object in process, and makes corrections. At the end of the assembly line, the products are almost defect-free.

This worker responsibility is one of the major explanations for Japanese competitiveness and why Japan can produce cheaper but better quality commodities. However, it is currently estimated that more than 700 Japanese companies have offices in the state of California alone, and several—including Sony, Kyosera (Kyoto Ceramic Co. Ltd.), Matsushita, and Toyota—have begun manufacturing operations there (*11*). Those Japanese companies will naturally try to introduce Japanese management into the United States (or, for that matter, into any country where they directly invest) by asking workers to produce different kinds of work and give extra hours for a fixed wage. In this way, the Japanese companies gain flexibility and competitiveness in international markets. By sharing the cost of uncertainty about the future and managing the fund that is accumulated in the company in the form of exercising "free labor," the workers build up loyalty to and identify with the company and its products. The Japanese enjoy their relative security, but not because their ancestors were farmers, while those of the Western countries were hunters, and not because Japanese society is structured vertically, into a hierarchy of groups, whereas Western societies are more horizontally organized into egalitarian groups (*12*). Japanese workers prefer a secure but relatively small sequence of payments over the long run rather than demanding their share according to the business outcomes of the company and getting bigger wages but perhaps only for the short run.

The most difficult part of transplanting the Japanese style of management is how to measure the insurance "fee" and "payments." This has not yet been done in Japan, because the costs of making such evaluations outweigh the benefits to be derived. Japanese workers do not want to be compared with their colleagues, nor have their abilities measured, on a numerical basis. Also, it will be very difficult for Japanese companies to ask foreign workers to perform various kinds of jobs and work extra hours in situations where craft unions are in control. In Japan, labor unions are company unions, and there is no problem in carrying out Japanese management as well as in introducing an innovation, like applying more robots to increase the total productivity of the company.

It will be by no means easy for the Americans to learn from Japanese management. However, to avoid a further erosion of their competitive position, Americans must produce more careful and conscientious work. At the same time, as Chalmers Johnson correctly pointed out, they should remember that during World War II, the United States succeeded in matching and excelling its military enemy without copying Japan (*3*, p. 65).

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