The Japanese Economic System under the Global Crisis: Change and Continuity[1]

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Abstract

The current Japanese economy has continued to grow, albeit at a low rate, through the drastic changes in the Japanese economic system. The global crisis has seriously affected the Japanese economy, despite it causing only slight damage to the banking sector. The current global economic crisis will have far-reaching consequences on the economic system and structure. In this study, the economic characteristics following the bubble economy and the sustainability of the Japanese economic system are examined.

JEL classification: P16, P52, F02, D21, M10, O53

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Introduction

The bubble economy and the period immediately following it have drastically changed the Japanese economy and economic system. Globalisation—featuring neo-liberalism and market fundamentalism—did not allow the traditional Japanese economic system to remain intact. In fact, in the 1990s and 2000s, the managements of Japanese companies and the economic system formed as a result of theses companies was criticized as representing ‘crony capitalism’, and the business society sought liberal and shareholder-oriented reforms. There has always been a traditional rivalry between those who support stakeholder capitalism; however, with the emergence of developing financial markets and the merger and acquisition (M&A) boom, there is a greater importance being placed on the US type shareholder sovereignty. A series of corporate laws have been deregulated and liberalised in the entire sphere of the Japanese economy.

The liberalisation process, however, cannot be simplified. Liberalisation has been accompanied by a number of corporate scandals, and liberal reforms have not been very successful. M&As and corporate governance controversies have revealed contradictions inherent in the reforms.

Firstly, although the original US model is often identified as a shareholder sovereignty model, there are some state-level jurisdictions that promote stakeholders and regulation. The real authority of managements in US firms is larger than it outwardly appears. Further, considering the difficult experiences of former socialist economies during market transition, a transplantation of the US model appears to yield unsuitable results (Iwai and Sato, 2008; Uemura and Kaneko, 2007). At the very least, in the 2000s, market fundamentalism seems to have become the basic ideology for reform.

The social outcome resulting from reforms and the global crisis have rapidly changed Japan’s economic situation. Market fundamentalism is criticised and the quality of the market is taken very seriously. *Laissez-faire* economics does not automatically improve the quality of the market. Although securitisation based on financial engineering has made large-scale financing possible, it has also brought unreasonable risk upon investors; furthermore, moral hazards, high leverage, and the mismanagement of risk (i.e., a ‘reckless market’) simultaneously drove the global economy to crisis. The failure of hedge funds in 1998, immediately following the 1997 Asian financial crisis, did not provide adequate lessons for evading the crisis. The 21st century financial crisis seems to be continuously functioning, and it may well arouse suspicion regarding the efficiency of both the US economic system and the ideology that underpins it.

This paper focuses on the Japanese economy following the collapse of the bubble economy in the 1990s, providing a general overview of the impact of the global crisis on Japan. Compared to the US model, Japan’s experience characterises different aspects of the global crisis. At the same time, Japan’s experiences in the 1990s and 2000s and the crisis itself highlight changes that have occurred in the Japanese economic system. There are a variety of capitalism-driven approaches worldwide, and while the Japanese system can be considered a key capitalist model, changes have brought about a shift in perspective regarding capitalist policies.

1. Japanese economy after the 'lost 10 years'

Japan's so-called 'lost 10 years' occurred in the 1990s, after the collapse of the bubble economy; during this decade, a long-term recession hit Japan and the country was unable to recover (Table 1). A sharp decline in asset prices in the 1990s brought about a reactionary fall, which was the opposite of jump in the prices of assets such as land and stock in the second half of the 1980s. It is inevitable that a steep rise in asset values will have a deep effect on the real economy; indeed, Japan's 'lost 10 years' showed a sharp contrast, in terms of economic performance (Table 2), to previous decades.

On one hand, this reactionary fall is a product of the so-called bubble economy. The following two financial problems were especially serious, following the collapse of the bubble economy.

Japan's public finances showed a surplus until 1992, and the accumulated financial deficits represented about 65% of Japan's GDP. However, due to a decline in tax revenues following the collapse of the bubble economy and an increase in the public expenditures needed for recovery, public finances worsened after 1993; accumulated deficits represented 95% of GDP in 1996. Tax revenues have been declining since 1990—in that year, ¥60 trillion was collected and even in 2009, tax revenues remained low (¥46 trillion). State expenditures, however, have continued to increase, especially in the forms of social security and state bond payments; they have reached ¥102 trillion. The government has been unable to improve the balance between revenues and expenditures, and accumulated deficits reached more than 170% of GDP in 2008. Around ¥30 trillion of government-issued state bonds were in circulation at the end of 1990s, but that number exceeded ¥40 trillion in 2009. Therefore, the interest rate carries the potential risk of inflicting a national budget collapse.

The second financial problem was bad loans[2]. Land and stock prices—commodities that financial organisations considered the targets of financing—showed sharp declines. Because many banks held bad loans, some banks faced bankruptcy; 180 banks failed during 1993–2002. Nonbank financial institutions that were not as tightly regulated as financial institutions played a serious role in the bad-loan debacle[3]. The nonbank institution Housing Finance Corporation went bankrupt in 1996; the Hokkaido-Takushoku Bank and Yamaichi Security went bankrupt in 1997, and the debts of the latter reached ¥3 trillion. Details regarding bankrupt banks are listed in Table 3.

[2] The bad loans were determined in the establishment of the *Financial Rehabilitation Law* in 1998: failed credit by self-assessment, and failed risk credit.

[3] Nonbank financial institutions financed ¥98 trillion at the end of March 1991, accounting for 14.7% of all private loans. Most loans were directed to real estate and construction, and they took their mother banks' place (Fujii, 2009).

Table 1. GDP growth rate (%)

Period	Nominal (¥ Trillion)	Nominal: annual growth (%)	Real: annual growth (%)
1989	415.9	7.3	4.6
1990	451.7	8.6	6.2
1991	473.6	4.9	2.3
1992	483.3	2.0	0.7
1993	482.6	-0.1	-0.5
1994	489.4	1.4	1.5
1995	497.7	1.7	2.3
1996	509.1	2.3	2.9
1997	513.6	0.9	0.0
1998	503.3	-2.0	-1.5
1999	499.5	-0.8	0.7
2000	504.1	0.9	2.6
2001	493.6	-2.1	-0.8
2002	489.9	-0.8	1.1
2003	493.7	0.8	2.1
2004	498.5	1.0	2.0
2005	503.2	0.9	2.3
2006	510.9	1.5	2.3
2007	515.8	1.0	1.8
2008	497.7	-3.5	-3.2
2009 Q1	116.6	-7.8	-3.1
2009 Q2	119.9	-5.9	0.9

Source: Bank of Japan, *Financial and Economic Statistical Monthly*, 19 August 2009.

Table 2. Bubble economy and its collapse

	Change between 1985 and end of 1989	Change between 1990 and 2004
Market value of stock	¥ 657 trillion	-¥ 485 trillion
Change of ratio to nominal GDP	+1.6 times	-0.97 times
Market value of housing	¥ 1198 trillion	-¥ 976 trillion
Change of ratio to nominal GDP	+2.8 times	-2.0 times

Table 3 Number of bankrupt banks

year	1991-1997	1998	1999	2000	2001	2002-2005
number	36	30	44	14	56	1

Source: Fujii, 2009, p.238.

Under such conditions, the Japanese government decided to introduce a law concerning capital injection into the banking sector[4]. At the same time, the government itself nationalised some banks: the Japan Long-term Credit Bank and Japan Bond Credit Bank, in 1998, and in 2003, the Ashikaga Bank was temporarily nationalised. As a result, more than 15 years had passed (March 2005) before the government had announced the settlement of bad loans and that financial organisations had been paid ¥96 trillion in full (Fujii, 2009, p. 215).

On the other hand, the traditional Japanese economic system itself has been considered a negative factor in bringing about economic recovery; the crisis revealed its inefficiencies and lack of transparency. Under conditions of globalisation and flourishing neo-conservatism and neo-liberalism, the Japanese model has been criticised and obliged to adapt itself, so as to be more greatly aligned with the Anglo-Saxon model. The moral hazards of financial institutions—which gave rise to bad loans—were criticised as a product of the Japanese management system, and the Japanese financial administration (i.e., the convey system) bore the full brunt of public criticism. The deregulation and privatisation policy of the Koizumi government is considered a result of these trends.

Just after 2002, Japan was showing signs of emerging from the long-term crisis (Ito, 2007). Increases in corporate profits and equipment investments led the growth, and demand-supply gaps were also disappearing. The labour supply had improved, although most employees held irregular hours or were seasonal. Stock prices increased and the settlement of bad loans relaxed deflationary pressures. The central bank cancelled both the ‘quantitative deregulation policy’ and the so-called ‘zero interest policy’. Japan’s Cabinet Office (Economy and Finance) suggested a positive trend for 2002–2006; indeed, the country has achieved a stable recovery base in the corporate, household and external sectors. The recovery of the corporate sector has spread to households, and consumption has shown positive trends (Cabinet Office, 2006).

Private firms continued to perform positively, showing increases in profits, due to deflation and restructuring; increases in manufacturing profits; the repayment of loans; and the completion of stock adjustments, among other signs. In addition, worldwide economic growth led to recovery in the Japanese economy, and export contributions to economic growth became high. As a result, Japan enjoyed its longest-lasting post-WWII boom.

While the corporate sector drastically enlarged its net profits, only three branches (electric machinery, automobiles, and business companies) occupied 52% of the total profits; five branches

[4] The government injected ¥12.4 trillion, of which 74% was returned; ¥3.2 trillion remained unreturned as of 2008.

(the above three, plus machinery and steel) comprised two-thirds (2 April 2009, *Nihonkeizai newspaper*). External demand evidently became the main source of growth, suggesting the fragility of the circumstances that led to the global crisis[5].

Table 4 Largest booms with low growth rate

	Izanagi boom Nov.65-July 70	Bubble boom Dec. 86-Feb. 91	Largest boom Feb. 2002-Oct. 07
Length of boom	57months	51months	69months
Real economic annual growth	11.5%	5.4%	2.1%
Nominal annual rate	18.4%	7.3%	0.8%
Growth rate in the growing period	122.8%	34.7%	4.2%
An increase of wage	114.8%	31.8%	-1.6%
An increase of consumer price	27.4%(5.1)	8.5%(2.0)	0.7%(0.1)
An increase of Nihonkeizai stock price	71.7%	44.1%	67.9%
Change of working population	+3510 thousand	+4130 thousand	-650 thousand

The most recent boom is obviously different from the others (Table 4); it is long-lasting, but weak[6]. Inasmuch as wages indicate the opposite trend (i.e., a decrease), consumption (domestic demand) cannot contribute to growth. In order to derive profits, firms seem to have increased restructuring, drastically reducing their employment rolls; however, labour productivity did not increase proportionately. The figures in Table 5 suggest that manufacturing enjoyed high growth due to the bubble of the US economy and resource-exporting countries, as well as a low yen-conversion rate, and that nonmanufacturing sectors continued to see low growth. Indeed, growth potential was fragile, following the 'lost 10 years'.

Table 5 Growth rate (annual rate: %)

	Real GDP	Labour productivity	
	2002-2007	2002-2007	1991-2007
Total	2.1	1.9	1.4
manufacturing	4.7	5.3	3.2
Non-manufacturing	1.4	1.0	1.0

Source: Kohno, 2009, p.25.

5 The export dependence rate of Japan in 2007 was 17.6%; this rate was considerably lower than those of Germany (46.9%), South Korea (46.4%), China (41.3%), France (26.9%) and the UK (25.8%). However, in Japan, the rate has generally doubled since 1990.

6 Mr. Masaaki Shirakawa, president of Bank of Japan, considers the recovery a 'false dawn' (23 April 2009).

2. The global crisis in Japan

The global crisis is backed by a surplus of money supply in developed countries; various kinds of bonds, such as subprime loans, can be considered catalysts of absorption. Not only oil dollars but also cheap money has run rampant worldwide, and both are amplified by leverage. In fact, 'following a collapse of housing bubble in USA, bubble of resource price and bubble of emerging markets happen, and there exists a relay of the global bubbles' (Kohno, 2009, p. 24).

The epicentre of the global financial crisis was the US economy, with there being three 'ripple paths' of crisis (Ministry of Economy and Trade, 2009):

1) The credit expansion type (in the US, UK, Spain, Ireland and other countries). Domestic consumption decreased drastically, owing to a collapse of the housing bubble and general disorder in the financial system.
2) The export lead type (in Japan, Germany, South Korea, Singapore and other countries). Exports declined, due to a sharp downturn of demand among developed countries.
3) The emerging market type (in Estonia, Latvia, Hungary, Romania and other countries). External fund inflows disappeared, due to recession in the donor countries. As the European emerging market economies created new production bases, they could be readily identified by export type[7].

After the long and weak growth during the 2002–2007 period, the recession portion of the business cycle in Japan started in October 2007. Private consumption and investment decreased, and domestic demand declined; the global crisis amplified this economic decline. After the bailout of the US investment bank Lehman Brothers in September 2008, stock prices sharply declined and the real sector shrank simultaneously.

Although subprime loans did not severely affect Japanese banks and corporations directly, the Japanese economic structure, dependent on external business circumstances and the structural imbalance of global money (i.e., oversupply), did not enable Japan to withstand the global crisis. The excessive relaxation in the Japanese monetary policy has overheated the global crisis[8].

Official GDP data tells of an 'economic panic': The last quarter of 2008 recorded a 13.5% decline (annual rate), and in the first quarter of 2009, real GDP decreased by 14.2%. Above all, the real sector continued to decline, and declines in exports contributed to this GDP trend. In the last quarter of 2008, exports decreased by 47.1%, compared to the preceding quarter. The trend of monthly declines in exports continued in the first quarter of 2009. At the very least, the low US dollar rate caused by US stock price declines and an increase in budget deficits was a great shock to the Japanese export market.

Japan's balance in 2008 was ¥12.229 trillion surpluses —a 50.2% decline compared to 2007. A

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[7] In the first quarter of 2009, Latvia, Poland, the Czech Republic and Hungary saw declines in exports, by 20–30% (19 June 2009, *Nihonkeizai newspaper*).

[8] Japan's interest rates, based on the US dollar, are not as low.

strong yen and a global cut in official interest rates all but eliminated profit transfers from overseas companies. A decline in the Japanese current balance brought about diminishing deficits in US.

Japan’s heavy dependence on exports determines its economic structure. Particularly, the Japanese economy heavily depends upon exports in the automobile, electric equipment, machinery, iron and steel industries, among others; this is why the Japanese economy is so sensitive in its response to the world economy. For example, the Toyota automobile company increased its export share from 50% in 2001 to about 65% in 2008; other multinationals also showed a similar trend (7 February 2009, *Nihonkeizai newspaper*). Therefore, Toyota could not help but reduce production and stock under such global competition conditions. Excessive decreases in demand reduced both exports and production; the ratio of the operating profits of the top five branches with the highest overseas sales (i.e., automobiles, precision machinery, machinery, shipbuilding and electronic machinery) to that of all manufacturing had sharply declined, from 50–60% in March 2008 to 27% in the first half of 2009; the aforementioned branches also recorded deficits. Above all, the emerging Russian markets suffered a recession from petroleum price declines and reduced Japan’s demand (3 June 2009, *Nihonkeizai newspaper*). Japan’s heavy dependence on exports cannot be overstated, because its exports do not command a large share, compared to those of other developed countries. Export declines have brought about a shock in export-oriented regions (e.g., Toyota City), and regional differences *vis-à-vis* the economic crisis can be observed.

Recently, economic performance has created a negative chain reaction. A decline in production has aggravated employment and consumption circumstances which, in turn, have resulted in production downturns. Investments have also decreased. Given that the export industry makes use of wide-ranging subcontractors, it can incur enormous damage upon the economy; while it is natural for the number of irregularly employed workers to increase in periods of low economic growth, employment adjustments have been directed toward those employees. According to the Ministry of Health, labour and Welfare, the number of dismissed, irregularly employed workers reached 216,000 during October 2008–June 2009; the number of regularly employed workers also declined, and the unemployment rate reached 5.2% in May 2009. However, manufacturing could not adjust its employment base in response to a sharp production downturn; as a result, in 18 branches of manufacturing, labour productivity also declined after the last quarter of 2008. While there are sectors in which there has been only a slight reduction in domestic demand, the rate is high in equipment, automobiles, electric devices and steel (11 June 2009, *Nihonkeizai newspaper*). An increase in unemployment and decreases in both employment and income have eroded domestic demand.

3. Is the recent recovery real?

After April 2009, a trend quite unlike the extremely severe reduction in the real economy was seen.

Both Japan and other countries have adopted measures to stimulate domestic demand, and most central banks have enlarged nontraditional financial policies, such as those involving the purchase of state bonds. Particularly, the automobile industry-support policies of each country seem to enhance domestic demand. In addition, cheap money has flowed into emerging markets (e.g., China and India), and their economic recoveries have stimulated the Japanese export market, resulting in an influx of cheap money into the Japanese market. China may well be regarded as a 'locomotive' in global economic recovery. The International Monetary Fund (2009) says that, 'In Japan, following a dismal first quarter, there are signs that output is stabilising. Improved consumer confidence, progress in inventory adjustment, aggressive fiscal policies, and strong performance by some other Asian economies are expected to lift growth in the coming quarters'.

Japan shows signs of great economic recovery, following deep declines. As Table 6 indicates, not only exports but also domestic demand seem to have improved. Stock prices have gone up and returned to pre-crisis levels; also, hedge funds have repurchased stocks. However, government measures may be considered temporary, and the sustainable recovery of businesses after 2010 is open to question (28 May 2009, *Nihonkeizai newspaper*). The Japanese government anticipates negative performance in both the labour market and incomes, which means a continuous deterioration of purchasing power among Japanese households (Nagahama, 2009, p. 31).

Table 6 Economic performance (% change)

	January-March 2009	April-June 2009
Real GDP growth	-3.8	0.8
Annual rate	-14.2	3.4
Compared with previous period	-8.8	-7.0
Personal consumption	-1.1	0.8
Housing investment	-5.5	-9.2
Equipment investment	-8.9	-5.8
Public investment	0.1	9.8
export	-26	9.1
import	-15	-2.6
Domestic demand contribution rate	-2.3	-0.5
External demand contribution rate	-1.4	1.3
Nominal GDP growth	-2.7	0.0

Note: average of the survey by 28 private investigating organizations

Source: 14 August 2009, *Nihonkeizai newspaper*.

In practice, Japan's Ministry of Internal Affairs and Communications announced the worst result[9]. Unemployment rate was 5.7% and a job offers-to-seeker ratio[10] was 0.42 in July 2009. Particularly, a further aggravation of the unemployment problem hit the younger generation. At the age of 15-24, unemployment rate reached 9.9% and at the age of 25-34 the rate was 7.1%. Moreover, the male young generation recorded more than 10% (12% at the age of 15-24). The consumer price index also negative symptoms of deflation spiral.

Moreover, not all businesses are able to recover fully in terms of performance. Regional differences are large. A job offers-to-seeker ratio paints light and shade. In July 2009, 25 prefectures of the total (47) indicate the rate less than the national average (0.42). The automobile specialisation prefectures such as Aich and Gunma show a drastic decline of a job offers-to-seeker ratio[11]. Small and medium-sized enterprises (SMEs) cannot enjoy recovery on the same level as large companies. Many SMEs are cautious about demand recovery, and as most of them are heavily dependent on the automobile sector, they seek diversification. Price increases in raw materials, which would exacerbate the situation, would become an obstacle to improving performance; two-thirds of SMEs considered price increases to be deficit factors (22 July 2009, *Nihonkeizai newspaper*).

Recovery has been accompanied by a sharp compression of firm costs, including those related to personnel—e.g., ¥850 billion by Toyota, ¥800 billion by Sony, and ¥500 billion by Hitachi and others—which has been undertaken to increase global competitiveness. A cost cut, however, involves both a demand reduction and a wage cut, both of which may become barriers to economic recovery. Thus, the present-day economic recovery may well be understood as being temporary, and so firms are hesitant to invest in equipment. In addition, the deflation spiral maintains a vicious circle: constraints in income and investment payments (e.g., wage decreases), made in the name of survival and price competition—i.e., reductions in employment and consumption, and unrest regarding social safety nets, due to budget constraints—result in production downturns. This vicious circle looks very much like the deflation spiral seen in the early 2000s[12].

In short, inasmuch as China and government procurement have become the only recovery catalysts, commercial banks continue to be inactive as intermediates, the Japanese government's stance appears unclear, and the US household sector cannot be adjusted in the short term, the present-day economic recovery must be regarded with caution (28 May 2009, *Nihonkeizai newspaper*). In short, it is too early for 'the false dawn' to have broken.

Although recovery is yet ongoing, in the long run, Japan holds some risk factors that restrict its growth, including an aging society, a declining population (i.e., labour force) and a fragile budget. To estimate the sustainability of Japan's economic recovery, the following provides a general survey of

[9] Data from Ministry of Internal Affairs and Communications (http://www.soumu.go.jp, 1 September 2009)
[10] Data from Ministry of Health, Labour and Welfare (http://www.mhlw.go.jp. 31 August 2009).
[11] A job offers-to-seeker declined from 1.52 in September 2008 to 0.45 in July 2009 in Gunma prefecture, and from 1.50 to 0.46 in Aichi prefecture. The export related companies reduced employment at a stroke there. Data from Ministry of Health, Labour and Welfare (http://www.mhlw.go.jp. 31 August 2009).
[12] Banks of Japan (BOJ) officially denies the deflation spiral

changes made to the Japanese economic system.

4. Dramatic changes in the Japanese economic system

A corporate system is indispensable for analyses of the economic system. When characterising a corporate system, the following dimensions are considered: industrial relations, vocational training and education, corporate governance, inter-firm relations and coordination with employees[13]. In particular, analyses of the Japanese corporate system have traditionally focused on corporate governance and labour systems. This paper characterises the Japanese corporate system, based on the following three aspects: 1) corporate governance, 2) labour systems and 3) managerial turnover[14].

Generally speaking, the traditional corporate system in Japan is characterised as follows: Japanese enterprises undertake cross-shareholding and stable shareholding based on related companies and the main banks, long-term transaction relations within the group, and specific subcontracting relations (*Keiretsu*). Enterprises are closely related to the main banks; thus, Japanese companies are said to attach general importance to market share and long-term management[15], and the Japanese system may be regarded as a stakeholder type. According to Jackson and Miyajima (2007),

> The idea of the firm as a community of people is manifest in a number of human resource management practices geared to mobilise long-term commitment to the enterprise. Lifetime employment is a norm for regular and usually male employees in large firms, which became institutionalised in tandem with the emergence of cooperative enterprise-based unions in the early post-war period. While lifetime employment reflects strong legal constraints on dismissals, firms also invest in firm-specific skills and maintain internal flexibility of employees with regard to job functions within the firm or related firms. This system is supported by seniority-related wages, a rank-hierarchy system of promotion, training through job rotation, and a strong socialisation into company culture. (p. 4–5)

This traditional Japanese model (hereafter termed a ‘J firm’) experienced drastic changes after the collapse of the bubble economy in the 1990s.

The J firm began to change in the turning-point year of 1997. Shareholder authority has since intensified and changes are based on corporate ownership. Figure 1 indicates the distribution percentage of unit shares, held by types of shareholders in listed companies.

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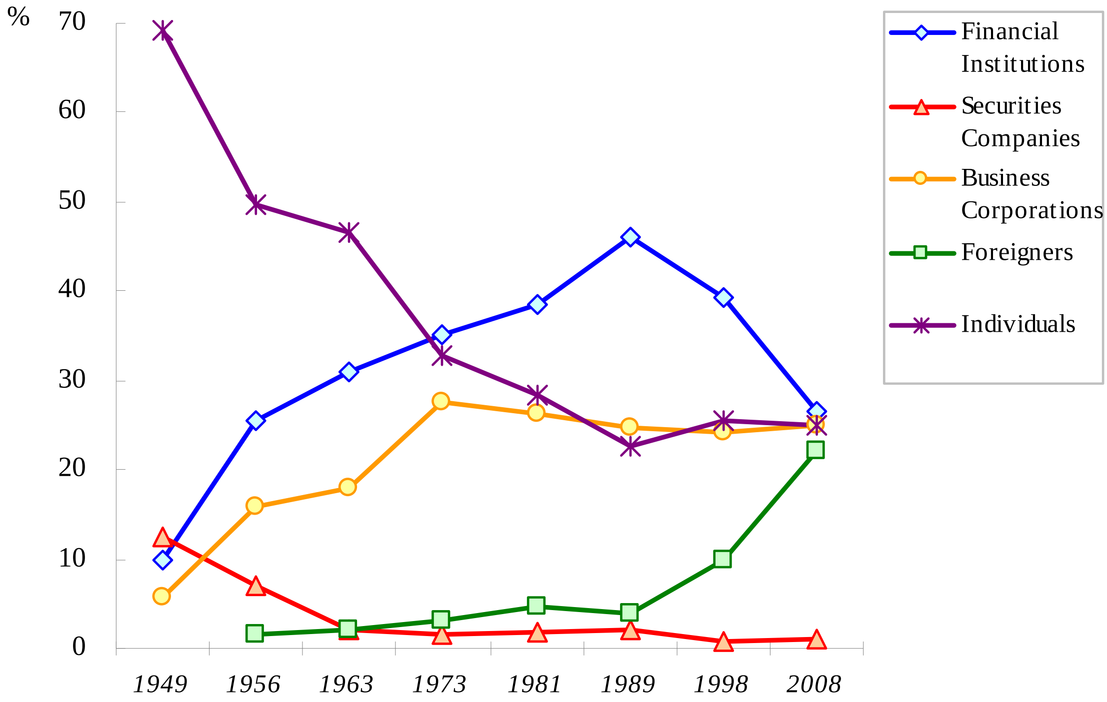
[13] The various capitalism-based approaches classify corporate systems by virtue of these aspects. See Hall and Soskice, 2001.

[14] ‘Managers’ refers to top managers—i.e., various kinds of directors and executive committee members—and Japanese companies draw sharp lines between managers and employees. Therefore, in the strict sense of the term, the upper management class (the top-rank employees) not holding a position of a director or an executive is excluded from managers. Nonetheless, the line between the two is not clear; in Russian firms, for example, a chief information executive is considered a middle manager. Regarding the various definitions of ‘manager’, see Osawa (2004) and Roschin and Solntsev (2006).

[15] See Kanamori, Kousai and Ohmori, 2004.

Figure 1 Type of Shareholder



Source: Tokyo exchange stock, et al. (2008)

The following changes can be easily discerned (Tokyo exchange stock, et al., 2008). First, financial institutions sharply reduced their shares after the 1990s. The banking crisis following the collapse of the bubble economy, and the *Bank Shareholding Restriction Law* brought about a decline in bank holdings[16]. Major commercial banks began selling corporate shares to raise funds, to dispose of nonperforming loans and meet regulations regarding capital adequacy (Jackson and Miyajima, 2007). Second, although the number of individual shareholders increased, the share of holding either remained flat or saw little decline. Third, foreigners have significantly increased their holdings; their shares increased from 3.9% in 1989 to 25.5% in 2007 (22.1% in 2008). Foreigners most notably increased their shares in the following sectors: pharmaceuticals, insurance, security, electric apparatus, real estate and precision machinery. In the following companies, at least 30% of total capital was represented by foreign-held shares (i.e., foreign institutional investors): Sony, Rome,

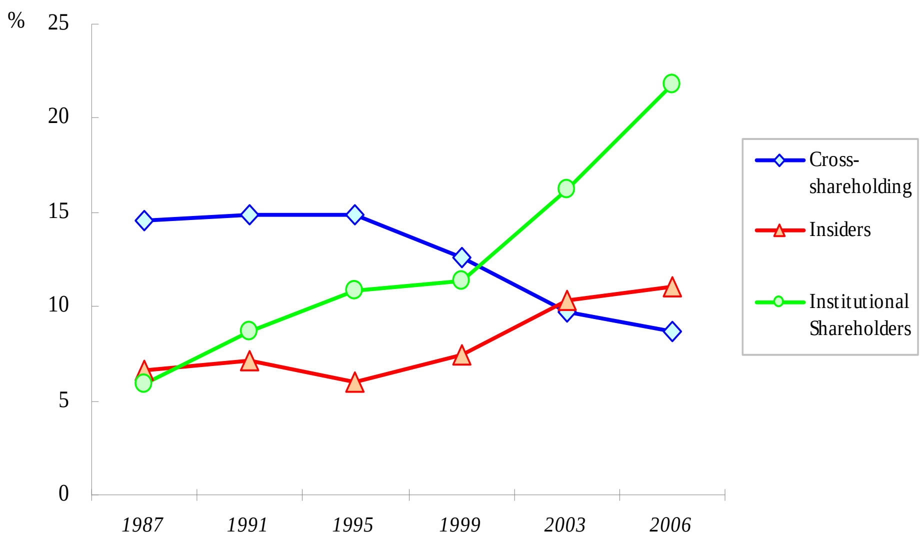
[16] 'Major banks' shareholdings were 1.5 times Tier 1 capital in March 2001, so they were required to reduce their shareholdings by ¥10 trillion' (Miyajima and Kuroki, 2007, p. 91).

Yamanouchi Pharmacy, Tokyo Electron, Furukawa Electrics, TDK, ORIX and Murata, among others (Kagono, 2005, p. 298). Companies with a high share of foreign shareholders tend to align corporate governance structure with that of a market-oriented, US type of structure.

The economic crisis gave rise to changes in corporate ownership. Foreigners diminished their share. The largest such declines were observed among the following companies: ORIX[17], Citizen[18], Mazda[19] and the financial institution ACOM[20]. Japanese individuals increased their volume of shares, with the number of individual shareholders reaching 42.23 million (20 June 2009, *Nihonkeizai newspaper*).

Figure 2 also indicates shareholder composition in Japan (i.e., listed companies in the three largest cities). We can observe an increase of institutional investors, a decline in cross-shareholdings and an increase in the number of insiders[21].

Figure 2 Shareholders composition



Source: Nitta, 2008.

The decline of cross-shareholding is associated with growth promotion due to a release from

[17] A total of 34.3% was owned by the foreign corporations at the end of March 2009 (19 August 2009, http://www.orix.co.jp).
[18] A total of 17% was owned by foreigners at the end of March 2009 (19 August 2009, http://www.citizen.co.jp).
[19] A total of 30.7% was owned by foreign corporations at the end of March 2009 (19 August 2009, http://www.mazda.co.jp).
[20] ACOM is a member of Mitsubishi UFJ Financial Group, and the group owns 36.88% of shares; foreign corporations and individuals decreased their shares to 4.5% by the end of March 2009 (from 25.8% at the end of March 2007) (19 August 2009, http://www.acom.co.jp).
[21] Institutional investors include both domestic and foreign. Insiders include ownership of directors, domestic unlisted companies, and concerned of companies and large shareholder. See Nitta 2008, p.9.

short-run market pressure or a lowering of risk by sharing within groups[22]. Particularly, due to the passage of the *Law on Shareholding Restriction of Banks* and others in 2002, cross-shareholding was reduced to the level of core equity capital (Tier 1: stocks, profit reserves and others)[23]. The proportion of cross-shareholding fell from 18.4% of all shares in 1987[24] to just 7.6% in 2003. Likewise, the proportion of stable shareholders, defined as cross-shareholdings plus shares held by long-term investors such as financial institutions or related business firms, fell from 43.1% in 1990 to just 26% in 2002. According to the Nisei Institute, the share of stable shareholders decreased from 45.8% in 1987 to 24.3% in 2003. If we regard stable shareholders as insiders, the Japanese type of insider shareholder has lost its influence within the firm (NLI Research Institute, 2003).

While cross-shareholding has been declining, that decline has seen a recent reversal. Since 2005, many companies have resumed cross-shareholding, to prevent M&As from occurring. Two trends, therefore, have been observed: a decline in Japanese insiders' share, and a recovery thereof. Some firms that continued borrowing had maintained cross-shareholding; to preclude M&As and increase international competitiveness, many large businesses tried to form stable shareholding. For example, New Japan Steel, Sumitomo Steel and Kobe Steel each holds mutual shares. As a result, the process has resulted in a growing diversity of ownership patterns among the enterprises involved. Government committee criticism of cross-shareholding is strong (11 June 2009, *Nihonkeizai newspaper*).

J firms have been traditionally financed through external sources, with a main bank playing the core role of providing financing. Corporate finance, however, drastically changed following financial deregulations and the collapse of the bubble economy in the 1990s.

Internal funds comprise a principle component of financing; external funds, as a traditional financial path, have declined in terms of share percentage. These changes, however, should not be overstated. While large firms reduced their links with banks and began financing through bonds, smaller firms continued borrowing from banks; in short, some large, listed firms depend upon capital markets, while smaller firms continue to rely upon bank borrowing. Corporate finance in Japan can therefore be characterised by segmented main banks and the coexistence of dual bank-firm relations (Jackson and Miyajima, 2007, and Arikawa and Miyajima, 2007).

The financial crisis wrought great changes to the Japanese economy. The share of internal funds decreased to 34.9% by the end of 2008; equity financing declined and shares of cross-shareholding were also negatively influenced. Moreover, long-term borrowing increased. These changes, however, cannot be considered critical.

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[22] The introduction of global accounting standards has also reduced cross-shareholding.

[23] The big banks reduced their shareholding from around ¥30 trillion in 2001 to about ¥10 trillion in March 2009 (Bank of Japan, 2009).

[24] The peak of cross-shareholding was in 1987, because the selling of crossholding shares incurred corporate restructuring costs.

5. Fluctuations in the labour system

In terms of investigating economic institutions from the vantage of various capitalism-based approaches, labour systems can be regarded as a key indicator (Hall and Soskice, 2001). The labour systems of a firm characterise not only that firm's internal structure, but also the state of the overall labour market. At the same time, labour systems bear a decisive role in providing collective competitive goods[25].

J firms or Japanese management are characterised by three key elements: lifetime employment, a seniority system and company unions. Core workers promote and are promoted within the firm, and they organise internal labour markets. According to Hall and Soskice (2001),

> Serious training, technology transfer and a good deal of standard-setting take place primarily within the vertical *keiretsu*. Workers are encouraged to acquire firm- or group-specific skills, and notably strong relational skills appropriate for use within the family of companies within which they have been trained. In order to persuade workers to invest in skills of this specificity, the large firms have customarily offered many of them lifetime employment. (p. 34)

On-the-job training (OJT) has played an especially major role in in-house education. Koike (1999) regards the degree of skill formation as a basic 'competitive edge' of a company; he believes that intellectual skills determine production efficiency and that such skills became generalised as well as firm-specific[26]. As it is difficult for Japanese firms to adjust employment (i.e., perform restructuring) under lifetime-employment conditions, core workers employed by J firms are protected in a manner similar to that seen in European continental countries (Table 7). Inasmuch as lifetime employment involves core workers, lifetime employment gives expression to the employment ratio by age. For male workers, the employment ratio is relatively high until retirement age; for female workers, however, a plotting of employment ratio indicates a relative low employment rate and an M-shaped line (i.e., a decline of employment rate in the 30–40-year age bracket). J-firm institutions showed stable complementarities; according to Tsuru (2005), J firms use a competence-qualification system[27].

Institutions have mutual complementarities. Lifetime employment is related to the seniority system; wages correlate with the length of employment, and the seniority system can be considered a 'generation wage transfer' from young workers to more senior ones. Labour share (i.e., personnel expenditure divided by the total value added) increased with economic growth (Figure 3). Furthermore, labour share has been decreasing in the 2000s and the wages of the senior generation

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[25] Such 'competitive edges' include knowledge about the market, the availability of different kinds of highly skilled workers, labour management and other factors (Whitley, 2007, p. 89).

[26] Miyamoto (2004) regards skills formed within a firm, irrespective of education level, as intermediate skills; that study also differentiates the Japanese type from the US type, according to degree of intermediate skills.

[27] The fundamental frameworks are as follows: human resource accumulation by firm-specific skills, transactions based on relation-specific skills and job experiences, and the growth of a firm.

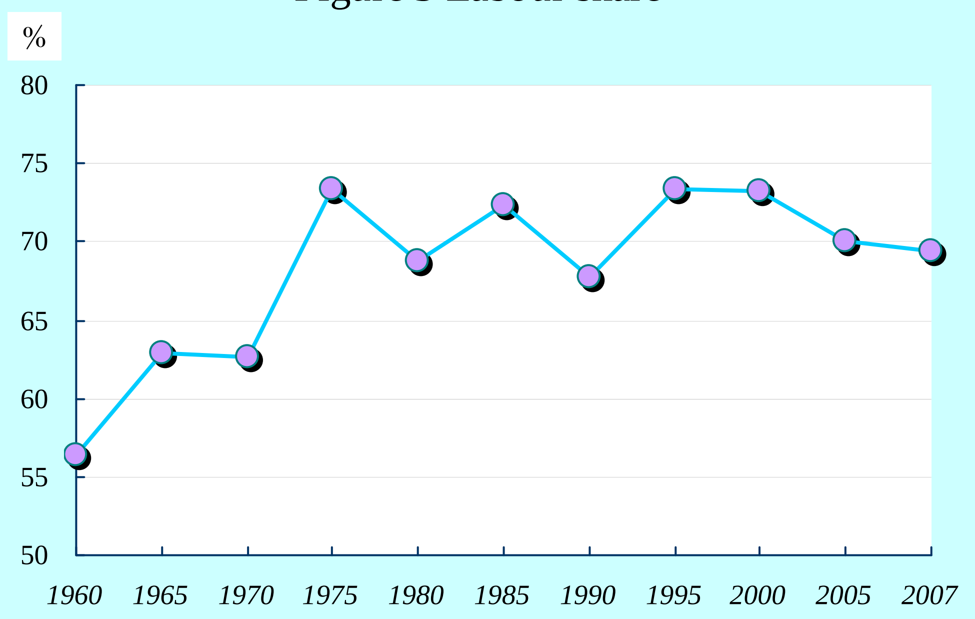
are decreasing (Morita, 2009). However, Japanese corporations have maintained a relative high labour share. The correlation between wages and job evaluations has been strengthened, while the length of employment and the grade system continue to influence wages (Tsuru, Abe and Kubo, 2005).

Table 7 Employment protection of core workers (Score: 0–6, second half of 1990s)

	France	Germany	Netherlands	UK	USA	Japan
Inconvenience of layoff procedure	2.8	3.5	5.0	1.0	0.0	2.0
Advance announcement term and allowance of layoff	1.5	1.3	1.0	1.1	0.0	1.8
Difficulty of layoff	2.8	3.5	3.3	0.3	0.5	4.3
Total strength of job-guarantee	2.3	2.8	3.1	0.8	0.2	2.7

Source: OECD, 1999.

Figure 3 Labour share



Source: Ministry of Finance (19 August 2009.http://www.mof.go.jp)

The Japanese labour system is not easily sustained, especially in the face of intense international competition. When the average worker is young, the system is more easily sustained; however, now that Japanese society is generally aging, labour costs are high compared to labour input. The competence-qualification system has therefore been replaced by a merit-pay system. To decrease labour costs, some firms have sought to abolish lifetime employment and reduce wages; this has resulted in employees changing jobs, and so it has become more difficult to maintain any acquisition of firm-specific skills in the long term.

Changes to employment laws have promoted the hiring of more irregularly employed workers who demand relatively lower pay and often work under short-term contracts. The turning point of regulation came in 1995, when Nikkeiren (the Japan Federation of Employers' Associations)[28] made public the report entitled 'Japanese Management in a New Epoch'. This announcement classified three types of employment: the long-term ability accumulation type (i.e., lifetime employment type), the high-degree specialisation type (i.e., fixed-time contract) and the flexible employment type (i.e., fixed-time contract). Independent of the effects of the announcement, after 1996, various kinds of laws were enacted. In terms of regular workers, the share of nonregular workers[29] has sharply risen, from 19% in 1989 to 33% in 2007 (1 December 2007, *The Economist*, p. 18); part-time workers accounted for 26.2% of total employment[30]. Tables 8 and 9 show a drastic increase in irregularly employed workers. Although female workers have traditionally comprised a high proportion of irregularly employed workers, there has also been an increase among male workers. In terms of irregularly employed workers, from the vantage of age structure, as companies froze the hiring of regularly employed workers in the 1990s, the younger and older generations have each comprised a relatively high proportion of all workers. Table 10 outlines the various types of irregularly employed workers.

For example, the Toyota automobile company utilised a temporary-help agency. The Toyota automobile factory in the Kyushu area uses more than 2,000 temporary workers, who occupied about 40% of that firm's manufacturing sector there. Although the Toyota system has firm-specific technology and skills that can be easily passed down by workers and over generations, the employment of flexible, temporary workers has become indispensable for corporate survival. No two automobile companies employ the same type of irregularly employed workers; while Toyota chooses to employ workers for a temporary but defined period and controls them in the same way as it would its regular employees, for example, Nissan prefers to employ outside contract workers and does not control them directly (Ihara, 2009).

An increase in irregular employment or an increase in the number of workers of a temporary employment status means that there has been a reduction of value among firm-specific skills, and that J firms have generally foregone long-term employment. In addition, the institutional

[28] Nippon Keidanren (Japan Business Federation) is a comprehensive economic organisation that was established in May 2002, through an amalgamation of Keidanren (Japan Federation of Economic Organisations) and Nikkeiren (Japan Federation of Employers' Associations). Its membership of 1,609 comprises 1,295 companies, 129 industrial associations and 47 regional economic organisations (as of 28 May 2009) (19 August 2009, http://www.keidanren.or.jp).

[29] Part-time and contract workers, as well as those with side jobs and temporary employment statuses, are included.

[30] *Monthly Labour Survey*, National Survey, Vol. 41, No. 7, January 2008.

complementarities between bank finance and in-house training that previously characterised the traditional Japanese firm do not seem to function under present-day circumstances; instead, there has been a shift from bank finance to equity finance (shareholder activism), which may threaten the Japanese style of human resource management (Abe and Hoshi, 2007).

Table 8 Irregularly employed workers in Japan (%)

	1982	1987	1992	1997	2002
male	8.3	9.1	9.9	11.2	16.5
female	31.8	37.1	39.1	44.0	53.0

Source: Statistics Bureau Ministry of Internal Affairs and Communications, Japan, *Employment Structure of Japan, Summary Results and Analyses of 2002 Employment Status Survey*, 2002.

Table 9 Changes in employment (thousands, %)

	1985	1995	2005
Employment, total	39990	47800	49230
Regular employment	33430 (83.6)	37790 (79.1)	33330 (67.1)
Irregular employment	6550 (16.4)	10010 (20.9)	15910 (32.3)

Source: Ministry of Health, Labour and Welfare, *White Paper of Labour Economics*, 2006.

Table 10 Structure of irregular employment (tens of thousands)

	2002	2003	2004	2005	2006
Total	1451	1504	1564	1633	1677
Part-time job	1053	1089	1096	1120	1125
Dispatched employees	43	50	85	106	128
Contract employees	230	236	255	278	283
Others	125	129	128	129	141

Source: Ministry of Internal Affairs and Communication (19 August 2009, http://stat.go.jp).

At the same time, as Jackson and Miyajima (2007) point out, 'most firms have adopted merit-based payment systems based on individual performance evaluations (about 40%) or have moved to a more complex type of human resource management scheme that integrates both seniority and merit elements (about 40%)' (p. 26).

Although large companies have increased their labour mobility and introduced a large number of nonregular workers to their production lines, they seem nonetheless to maintain long-term employment. Indeed, some companies are 'starting to move some nonregular workers into regular positions. UNIQLO, for example, a clothes retailer, said in March that it would turn 5,000 of its

6,000 nonregular workers into regular ones within two years, and Canon said it would do the same for 1,000 of its 13,000 factory workers' (1 December 2007, *The Economist*, p. 13).

As a result, the current labour mobility situation bears the following characteristics[31]: the number of regularly employed workers on 1 January 2006 was 43,606,000, and increased employees during 2006 comprised 8,332,500 (19.1%) of the total; they include transfers within the same enterprise (1,339,600, 3.1% of the total) and newly hired employees (6,992,900, 16.0% of the total[32]). Occupationally experienced workers were included (4,535,100) in the total number of transfers. The net labour mobility of employees can be considered 10.4%; on the other hand, 8,445,900 (19.4% of the total) were decreased employees in 2006. They include transfers within the same enterprise (1,401,000, 3.2%) and separated employees (7,044,900, 16.2%). Contract workers not protected by official laws officially became 'irregularly employed workers'.

The length of service in the typical J firm is longer than that of any other model, as seen in Table 11. Once a male worker is employed by a large company, he tends not to move to another company; instead, he is transferred within the company. As Tables 12 and 13 show, changes in employment do not seem to cause significant changes in length of service. While nonregular workers have increased in number, core workers have increased their duration at their respective firms. The Japanese employment system can be maintained by curbing the number of newcomers.

Table 11 Length of service in developed countries (%)

The length of service	Japan	Germany	France	UK	USA
Less than one year	9.8	12.8	15.7	18.6	28.8
1-5 years	27.6	28.2	26.3	36.3	32.9
5-10 years	19.7	17.8	16.2	16.1	11.7
10-20 years	23.6	24.5	25.6	19.3	17.8
More than 20 years	19.3	16.7	15.8	9.6	8.8
Average length (years)	12.5	12.1	10.6	9.2	7.5
Median of length (years)	10.1	9.5	7.9	5.3	3.5

Source: OECD, *Employment Outlook*, 1993.

According to the 2003 report entitled 'Survey on the Corporate System and Employment', delivered by Japan's Ministry of Economy, Trade and Industry (METI), a continued commitment to lifetime employment can be observed in over 80% of Japanese firms (Jackson, 2007, p. 285). However, as Jackson and Miyajima (2007) note,

> Despite this continued commitment to lifetime employment, the core of employees covered

[31] *Source*: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics,* 2006, pp. 27–45.
[32] Of all newly hired employees, 39.4% had part-time jobs.

under such an arrangement is shrinking. The largest 1% of firms employed nearly 23,000 people on average in 1993, but just 17,400 employees in 2002…. Between 2000 and 2003 surveyed firms reduced their workforce by 15% on average, but only 4% of total exits came through outright lay-offs. Thus lifetime employment is being preserved as a norm of corporate insiders, large firms are undergoing a degree of social closure that makes it difficult for outsiders to enter’. (pp. 25–26)

Table 12 Length of service in Japan (%)

1997	Less than one year	1-5 years	5-10 years	10-20 years	More than 20 years
Male	6.8	21.7	21.1	23.1	27.3
Female	11.0	32.8	26.5	19.5	10.3
Total	8.1	25.1	22.7	22.0	22.1

2006	Less than one year	1-5 years	5-10years	10-20years	More than 20 years
Male	7.5	22.6	17.5	25.9	26.5
Female	12.1	33.0	21.3	22.2	11.4
Total	8.9	25.8	18.7	24.8	21.8

Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 1997, 2006.

Table 13 Average length of service

		1997 June	2003 June	2006 June
Industries	total	11.8	12.2	12.0
	male	13.3	13.5	13.5
	female	8.4	9.0	8.8
Manufacturing	total	13.6	14.6	14.5
	male	15.0	15.6	15.5
	female	9.8	11.3	11.2
1000 employees and over	total	17.0	18.4	17.5
	male	18.2	19.2	18.2
	female	11.2	13.7	13.2

Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 1997, 2003, 2006.

In short, change and continuity may simultaneously emerge in a J firm. The most fundamental element of a J firm—that it is a 'quasi-community firm' (a term coined by Dore)[33]—has been conspicuously maintained by welfare provisions. As Table 14 shows, the ratio of enterprise welfare provisions has been relatively high: In 2000, 46.2% of the firms had education and training programmes for all regular white-collar workers, and 80.8% of the firms trained workers primarily through OJT. The proportion of firms that plan to provide training primarily through future OJT has dropped to 72.3%, while the proportion of firms that plan to primarily use off-the-job training (OffJT) is expected to increase to 22.5% (Abe and Hoshi, 2007, p. 263). On this matter, Japanese firms can therefore be considered hybrids or segmented in nature.

Table 14 Welfare provisions in Japan (ratio of sampled firms: %, 2007)

	Total	1000 employees and over
Housing allowance	48.4	66.0
Company housing	35.0	82.0
House ownership support	8.9	32.1
Physical examination	71.8	80.7
Childcare leave	40.5	56.7
Celebratory/condolence payment	94.5	99.2
Leisure facilities	28.6	70.9
Support for cultural and athletic	34.6	63.2
Support for acquirement of official qualifications	47.3	77.6
Employees' savings	57.3	88.5
Company savings or stock holder's association	25.5	76.7
Employees' cafeteria or meal allowance	38.0	60.0

Source: Ministry of Health, Labour and Welfare, Japan, *Year Book of Labour Statistics*, 2006, pp.224-225.

Finally, as corporate governance in J firms is characterised by long-term relations and internal personnel policy, the internal turnover of managers can be considered an appropriate focus of analysis[34]. Insiders promote not only specialised managers, but also core managers such as CEOs. Since 1955, the J firm has shown the trend of a greater amount of managerial turnover among insiders[35]. Needless to say, job promotions do not suggest a lack of competition, given that

[33] See Dore, 2006. This term is used for a comparison with shareholder firms. Dore (2007) uses the term 'insider management'. In a 'quasi-community firm', employees play a main role in the company, and managers are also integrated with the employees. Therefore, an increase in managers' wages correlates with an increase in employees' wages. Employees work together with managers and institutionalise an awareness of equality.

[34] See Miyajima and Kawamoto, 2007. This survey mainly clarifies managerial turnover in pre-WWII Japanese firms, which is quite different from that of the post-WWII era.

[35] After the 1973 oil shock, 85% of managers in J firms were supplied by the company (i.e., they were insiders)

employees compete amongst themselves to achieve a higher rank. In short, the internal managers market has functioned effectively in J firms.

According to some empirical data, the Japanese system requires a sufficient number of managers, and it has seen an overall increased frequency in managerial turnover. The number of board members has increased[36], and the average managerial tenure has decreased.

Table 15 Employment structure (million, % change to the previous period)

	Total employment	Regular employment	Irregular employment	Of which: part-time job	Of which: dispatched employees	Of which: contract employment
2003	49.48	34.44(-1.0)	15.04(1.0)	10.89(0.7)	0.5(0.1)	2.36(0.1)
2004	49.75	34.10(-1.0)	15.64(1.0)	10.96(0.0)	0.85(0.7)	2.55(0.3)
2005	50.07	33.74(-1.2)	16.33(1.2)	11.20(0.4)	1.06(0.4)	2.78(0.5)
2006	50.88	34.11(0.4)	16.77(0.4)	11.25(0.3)	1.28(0.4)	2.83(0.0)
2007	51.74	34.41(0.5)	17.32(0.5)	11.64(0.4)	1.33(0.1)	2.98(0.2)
2008	51.59	33.99(-0.6)	17.60(0.6)	11.52(-0.2)	1.40(0.1)	3.20(0.4)
2009 Q1	50.86	33.86(0.6)	16.99(-0.6)	11.32(-0.1)	1.16(-0.5)	3.18(-0.1)
2009 Q2	51.05	34.20(0.4)	16.85(-0.4)	11.28(-0.2)	1.05(-0.4)	3.18(0.0)

Source: Ministry of Internal Affairs and Communications (3 September 2009, http://www.stat.go.jp).

However, an increase in shareholder power and the introduction of a merit system has enhanced a general acceptance of outsider managers and the use of headhunting companies. Particularly since the 1990s, J firms have been forced to change their managerial structure under the introduction of a US type of governance. Firms have been officially permitted to organise specialised committees and offer stock options to managers. According to data gathered by Japan's MEF (2000), 142 of the 1,208 companies surveyed (11.8%) had introduced stock options; 78 of 768 companies surveyed (10.2%) had hired outsider managers. As a result, the length of managerial tenure has decreased and managers have been replaced at a higher frequency. The scale of changes, however, cannot be overstated. Part-time directors from outside a company can have only a limited effect, while insiders maintain their influence as well as their own job-promotion path. On the other hand, poor performance has increased replacements and managerial turnover among insiders since the 1990s (Miyajima, 2005, p. 213). As a result, a dual-case scenario has emerged since the collapse of the bubble economy: Firms with effective governance in a competitive environment, and firms with a

(Miyajima, 2005, p. 195).

[36] Toyota enlarged its number of board members to 58, which means that it requires another informal organisation for effective decision-making. In 1996, about 15% of all male employees in the 55–59 age bracket held an official 'manager' position (Dore, 2006).

seniority system (Miyajima, 2005, p. 217) now coexist.

The economic crisis heavily affected the management system and labour market in Japan. Since 2004, regular employment has been diminishing; however, in 2009, the number of irregularly employed workers also decreased (Table 15). Japanese corporations continue to use traditional employment adjustments (e.g., reductions in new hiring), even as they make good use of irregularly employed workers to adjust to crisis conditions. Clearly, such a hybrid approach has functioned well.

6. Between change and continuity

J firms have shown drastic changes, including greater harmonisation and alignment with the US model. The typical driving force for harmonisation (i.e., deregulation and liberalisation) can be considered legislative. In fact, executive officers and executive committees are introduced in corporate law; legally, governance and management are distinguished. The common market-oriented changes are thus confirmed: an increase of outsiders and foreigners in corporate ownership and in the development of the stock market, the introduction of a merit system, an increase in the number of irregularly employed workers, a reduction of service tenure (as particularly manifested in unstable job-changing among members of the younger generation) and an increase in the number of outsider managers. These changes can be considered global phenomena, and the Japanese economic system may simply be aligning with the global model.

Nonetheless, J firms have not completely lost their own unique characteristics; as discussed, hybridisation has been observed. From this viewpoint, the Japanese model cannot be considered a US-type shareholder capitalist model. In differentiating these two models, the following dimensions, among others, must remain in focus: insider ownership and management, enterprises' welfare provisions, insider boards and internal labour markets. In short, the Japanese economic system has shown both change and continuity, and few Japanese firms have completely adopted the US model. In any case, labour systems in Japanese firms have become a key survival factor.

The nature of said change and continuity determines the hybridisation patterns. The patterns are characterised by corporate ownership and two sets of internal labour systems related to employment and boards. According to Jackson and Miyajima (2007), Japanese firms fall into three broad groups, based on a cluster analysis (Figure 4): the traditional Japanese model, with strong relational elements on all dimensions (42% of surveyed firms, accounting for 16% of total employment); hybrid firms, based on market-oriented finance and ownership characteristics (24% of surveyed firms, accounting for 67% of total employment); and an intermediate group (inverse hybrid) that has relational finance or insider boards with more market-oriented employment and incentive patterns (34% of surveyed firms, accounting for 18% of total employment).

In the process of examining one of several changes among J firms, it was found that 58% have already changed into a quasi-US model. However, if we attach greater importance to employment and management, two-thirds of those surveyed seem to have retained the characteristics of a J firm. Inasmuch as the Japanese workplace characteristic of lifetime employment has been somewhat maintained, few have abandoned lifetime employment norms; on this front, hybridisation in a diversity of ways can be regarded a result of Japanese liberalisation. In this case, 1997 represents the turning point when a number of important legal relaxations were introduced, and 'in 2006, the process of change in corporate governance would appear to be reaching a point of culmination' (Jackson and Miyajima, 2007, p. 42). The J firm model can, more or less, be considered stagnant[37].

Figure 4 Corporate governance of J firms

	Outsider board	Insider board
Related finance	Inverse hybrid	J model
Market finance	US model	Hybrid

	Market employment	Relational employment (long-term)
Related finance	Inverse hybrid	J model
Market finance	US model	Hybrid

The global crisis severely affected the J firms; the ensuing hybrid patterns have continued to serve them well. Above all, some Japanese corporation groups have apparently enhanced their group concentration, and the government also regards the Japanese model as a stable regime. Therefore, the crisis does not prompt fundamental changes to the Japanese model, and the sustainability of the Japanese economic system cannot be denied.

The economic crisis appears to be in favour of the Japanese management, backed bty criticisms of the US type capitalism[38]. According to the investigation of Japan Management Association in July

[37] *The Economist* labelled the harmonised Japanese system as 'JapAnglo-Saxon capitalism' (1 December 2007, *The Economist*, p. 19).

[38] Even the president of the Democratic Party of Japan, Yukio Hatoyama, criticized that "the recent economic crisis resulted from a way of thinking based on the idea that American-style free-market economic represents a universal

2009, the recent trends of management idea are pointed as follows[39]:

1) The interest of employees is attached greater importance than that of shareholder (75%).
2) Managers have priority over the targets restricted by relations such as long-term gains (94.6%), employees' skills (81.6%), internal reserves (81.9%), organizational values (78.8%) and others. Particularly, skill formation and regularly employed are included in the priority.
3) Those who regard lifetime employment as a key of the Japanese management system are increasing (from 0.9% in 2000 to 9.2% in 2009).

Japan Productivity Centre also announced similar results of the questionnaire research[40]. Managers highly value customers and employees among various kinds of stakeholders. While 49.6% managers do not change the trend of shareholder sovereignty, 31.6% have intention to change it. Human resource management and skill formation are regarded the most important strategy.

Japan's Ministry of Health, Labour and Welfare estimated the employment adjustment of companies are based on restrictions of overtime work and layoff of irregularly employed and insisted on changes from irregularly employed to regularly employed and institutionalisation of long-tem employment (Ministry of Health, labour and Welfare, 2009). Not only corporations but also the government admit the Japanese management system plays a role of stabilizer in the global economic crisis.

The hybridisation of J firms has meant that, in terms of ownership, management and employment, path-dependent institutions and institutional complementarities have functioned in a diversity of ways. Indeed, the mechanisms of internal governance—as based on labour systems and employment—will continue to be fundamental in classifying a firm.

Conclusion

The Japanese economy has changed completely during the period of the bubble economy and thereafter. Although the Japanese economy has the traditional image of being an export-oriented economy, the adjustment process during that period brought about a heavy export-based orientation. In exchange for low-level economic growth, Japan has accumulated budget deficits and found a key to settling bad loans. However, its level of economic recovery is in line with the presence of a global crisis, and Japan's depth of economic crisis is considered the deepest of all developed economies.

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and ideal economic order, and that all countries should modify the traditions and regulations governing their economies in line with the global (or rather American) standard" (Hatoyama, Y., A new path for Japan, Op-Ed Contributor, The New York Times, August 27 2009, http://www.nytimes.com).

[39] 21 August 2009, http://www.jma.or.jp. Questionnaire research to 299 new directors and managers of 1504 samples in 1-3 July 2009.

[40] Respondents are 117 managers in 8-22 July 2009. Tokyo Shoko Research (http://www.tsr-net.co.jp) had a high opinion of the Japanese management based on the employees interest.

Japan’s rich experiences in settling bad loans have not sufficiently provided useful lessons not only to Japan, but also to the global economy at large. In any case, Japan cannot yet allow itself to be roused by a ‘false dawn’ of economic recovery.

In Japan, the crisis became more serious as a result of ensuing liberalisation measures. Although exports have shown signs of economic recovery and some large businesses have recovered somewhat, recovery cannot be considered genuine and the so-called ‘false dawn’ appears to be continuing. The following points are of special concern: 1) Incomes and consumption cannot be sufficiently restored, and many corporations have experienced the ‘vicious circle’ of cost cuts and wage declines, leading to a shortage of domestic demand. It is difficult to emerge from this proverbial rut. 2) The recovery of the international market has been insufficient. Given Japan’s heavy reliance on exports, economic recovery to date has been limited. 3) The Japanese economic system is under reform, and the crisis does not dictate a stable and perspective model.

From the viewpoint of a variety of capitalism-based perspectives, the Japanese economic system is still in a state of dynamic transition, as a sort of coordinated market economy. The evolution of the Japanese economic system has meant that liberalisation permeates all aspects of the system. Particularly, corporate governance and the labour market (employment) are characteristic of the Japanese economic system, because long-term relations fostered by cross-shareholding, the main banking system and lifetime employment lie at the heart of core institutions.

The Japanese economic system has been liberalised, and a sharp increase in the number of irregularly employed workers may be considered a typical response. The current state of global mega-competition obliges Japan to increase its productivity and strengthen its competitiveness. As a result, the economic system has increasingly become a hybrid of the status quo and the US model. Japan’s economic system has maintained its fundamental characteristics, owing to its culture of solid skill formation and specificity of the labour market (i.e., incentive mechanisms). At the very least, corporate governance in Japan consists of both change and continuity in its institutions, and the emerging diversity explains the sustainability and flexibility of its corporate institutions.

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