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Neoliberalization, contestation and Japan's contradictory dis-accumulation regime

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Abstract
This paper builds upon recent developments in Regulation Theory in studying the Japanese model of capitalism. It argues that the transformation of Japan's model of capitalism, from a coordinated to a more disorganised model, has witnessed the failure to construct an alternative mode of regulation. The paper examines socio-economic institutions and their inter-relations, including Japan's position in the international regime, mode of competition (inter-firm relations), the monetary and financial regime, the form of the Japanese state, and the wage-labour nexus. The absence of coordination between these institutions represented a form of dysfunctionality that arose from the introduction of neoliberalisation from the late 1980s onwards. As a result, Japan's socio-economic institutions have proven unable to regulate or contain the contradictions facing Japan's economy, which currently witnesses stagnating economic growth and a concerning rise in employment insecurity. This inability to coordinate an alternative mode of regulation has resulted in the construction of a dis-accumulation regime in Japan, whereby we witness declining profit rates, a resultant assault on labour in the form of both a declining wage share and union density, and slow economic growth underpinned by increasing public debt and underconsumption. The failure to construct a coherent alternative growth model has continued under the current Abe-led government.

Key words
Japan, political economy, Regulation Theory, mode of regulation, labour, Abenomics

A. Introduction

The Japanese economy has been stagnating from the 1990s onward. Many commentators have attempted to examine and explain the nature of change and transformation of the Japanese model of capitalism (Vogel 2006; Anchordoguy 2005; Witt 2006; Lechevalier 2012; Boyer et al. 2012; Boyer and Yamada 2000; Hatch 2010; Rosenbluth and Thies 2010; Aoki, et al. 2009; Streeck and Yamamura 2003; Kwan 2005; Miura 2014; Estévez-Abe 2008; Yamada and Hirano 2012; Flath 2014; Ninomiya 2012; Watanabe et al. 2009; Uni et al. 2011; Takahashi 2014). Amongst these, some view the degree of liberalization in the Japanese economy as weak (Flath 2014, Katz 2003, Takahashi 2014, Haidar and Hoshi 2014). Institutionalists in the Variety of Capitalism (VoC) camp, identify a certain degree of liberalization in Japan but highlight the continuity of institutions (Aoki et al. 2009, Vogel 2006; Anchordoguy 2005; Streeck and Yamamura 2003; Witt 2006; Estévez-Abe 2008) or some provide a detailed analysis of transformation of institutions and their coordination (Mahoney and Thelen 2010). On the other hand, other institutionalists in Regulation theory highlight liberalisation of Japan's economy and point outs the erosion of institutional coordination and compromise as the key problems for Japan's economy (Lechevalier 2014; Uni et al 2011; Uni 2011; Uemura 2011; Yamada 2011; Boyer and Yamada 2000; Isogai 2012; Uni 2012, Boyer et al. 2012). To what extent has the Japanese model of capitalism changed and have liberalization or change of institutional coordination generated an alternative model for Japan's economic recovery? In order to answer this question, this paper seeks to examine the level of institutional coordination in Japan and how socio-economic institutions have been adjusted to the changing condition of production and analyse whether change in socio-economic institutions in Japan has formed an alternative mode of regulation by examining some macroeconomic indicators including the economic growth, profit rates, wage share and the level of consumption.

The paper proceeds as follows. The first section introduces the theoretical framework, setting out RT. The second section examines the transformation of Japan's model of capitalism, arguing that from the 1990s onwards Japan's model of capitalism has experienced a shift from a coordinated model to a disorganised model. The final section assesses Japan's macro-economic trend in profit rates, union density, wage share, level of consumption, and public and household debt from the 1970s/80s onwards, seeking to examine whether and how structural pressures common to capitalism are filtered through socio-economic institutional configurations (on the importance of understanding the impact of these pressures, see Vidal 2013:456). The paper argues that the institutional configuration present within Japan has been unable to generate a successful mode of regulation and Japan has been experiencing 'disruptive institutional hierarchies … to roll back past compromises' (Jessop 2013:12). In doing so, the paper also highlights the difficulties associated with attempts to regulate those contradictions that reside in the current model of Japanese capitalism.

B. Beyond Regulation Theory

Regulation Theory (RT) focuses on capitalism's contradictions and in particular the issue of class antagonism within capitalist society. It focuses on the (temporary) way in which class tensions can be contained and class compromise secured by a particular regime of accumulation (Aglietta 1998). The study of capitalism requires an analysis of the historical development and transformation of specific regimes of accumulation and modes of regulation, as well as an understanding of changing processes and patterns of behaviour, alongside the necessity of grasping the emergence of a new mode of regulation (Aglietta 1998:44). The mode of regulation emerges from a class compromise and comprises an institutional framework and policies, norms and modes of behaviour that coordinate temporary stability and growth – a so-called regime of accumulation despite the conflictual nature of capitalism (Jessop 2013:8; Neilson 2012:162). Modes of regulation are essential to generate the reproduction of accumulation regimes to 'guide capital investment, to allocate economic surplus between wages and profits, and shape patterns of consumption' (Lipietz 1987, Aglietta 1987, cited in Martin 2013:81). The viability of an accumulation regime is dependent upon the institutional compatibility and coordination, that is, a mode of regulation (Boyer 2012:4). This suggests that a regime of accumulation cannot be sustained without a mode of regulation. RT, therefore, seeks to identify how capitalist development is mediated by a particular set of institutions, and thereby how these can explain sources of crisis resolution (Aglietta 1998:44, Boyer 1991; Jessop and Sum 2006:14-15; Grahl and Teague 2000).

RT faces ongoing debate surrounding the merits and limitations of the approach (see, for instance, Bonefeld 1987; Holloway 1992; Clarke 1988; Jessop 2013; Jessop and Sum 2006, Neilson 2012; van Heur 2010; Juego 2011; Baccaro and Howell 2011; Taylor *et al.* 2011; Mavroudeas 2012; Durand and Légé 2013; Petit 2013). The key criticisms of RT can be summed up as follows. First, RT tends to overemphasise the prospect of securing class compromise and in doing so underplays the scope for resistance by those who are exploited (Jessop 2013: 10-11; Clarke 1988:10; Bonefeld 1991:61-63; Mavroudeas 2012:6). Second, RT overemphasises the stability of modes of regulation and their mediatory roles, understating Marx's interpretation of capitalism as unstable, discontinuous and characterised by contradictions and class antagonism (Baccaro and Howell 2011:525; Juego 2011:59; Vidal 2012:545-547; Durand and Légé 2013:117). It is worth noting Jessop's claim that a mode of regulation (he calls this *regulation*-cum-governance) appears to harmonise contradictions, but they cannot eliminate them, creating the conditions for the next crisis (2013:10-11). Third, in overstating national diversities, RT also acts to understate the common trajectories of change occurring in models of capitalism (Neilson 2012:170-171, Bruff 2011). For instance, despite the resilience of national institutions to common challenges and trends, most countries are converging upon a common neoliberal direction (Baccaro and Howell 2011:522-23) or otherwise moving in the direction of a 'neoliberal model of development (Neilson 2012).

In seeking to respond to a number of these criticisms, Matt Vidal argues that rather than seeking to identify emerging modes of regulation, RT scholars should instead turn to the problems generated by existing institutional settlements; that is, to drop the assumption that a new mode of regulation is invariably forthcoming (2012:544, 2013:452). In introducing a number of important advances to the approach, Vidal develops the concept of a 'dysfunctional accumulation regime', which takes three potential forms: a declining or historically low profit rate along with an associated rise in the capital/labour ratio (overaccumulation) or the wage share (profit squeeze); underconsumption, indicated by declining or slow growth along with a decline in the wage share; and debt-led growth as indicated by moderate growth levels and a declining wage share offset by rising or high household debt levels (Vidal 2013:457). In Vidal's approach, if a regime is marked by one of these three different types of dysfunctionality, it can be considered dysfunctional.

In dialogue with these theoretical discussions, the present paper seeks to build upon Vidal's development of RT, but in doing so refers to 'contradictory accumulation regimes' (as otherwise there is an implied assumption that there exists the possibility for a functional accumulation regime to be produced - which sits uncomfortably alongside the claim that capitalism is inherently crisis-prone and unstable). In the Japan case, the *contradictory* accumulation regime shows signs of each of the forms of dysfunctionality identified by Vidal: overaccumulation, underconsumption, and debt-led growth. This inability to generate a coordination process has developed especially from the 1990s onwards. The concept of a contradictory accumulation regime is subsequently used to explore the Japanese capitalist economy by analysing its institutional transformation and the contradictions that make the current regime of dis-accumulation.

C. Neoliberalization of Japan's socio-economic institutions: declining regulation and coordination

Regulation Theory (RT) identifies five key socio-economic institutions: the international regime (i.e. the nation's place in the international system); the monetary regime; the form of competition; the form of the state; and the wage-labour nexus (Boyer and Yamada 2000; Jessop 2013:11). These institutions are the outcome of social and political struggle, rather than an outcome of economic rationality (Boyer *et al.* 2012:3). Following Vidal, however, the present study does not necessarily expect that these 'institutions will congeal into anything resembling a coherent mode of regulation' (Vidal 2013:457). Instead, the RT framework is used here to highlight the socio-economic context within which Japan's class relations are embedded.

C.1. Japan's location within an international regime

The rapid growth of the Japanese economy between the 1960s and 1980s was internationally recognised as a major economic success but also attracted criticism from the US and Europe for its foundation upon a large trade surplus. From the 1970s onwards, due to the pressure from the US and Europe to liberalise reduce its trade surplus, Japanese firms moved production into these countries and began to use locally-produced input materials, in turn leading to the 'hollowing out' of Japan's industrial bases (Schaede 2007:82, 96). The US and European markets thereby attempted to disintegrate the strong tie between Japanese parent firms and their subcontracting firms (Schaede 2007:96). This trend led to the increase in Japanese firms' total sales of outside of Japan by 18 per cent (Schaede 2007:91), and a fall in the number of firms and jobs within Japan (Bailey and Sugden 2007:136). This put strains on domestic employment. However, the potential that these developments had to put downward pressure on Japan's domestic economy was mitigated in the 1970s and 1980s by subsidies, publicly funded Research and Development (R&D), and the state supervision of declining industries, thus contributing to a consensus that was achieved through coordination by the state, business groups and labour in the 1980s (Witt 2006 88-89). The potential for conflict and tension was therefore partly suppressed by coordination and consensus by various institutions.

Capital based in Japan, however, faced ongoing problems from the late 1980s onward, associated with slow growth and declining productivity, prompting a further shift in the orientation of production towards international markets (Boyer 2012:5). Japan was pressured by the US to 'lower trade barriers, relax capital controls, and reduce anti-competitive regulation', resulting in Japan's adoption of international regulatory standards (Vogel 2006:33). Trade liberalisation progressed and allowed foreign firms to enter into the Japanese market, thereby challenging pre-existing close *keiretsu* networks and changing the form of competition. This process and the hollowing-out of production increased competition between firms, having a negative impact upon less competitive small- and medium-sized enterprises (SMEs) (Isogai *et al.* 2000:51). The entrance of more foreign actors and the restructuring of Japanese firms also began a process whereby labour was disciplined in a different way, including less focus upon long-term capital-labour relation.

Political elites and corporations sought in the early 2000s, to respond to the banking and financial crisis of the late 1990s and subsequent recession in the early 2000s by integrating Japan's economy into the Asian economy. China's vast population became an attractive place for capital to expand its business and increase their sales. Japanese corporations became heavily dependent on the expansion of sales within China in order to realise profit, thereby putting significant pressure on the Japanese market in the sense that workers in Japan faced less employment opportunities. Japan's exports to China increased between 2006 and 2007 by 18.9%, by 15.4% to ASEAN and by 13.3% to the EU (White Paper on International Economy and Trade 2008:11-12). The global financial turmoil further accelerated an increase of Japanese corporations' production and sales overseas, as well as increasing exports from overseas production bases, and purchases by foreign-based parts of more locally manufactured parts and components (White Paper on International Economy and Trade 2011:96-100). Japan's economy from the 1980s onward has therefore become increasingly integrated into the international economy.

C.2. Monetary and financial regime

For post-war Japanese industry, the banking sector between the 1940s and 80s functioned as a 'socio-economic infrastructure for firms to grow' (Tohyama 2000:78). One of the important characteristics of Japan's financial system during this period was the centrality of banks in the Japanese economy and the bank-based financial mode of regulation (Nabeshima 2000:105, Rosenbluth and Thies 2010:79). Firms were heavily dependent on long-term borrowing between the 1940s and 80s in order to raise funds, leading to the bank-based corporate financial system (Nabeshima 2000:105-106). In addition, the 'main bank system' also developed in the period leading up to the 1980s (Coriat and Geoffron 2006:191). A firm's main bank was generally its largest lender, one of its largest shareholders, and acted to monitor firms' operations; this close relationship ensured that bank-firm relations were consistently tight (Hollingsworth 1997:279-280, Anchordoguy 2005:48). Throughout much of this post-war period, national security and self-sufficiency were greater priorities for main banks than were profits. As a result, main banks ensured 'a smooth supply of capital to strategic firms and to monitor and intervene' (Anchordoguy 2005:49). Such long-term relations with their main banks also enabled corporations to maintain a long-term employment system for their workers (Rosenbluth and Thies 2010:80).

New financial products were limited by government regulation between the 1940s and the mid-1980s, thereby acting to limit excessive competition in the financial market (Nabeshima 2000:106). The financial authorities in this period also attempted to regulate competition and protect inefficient banks by restricting new entries into the banking sector and limiting the development of new financial products and the setting of deposit rates (Nebeshima 2000:106). This mode of financial regulation between the 1940s and the mid-1980s Japan limited financial disturbances, generating stability and contributing to the development of the economy (Nabeshima 2000:106-109). The bank-based financial system, along with state interventions such as macroeconomic policies and industrial strategies, generated good economic performance (Zysman 2983, Pollin 1995, cited in Nabeshima 2000:107). These financial institutions between the 1940s and 1980s acted to generate a degree of stability. However, following the Plaza Accord of 1985, the Bank of Japan loosened its monetary policy, witnessing a high rate of investment and leading to a bubble in the late 1980s.

As the economy shifted to lower levels of growth during the later 1980s, large firms attempted to reduce financial costs, searching for funds at lower costs, taking advantage of financial deregulation, and financing through the stock market (Tohyama 2000:79). The rate of bank-borrowing therefore declined through the 1980s, as firms diversified their financing methods and obtained funds through securities such as corporate bonds and stocks (Nabeshima 2000:113). The role of the main bank system, therefore, and that of the bank-based financial system, were both undermined during the 1980s, in turn weakening the effects of the monitoring mechanism by the main banks (Coriat and Geoffron 2006:199; Nabeshima 2000:114). In addition, Hashimoto-led government in the late 1990s accelerated deregulation in the financial market, reinforcing competition between banmks, securities houses and insurance companies (Coriat and Geoffron 2006:204). The main-bank system, the bank-based financial system, and state interventions including macroeconomic policies and industrial strategies were therefore gradually weakened around the end of the 1980s (Nabeshima 2000:114).

In terms of foreign takeover, Japan's market was largely regulated and protected from takeovers until the 1990s (Katz 2003:168-170, Schaede 2007:87, 98). However, the issue of non-performing loan following the bursting of the bubble economy[1], combined with the overheated property and financial markets and the bankruptcies of banks and firms resulted in Japan beginning to experience higher levels of foreign investments (Schaede 2007:98). As a result, Japan's financial openness (the ratio of GDP to accumulated foreign investment) increased greatly. Foreign brokers handled 40 to 50 percent of the buying and selling of Japanese stocks in the late 1990s (Katz 2003:180). The foreign share of banking assets increased through trade in foreign exchange, private banking, loan syndication, and foreign currency deposits (Katz 2003:186-187). This change challenged the cross-shareholding system, acting to undermine long-term relations between firms and banks, especially following the Asian Financial Crisis of 1997-8. As a result of the foregoing developments, the Japanese financial sector became more integrated into the international regime in the 1990s.

This increased level of influence of foreign investors continued in the 2000s, thereby undermining the bank-based financing system and stable shareholding patterns between firms and banks (Sohn 2008:85). SMEs had difficulties obtaining sufficient loans and suffered from serious business problems (Hoshi and Kashyap 2010:404). As a result, the Koizumi-led government intervened in the banking market, identifying which firms banks should provide loans to (Hoshi and Kashyap 2010:403). Despite this government intervention, due to the increased level of influence of foreign investors and the weakened relationships between banks and companies, the financial regime during the 2000s therefore witnessed a move towards a less consensus-based arrangement and instability of the financial market, destabilising the level of coordination between large firms and SMEs.

The current Prime Minister Abe seeks to change expectation regarding the financial market in Japan by introducing expansionary monetary policy and setting inflation target. Despite an initial increase in the stock prices and a slight increase in inflation rate temporarily (Hausman and Wieland 2014), this monetary policy of Abenomics has yet generated an increased level of investment and consumption (Financial Times April 2015). This tells us that the current financial regime has not reached stability despite the large-scale expansionary monetary policies.

C.3. The form of competition

During the Second World War, the Japanese state encouraged financial institutions to adopt a bank credit-based system by selling off *zaibatsu* (business groups) shareholdings to individuals. However, in a reversal of this move, the Bank of Japan and MITI (The Ministry of International Trade and Industry) began in the 1960s to encourage banks to buy individual shares in order to control capital and navigate investments in key industries, thereby creating cross-shareholding arrangements in order to protect domestic firms from foreign takeovers (Anchordoguy 2005:47). In the 1960s, some 65-70 percent of the shares of large companies were held by allied firms, producing cross-shareholding that led to the emergence of horizontal *keiretsu* networks (Anchordugy 2005:47, Witt 2006:85-87, Rosenbluth and Thies 2010:79). Such

[1] The bubble economy is recognized as the rapid increase in investment and a resulting excess accumulation of capital throughout the 1980s. In the first half of the 1980s, heavy investment along with an undervalued yen led to the accumulation of capital. In the second half of the 1980s, this increased (Uemura 2000:139, 155). During the 1980s, banks and the financial system piled up large reserves which coincided with an unprecedented speculative boom in housing prices and a significant increase of stock market indexes and levels of private debt (Boyer and Juillard 2000:122). This bubble economy collapsed in 1991 when asset and stock prices plummeted.

networks were encouraged by the state because of the fear of foreign firms' takeover. *Keiretsu* networks were thus considered to be protecting employment, including through the construction of long-term relations with suppliers, shareholders and banks (Anchordoguy 2005:47-48). This relation was therefore sometimes called "alliance capitalism", which was considered to generate a sense of coexistence between banks and client firms (Anchordoguy 2005:48). It was a form, therefore, of negotiated competition, and served (or sought) to maintain (partial) order in the market.

Further, the subcontractor system, so-called vertical *keiretsu* networks (Witt 2006:88), were also common features of the Japanese model during the 1970s/80s and were commonly considered to play a significant role in coordinating inter-firm relations (Isogai *et al.* 2000:35-36). Witt argues that Japan's subcontracting system developed mutually beneficial supplier-buyer relations (2006:88-89). The subcontractor system generally worked as a buffer for large firms when they needed to reduce labour costs, externalise labour-intensive production processes to small- and medium-sized firms (Isogai *et al.* 2000:36). This employment adjustment mechanism in the subcontractor system contributed to low unemployment in Japan, absorbing potential unemployment and resulting in employment stability (Estévez-Abe 2008: 187, Isogai *et al.* 2000:36). Gradually, this pattern of inter-firm cooperation (keiretsu and cross-shareholdings), together with the main-bank system, became institutionalized, acting to maintain continuity and order (Anchordoguy 2005:49). Japanese firms could therefore sacrifice short-term profit maximization in order to gain long-term goals (Rosenbluth and Thies 2010:79).

These *keiretsu* groups and the main bank system both began to become less beneficial for firms from the mid-1980s onwards, encouraging them to start allowing greater capital mobility, market-based transactions, and corporate accountability (Anchordoguy 2005:50, Lechevalier 2014:77). For instance, Japan's competitive firms, such as Toyota, Cannon, and Panasonic, began to obtain capital overseas (Rosenbluth and Thies 2010:82). This led to the weakening of *keiretsu* networks and the main bank system from the late 1980s onwards.

Japanese manufacturing also became more multi-national from the early 1990s onwards, establishing supply-chain networks in Asia in order to find new market, including raw materials, resources and cheaper labour. Japanese labour became less attractive compared to cheaper Chinese labour, thereby accelerating the shift of corporations' production overseas (Suzuki *et al.* 2010:530). As a result, 233,000 jobs were lost between 1991 and 1995 in the electrical machinery sector alone, whereas 185,000 jobs were created abroad by Japanese firms (Legewie, 1999, cited in Bailey and Sugden 2007:135). Electronic firms halved the level of their production in the late 1990s compared to the level in the mid-1980s (Cowling and Tomlinson, 2000, cited in Bailey and Sugden 2007:135). This 'hollowing out' trend thus encouraged the change of Japan's subcontractor system, in pursuit of a more globally competitive and fluid structure (Schaede 2007:100). Japanese export-led growth also declined during this period as production shifted increasingly towards East Asia, further intensifying competitive pressures on Japanese workers (Burkett and Hart-Landsberg 2000:120-121).

The predominant pattern of corporate governance in Japan also underwent considerable change from the 1990s onwards. Growing demands were witnessed from opinion leaders for reforms of corporate mismanagement and for greater accountability to shareholders from the mid-1990s (Dore 2004, cited in Vogel 2006:91). Large competitive corporations in the service sector supported such reforms, whereas the majority of small- and medium-sized firms were reluctant to undertake what they viewed as having the potential to undermine existing stable relationships with their banks (Witt 2006:50-51, Vogel 2006:91). Business leaders, such as Mitarai, the chair of *Keidanren*'s Corporate Governance Committee, advocated US-style management practices, focusing on cost-cutting and profit-maximization (Vogel 2006:91). The government also introduced the statutory auditor system in 1994, further expanding shareholders' rights and making it easier to file shareholder suits (Vogel 2006:92). The corporate governance in Japan which used to be characterized by strong networks started being eroded in the 1990s.

The increasing economic integration between Asian and Japan continued to put a strain upon inter-firm relations within Japan, prompting firms to diversify in pursuit of greater productivity (Lechevalier 2014:65-68). The number of small firms facing bankruptcy also increased around the early 2000s (Cowling and Thompson 2007:71) and also after the Global Financial Crisis of 2007-8 (White Paper on Small and Medium Enterprises 2010:21). The proportion of foreigner-owned shares increased by 2006 to 28% for the one hundred companies in the Tokyo Stock Exchange (Rosenbluth and Thies 2010:131). Japanese firms experienced increasing influence by foreign firms, especially in the form of takeovers by foreign firms (Rosenbluth and Thies 2010:131), and in the form of increased shareholders' returns (Hongo 2010). These corporate practices continued to undermine long-term relationship between capital and labour. Firms with a higher rate of foreign-owned shares tended to be more likely to fire unproductive workers and abandon existing relations with suppliers. As Lechevalier claims, liberal reforms have undermined a number of the institutional complementarities that previously characterised the Japanese economy (2014:70).

In the aftermath of the subprime loan crisis, which originated in the US in mid-2007, and following a surge in the price of oil and raw materials, Japan's economy entered another period of low growth/recession from late 2007. Reflecting stagnating domestic consumption in the post-crisis period, Japanese transnational corporations further expanded business in Asia, particularly in China and the ASEAN countries. Despite some corporations maintaining existing networks with banks and subcontractors, there was nevertheless a substantial trend towards a neoliberal Anglo-Saxon model in the late 2000s which upheld shareholders' preferences, short-term goals, cost-cutting, and a profit-maximization-focused form of corporate governance. As a result, firms have increasingly come to focus upon enhancing efficiency, competitiveness, flexibility, and technological development, all of which has eroded Japan's post-war model.

C.4. The form of the state

The Japanese state has been characterised as a 'symbiotic relationship between government and business' (Walter 2005:406); that is, a developmental state. The developmental state allocated resources to public infrastructures (Boyer and Yamada 2000:199). For instance, the Ministry of Industry, Trade and Technology (MITI) bypassed anti-monopoly laws by helping some companies and protected infant industries through tariff barriers until the mid 1960s (Coriat and Geffron 2006:192). MITI contributed to the management of a portfolio of industrial sectors, whereby declining sectors were gradually abandoned for the benefit of high-added value ones (Coriat and Geffron 2006:192). These close links between the government and the economy contributed to economic growth which had been ongoing since the end of the 1950s (Boyer and Yamada 2000:199), realising a degree of social cohesion and suppressing the existent tensions and contradictions in the wage-labour nexus in the 1980s.

The Japanese state in the 1990s introduced liberalisation in trade and financial sectors and deregulation in the labour market. Business association such as *Nikkeiren* pressured the Japanese government to deregulate the labour market (Miura 2008:164-165). Due to pressure from the accelerating process of globalisation and polarisation between firms, the state found it difficult to provide uniform regulation for the market (Boyer and Yamada 2000:199). As a result, state policies in the labour market often prioritised the interests of business. These policies included the amendment in the Worker Dispatching Law in 1999, which enabled firms to employ non-regular workers more flexibly (Suzuki *et al.* 2010:532). The government also introduced the variable workweek system, which enabled firms to make workers work more flexibility (Mouer and Kawanishi 2005:106). These policies undermined the consensus-based nature of Japan's employment relations, thereby heightening tension in the workplace.

The government also adopted more international rules in the areas of competition policies, financial regulation, and multilateral trade dispute settlements in the early 2000s (Schaede and Grimes 2003:3). This change in the Japanese market enabled foreign competitors to challenge the *keiretsu* networks between Japanese firms, banks, suppliers and distributors (Vogel 2006:33). Furthermore, the Koizumi-led government (2001-2006) sought to reform Japan's economy via neoliberal reforms. One of these reforms was the reduction of public works in order to reduce public debt (Rebick 2005:102-103, Suzuki *et al.* 2010:530), thereby ceasing the redistribution of wealth to rural areas and worsening the rise in unemployment. The newly established Council on Economic and Fiscal Policy has also established to reflect the opinions of private sector experts in economic and policy formation (Kang 2009:579). The government also revised the Worker Dispatching Law and the Labour Standard Law in the early 2000s, enabling firms to further facilitate the use of non-regular workers (Yun 2010:5,9,12). Government policy over welfare benefits for workers remained limited to core workers, excluding the majority of non-regular workers (Vogel 2006:82; Yun 2010:17). Throughout the 2000s, state actions therefore consistently destabilised the employment security of non-regular workers.

The Democratic Party of Japan (DPJ) was elected in 2009 with an expectation amongst the members of the public that it would reverse the trend of rising inequality. It was, however, marked by divisions between a number of different factions, each with contradictory ideologies and policies (Ninomiya 2012:38-9; Watanabe 2009:88-101). Due to these divisions, the DPJ was unable to devise coherent socio-economic policy. The government increased its financial liabilities in an attempt to stimulate the economy, resulting in a worsening of the fiscal condition in Japan. The current Abe-led government has since initiated Abenomics, with an aim to lift the Japanese economy and end the long-lasting deflation through expansionary monetary and fiscal policy. Abenomics also seeks to revitalise the Japanese economy through neoliberal reforms that aim to enhance business interests (but do not appear to be seeking to improve employment security).

C.5. The wage-labour nexus

Keiretsu networks, subcontractor systems, and the main-bank system were each entrenched in the Japanese model of capitalism. These institutional relations benefited each other and provided social security for workers between the 1960s and 1980s (Miura 2014). Long-term capital-labour relations were achieved partly through strong networks between firms as well as in the financial system. However, as noted above, the coordinated model of Japanese capitalism therefore faced considerable challenges in the 1990s. Moreover, the increased level of overseas production generated heightened competition between Japanese firms and international corporations, accelerating the need for reduction in Japanese firms' wages, and thereby triggering increased conflict between capital and labour (Uni 2000:68). Therefore, in the 1990s, increased level of competition between foreign and Japanese companies, began to influence capital-labour relations.

The Koizumi administration excluded labour by enabling employers and public representatives in the Labour Policy Council to hold meeting without the attendance of labour unions (Watanabe 2012:40). Labour representatives lost opportunities to voice their demands in the political sphere, and the state and/capital were reluctant to provide coordination between capital and labour, failing to generate a consensus in a way which was to the detriment of labour.

Japanese corporations also restructured their business through mergers and acquisitions and incorporated non-regular workers to contain labour costs, asserting authority of capital over labour in the early 2000s.

The global economic crisis in 2007-8 had a significant impact on corporations and financial institutions. In particular, SMEs faced hostile business conditions due to the decreased level of domestic consumption and declining commodity prices (FSA 2009). In response, a large number of corporations reduced the number of non-regular workers through dismissals and involuntary redundancies. The volume of exports from SMEs also almost halved between 2008 and 2009 resulting in a further decline in firms (White Paper on Small and Medium Enterprises 2010:45). SMEs therefore reduced labour costs in an attempt to cope with declining sales and profits. The number of involuntary retirements, which include official retirements and expiry of contracts, also increased significantly in 2009 (White Paper on Small and Medium Enterprises 2010:18, 21, 47).

Corporations, which faced sharp competition, particularly in export-focused industries, increase labour productivity by reducing the wage share and relying more heavily on non-regular workers. The wages of non-regular workers, their life-time income and level of pensions are all also much lower than those of regular workers. Non-regular workers' status is therefore more vulnerable than that of regular workers. Long-term capital-labour relations and the seniority pay scheme were weakened throughout the late 2000s (White Paper on Labour and Economy 2010:154), increasing tension in the workplace. The wage-labour nexus in the late 2000s is therefore characterised by the vulnerability of workers and hence more tension. This picture remains the same under the current Abe-led government, whereby we witnessed a further increase in the number of non-regular workers, reaching 37 per cent of the workforce in 2014. The reforms Abe intended to generate in the labour market is to further deregulate and favour large corporations. The Japanese government helps capital to re-assert its authority over labour.

In sum, the (temporarily) coordinated model of Japanese capitalism has shifted to a form of 'disorganised' capitalism. This is similar to the process described by Streeck with regard to Germany, whereby capitalist actors are becoming 'committed not to any specific national model of capitalism, but only to their own survival and success' (Streeck 2009:260). For instance, competition between firms has undermined the prospect of corporatist solutions being agreed. The changing form of production reinforced by deregulation and liberalisation in Japan has undermined long-term relations between firms, firms and banks, and capital and labour. Many of the existing unions have ceased to engage in collective wage bargaining, moderating their demands so that they have become increasingly subordinate to the interests of capital and becoming increasingly unrepresentative of workers. State managers have enacted further deregulatory and liberalising measures in favour of business. Corporations have therefore intensified competition and the commodification of labour, especially through increasingly flexible hiring and firing. Labour has been often ignored from policy-making process in the state. Socio-economic institutions in contemporary Japan have therefore become characterised by an absence of coordination, resultant heightening tension and instability, the exclusion of (organised) labour, and the intensified exploitation.

D. The absence of an alternative mode of regulation: A contradictory accumulation regime

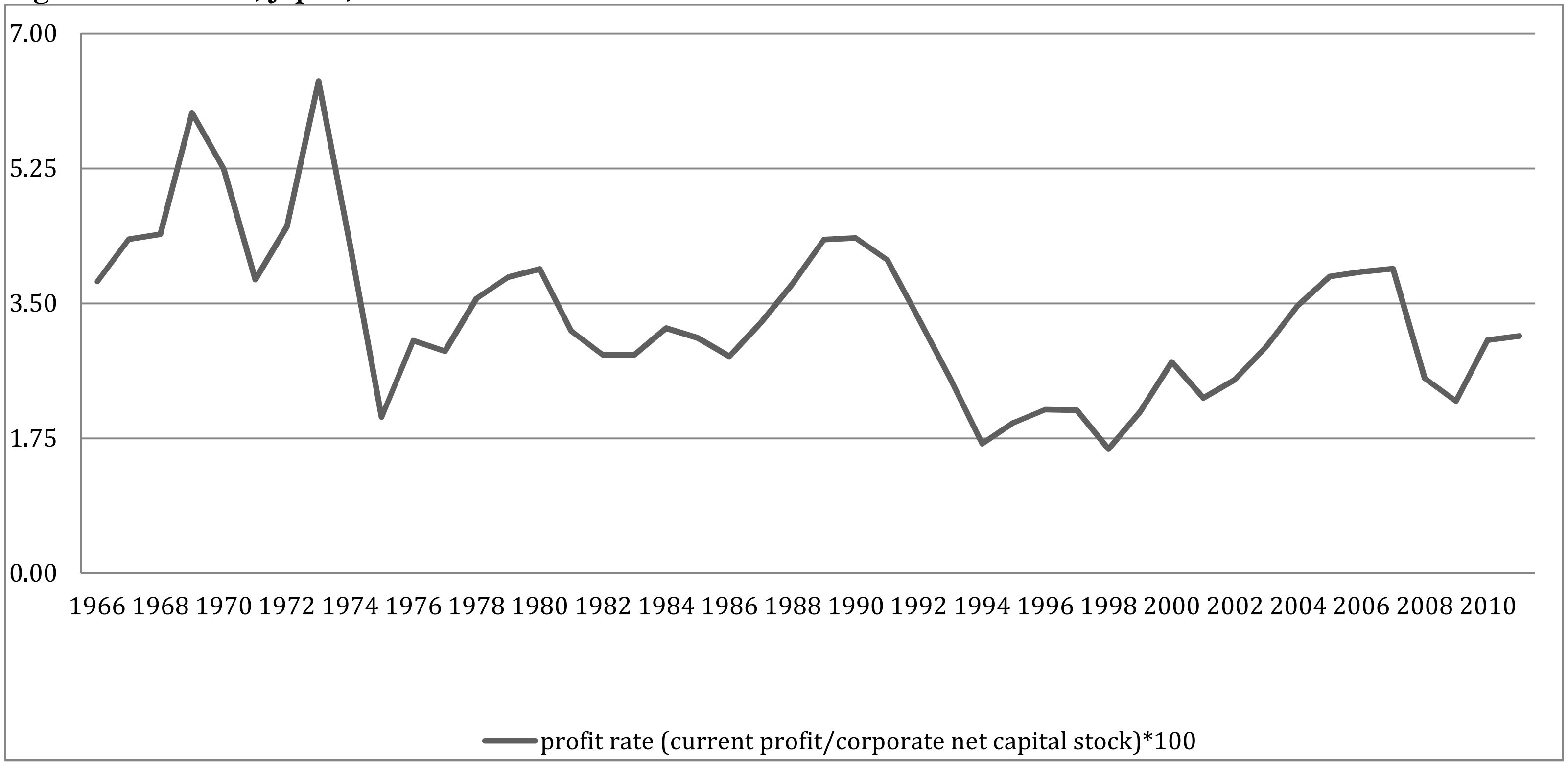
Regulation Theory (RT) highlights the role of institutions in coordinating contradictions of capitalism, itself a necessary requirement in order to reproduce a regime of accumulation. RT also raises a number of further questions including: what changes are generated in Japan's accumulation regime by changes in institutions and their reorganisation (mode of regulation), and whether capital and the state have been able to secure a resumption of economic growth by such reorganisation. This section examines the extent to which Japan's regime of accumulation has been transforming. In doing so it adopts an adapted form of Vidal's theory of the dysfunctional accumulation regime (2013). In keeping with his approach, this section considers the changes to Japan's accumulation regime by examining trends in the corporate profit rate, wage share, union density, growth rates, consumption and public and household debt in Japan. These issues are important macroeconomic indicators and examined in order to identify the historical trends of Japan's growth model, and how changed institutional arrangement in Japan (mode of regulation) affect and/or interrelate with Japan's regime of accumulation.

In figure 1 we see how Japan's corporate profit rate[2] changed between 1966 and 2011. The corporate profit rate remained relatively high (averaging 5 per cent) between 1966 and 1973. This rate remained around an average of 3.4 per cent between 1974 and 1992, including a sharp decline after the oil shock of 1973, and hitting a low of 2 per cent in 1995. After its peak of 4.4 per cent in 1990, and the bursting of the bubble economy in 1991, the average profit rate between 1991 and 1999 declined to 2.4 per cent. Throughout the 2000s, the average profit rate increased slightly to 3.0 per cent (between 2000 and 2011). Nevertheless, this was still lower than the average of 5 per cent between 1966 and 1973. The average profit rates between 1991 and 2011 after the bursting of the bubble economy in Japan remained 2.7 per cent, much lower than the 5 per cent of high-growth period between 1966 and 1973. Despite this declining corporate profit rate, it is worth noting the increasing level of retained earnings by private corporations, whereby we witnessed an increase of a rate of nominal GDP of retained earnings from 28.2 per cent in 1990 to 68.1 per cent in 2013 (Financial Times December 5 2014). Whether companies are willing to use this cash through the increase of wages and new investment is crucial to the success of Abenomics. At the same time, this cumulative hoarding by corporations also demonstrates how contradictory Japan's capitalism and capital-labour relation is. The trend of profit rates and the analysis of institutions in Japan earlier both tell us that capital seeks for new markets due to declining profit rates, furthering competition and imposing a new discipline on labour.

The declining corporate profit rate was also accompanied by a continuous decline in the wage share in Japan from 73 per cent in 1966 to 58.7 percent in 2013 (except for the mid-1990s, which witnessed a moderate upward trend (see figure 2)). This declining trend in the wage share, however, was not large enough to increase the profit share of capital, except for the period of the early 2000s, therefore witnessing it remain below the level of the high growth period of the early 1970s. In the early 2000s, the rate of profit showed a rapid increase over 3 per cent, but this process was not accompanied by an increase in wages, resulting in intensifying tension in the workplace. In particular, traditional unions' capacity to engage in collective wage bargaining broke down in the early 2000s (Isogai 2012:1476), producing an inability to increase the wage share. The trend towards the casualisation of labour in Japan also contributed to a declining wage share. The wage-labour nexus in the late 2000s in Japan has been characterised by an unstable nature of capital-labour relations, a decline in the profit rate, and the wage share. These trends remain the same under the current Abe administration despite the fact that Prime Minister Abe has advocated the revitalisation of Japan's economy through his three arrow policies. The current Japanese economy has gone back into recession again, failing to increase wages (Financial Times 8 December 2014).

[2] This is calculated as the rate of current profits as a percentage of corporate net capital stock.

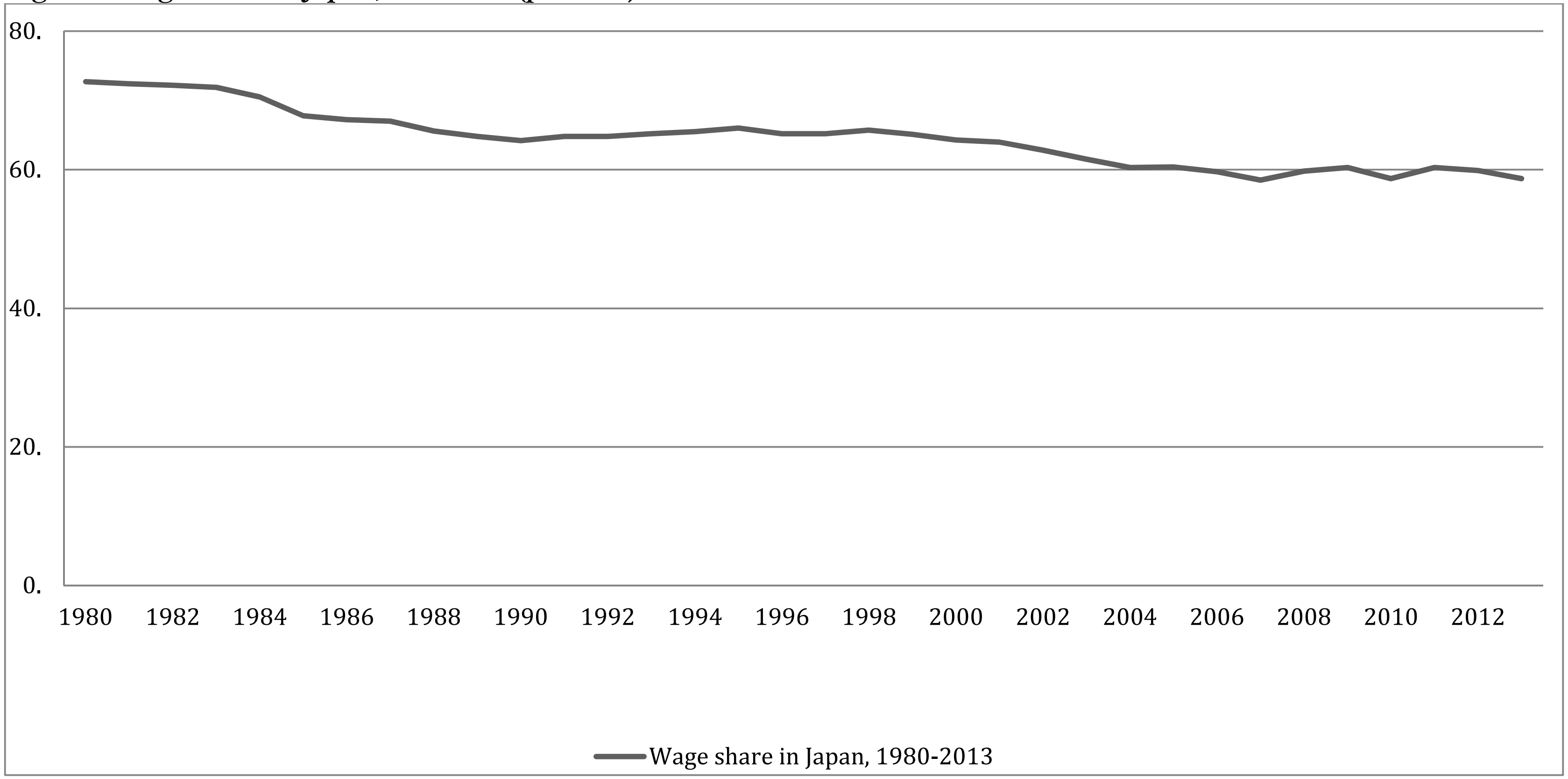
Figure 1 Profit rate, Japan, 1966-2011



Source: Ministry of Finance, Policy Research Institute, Financial and Monetary Monthly Report (Zaisei Kinyu Toukei Geppō)[3].

[3] Profit rate (Soushihon Keizyou Rieki Ritsu) =Keizyou rieki/Soushisan*100 (Houzin Kigyou Toukei)

Figure 2 Wage share in Japan, 1980-2013 (per cent)



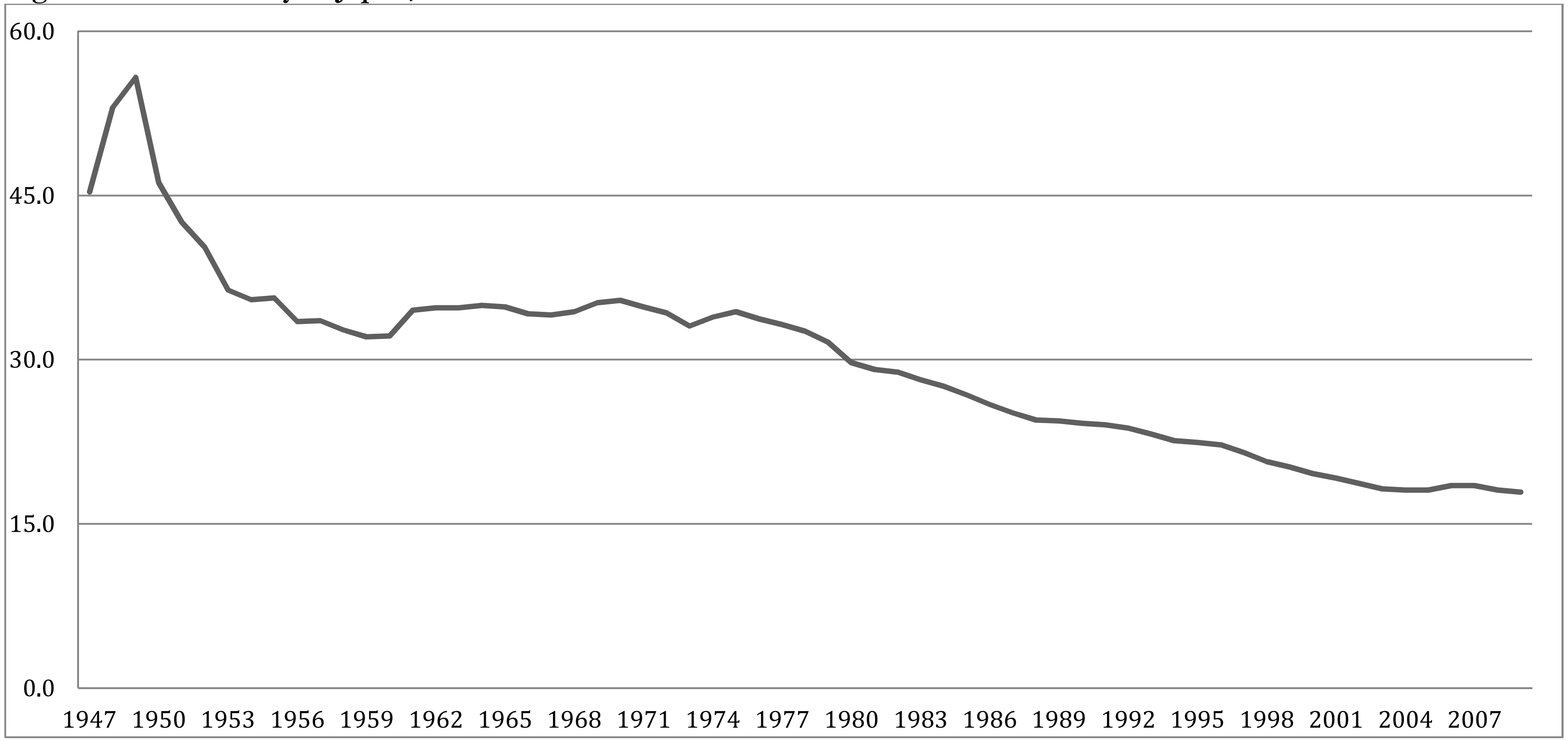
Source: AMECO, Adjusted wage share: total economy: as percentage of GDP at current market prices (compensation per employee as percentage of GDP at market prices per person employed).

Union density has also been steadily declining since its peak of 55.8 per cent in 1949 (figure 3). The rate of union density most notably decreased from the mid-1970s onwards, remaining below 20 percent throughout the 2000s. The decline of the wage share is partly explained by declining union density and partly by an increased number of non-regular workers. More importantly, as noted earlier, the increasing level of retained earnings by private corporations is a sign of uneven distribution of wealth between capital and labour in Japan. The majority of unions have been facing significant challenges, especially when seeking to organise non-regular workers. These challenges have partly led to the inability of current unions in Japan to organise effective wage bargaining, resulting in a decrease in the wage share.

Declining union density and wage share have prompted a stagnating level of consumer confidence and underconsumption from the 1990s onwards (except for a temporal upwards trend between 2005 and 2007) (figure 4). Wage share is a source of consumption (and therefore demand) (Bowles and Boyer 1990, cited in Uemura 2012:110), and thus, the decline of wage share is bound to have an impact upon the purchasing power of consumers. The current Abe-led administration has so far failed to promote an adequate wage increase. Firms are reluctant to increase the base salary and the government wants to improve corporate governance in a way which will increase the return on equity for shareholders (Financial Times 4 November 2014). Strikingly, the government has not significantly amended the Worker Dispatching Law, resulting in a record high number of non-regular workers in 2014. Capital and the state appear to have reasserted their control and power over labour under the current model of Abenomics. Furthermore, the breakdown of collective wage bargaining as conducted by unions in the early 2000s also depressed consumption demand (Uemura 2012:120).

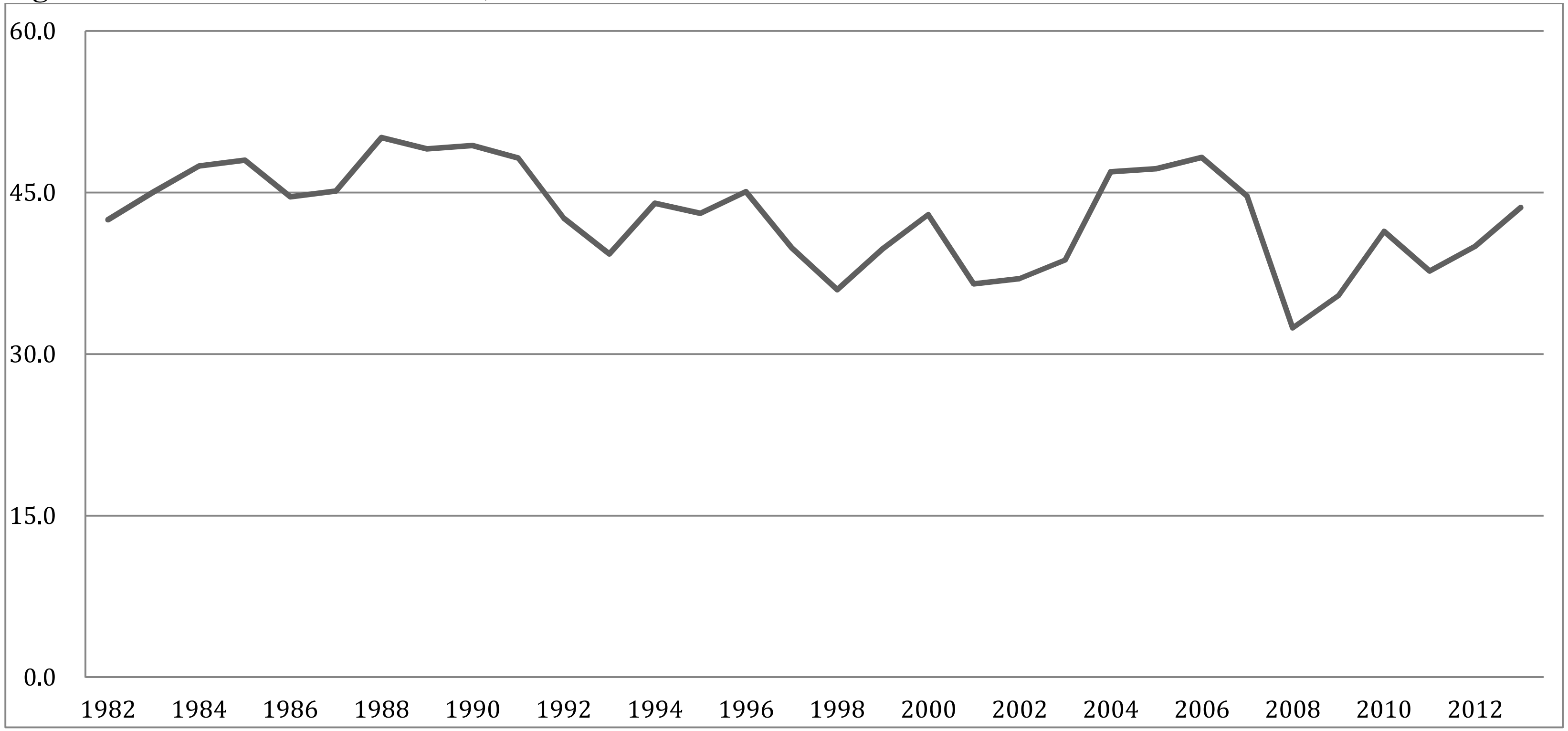
Indeed, reflecting the decline in the profit rate and wage share, GDP growth in Japan has also stagnated throughout the 1990s and 2000s (Figure 5). The trend of underconsumption also explains slow economic growth in Japan from the burst of the bubble economy onwards, as GDP growth has remained low. The GDP growth rate averaged 4.6 per cent during the 1970s (between 1971 and 1979), and increased further to 4.9 per cent during the 1980s (between 1980 and 1990). This high rate however dropped to 0.8 per cent immediately after the bursting of the bubble economy and remained low (below 2.6 per cent) between 1992 and 1997. This plummeted to - 2.0 per cent in 1998 after the Asian Financial Crisis and hit its lowest rate of -5.5 percent in 2009 after the Global Financial Crisis in 2007-8. Adopting Vidal's view that any GDP growth rate below three per cent should be considered slow rate of growth, Japan's GDP growth can be considered to have remained slow throughout the 1990s and 2000s (except for 2010). Despite the Bank of Japan's stimulus measures, including quantitative easing and the government fiscal stimulation, moreover, Japan has witnessed virtually zero real growth between 2013 and 2014 (Financial Times 25 August 2014). Japan has therefore been suffering from slow growth and stagnation since the early 1990s. Indeed, we might consider Japan's historically slow growth since the early 1990s to be a form of underconsumption resulting from the declining wage share, which in part stems from the incoordination between Japan's socio-economic institutions.

Figure 3 Union density in Japan, 1947-2009



Source: Data extracted from Trade Union Basic Survey (Rodokumiai Kiso Chosa), Ministry of Health, Labour and Welfare.

Figure 4 Consumer confidence index, 1982-2013



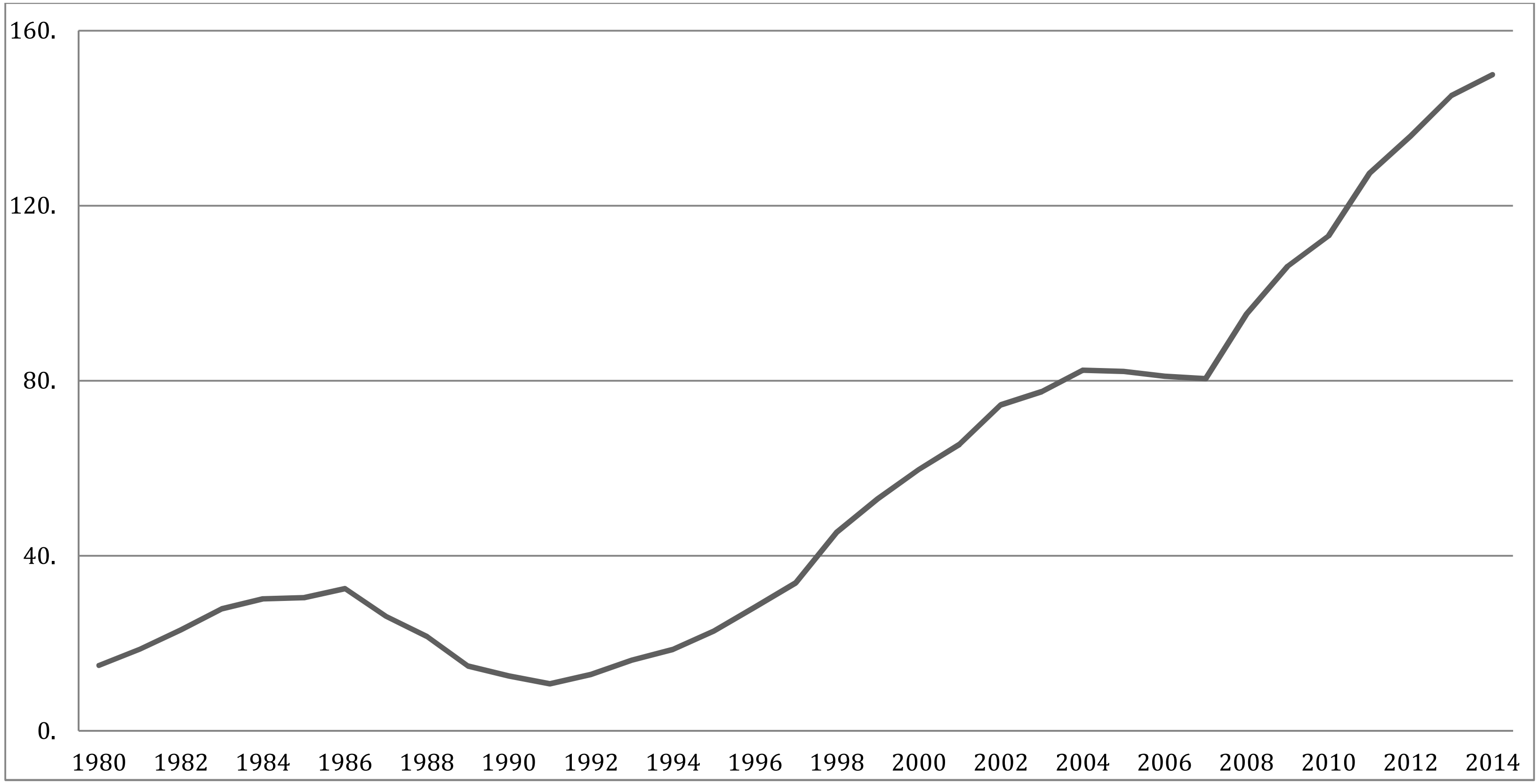
Source: Data extracted and recalculated from Consumer attitude index, Consumer Confidence Survey, Cabinet Office.[4]

[4] Syouhisya Taido Shisu, Syouhisya Doukou Chousa (Kisetu Chouseichi)

Figure 5 Japan's GDP growth rate, 1980-2014 (annual growth per cent)

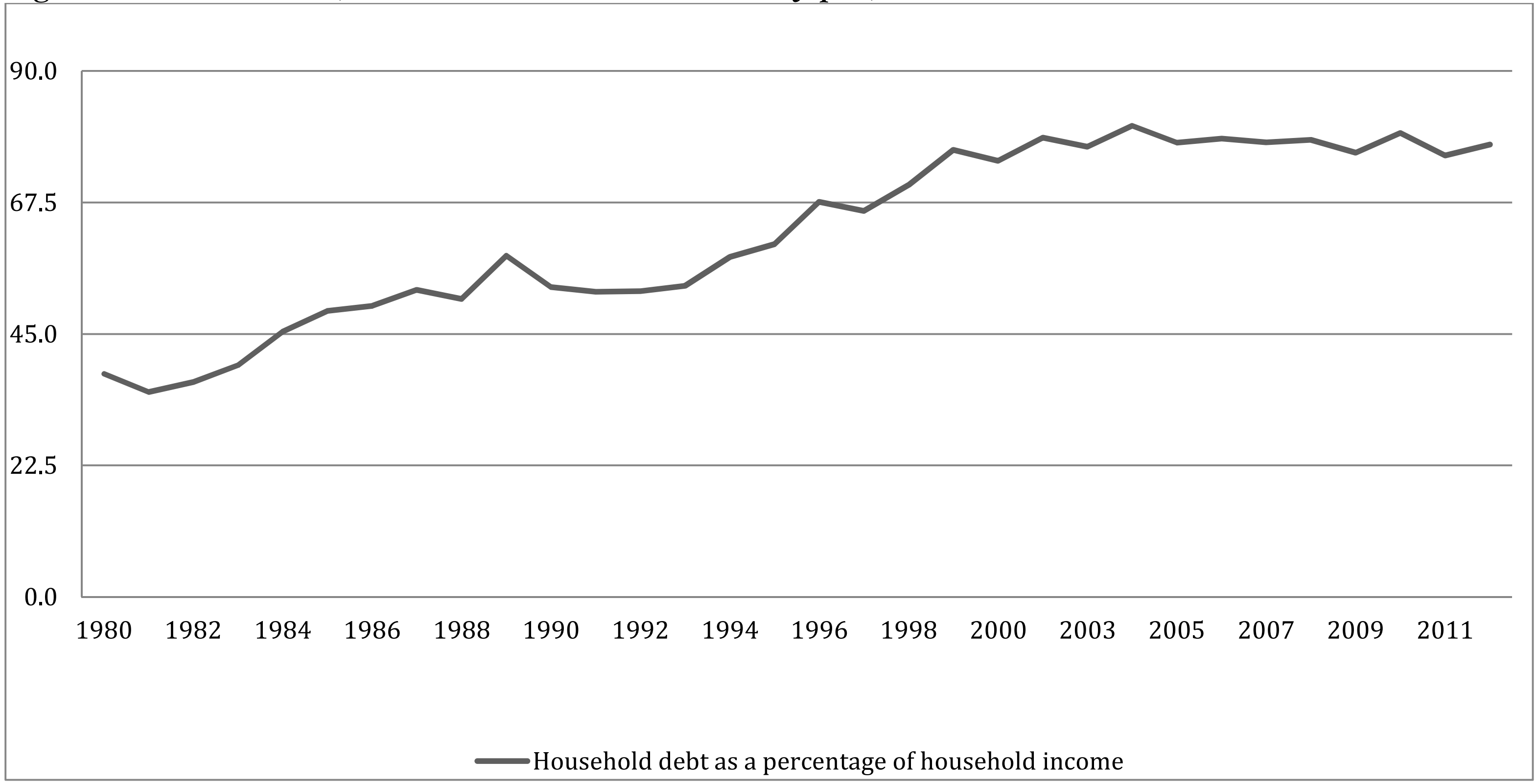
Source: OECD, StatExtracts, iLibrary, GDP, Japan.

Figure 6 General government net financial liabilities as a percentage of GDP in Japan, 1980-2014 (per cent)



Source: OECD, StatExtract, Economic Outlook, No.93.

Figure 7 Household debt, as a rate of household income in Japan, 1980-2012



Source: e-Stat: extracted from Household Survey (Kaki Chosa)[5].

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[5] The rate shown between 1980 and 2000 are based on household and data between 2002 and 2012 are household which have more than two people. No data available in 2001 and 2002.

Alongside the declining rate of profit and wage share, Japan's slow growth has also been partly offset by an increasing rate of public liabilities and household debt (figures 6 and 7). Perhaps most significant, in terms of public debt, is the notable rise in the rate of government debt over the last 25 years (figure 6). The rate of government financial liabilities was between 10 and 30 per cent of GDP throughout the 1980s. This rapidly increased from 10 per cent in 1991 to 145 percent in 2013. Without this increase in public liabilities, Japan's economic growth would have been even much smaller over the last two decades.

Each of the elements that Vidal identifies as indicative of a contradictory accumulation regime can therefore be argued to characterise the current model of Japanese capitalism: a declining profit rate, declining wage share (accompanied by declining union density), underconsumption due to the declining wage share, and resultant slow GDP growth (below three per cent for the most of the 1990s and 2000s), which was only enabled by the increasing level of household debt and public liabilities, particularly characterised by the phenomenal increase of public debt. These findings indicate that Japan is suffering from the effects of its contradictory (dis) accumulation regime. Corporate elites attempted to increase the profit level throughout the 1990s and 2000s by reducing the wage share, especially through de-unionisation and the flexibilisation of labour. Increases in the profit rate in the early 2000s have not generated an increase in the wage share, highlighting how corporate elites have suppressed wage rises, and the wage-labour nexus in Japan have become increasingly contradictory from the early 2000s onwards. The increase of non-regular workers in Japan (the rate of non-regular workers hit a record-high of 37 per cent in 2014) was advanced by the government, which institutionalised regulations and laws, including the Worker Dispatching Law, Labour Standard Law, and variable work week system, in favour of capital, creating a pool of flexible workers. This trend towards the flexibilisation of labour reduced opportunities for job training, employment security and promotion. These characteristics contributed to the declining wage share in Japan, restricting 'the consumption power of the mass of the population and forcing down the value of labour-power and expanding the reserve army of labour' (Clarke 1990:448, cited in Vidal 2013:457). The continuously declining wage share in Japan despite a large scale of corporate retained earnings therefore potentially has exacerbated the problem of underconsumption and the government also consolidated underconsumption with the tax hyke.

E. Conclusion

This paper argues that the transformation in socio-economic institutions in Japan, from a coordinated model to a disorganised one, has been unable to produce an alternative mode of regulation. Thus, the inability to contain instability that marks Japan's socio-economic institutions (and their inter-relation) has failed to reproduce a growth model. Adopting Vidal's notion of dysfunctional accumulation regime, the current model of Japanese capitalism is conceptualised as a contradictory accumulation regime, which was generated by the malfunctioning of the disorganised socio-economic institutions and their incapacity to construct an alternative growth model. Given that this vicious cycle (declining profit – reductions in the wage share – declining consumption) appears to be self-reinforcing, this regime has been underpinned by growing public and household debt, and a continuous attack by capital upon labour in an attempt to regain profits through a reduction in the wage share. The Japanese accumulation regime will remain contradictory into the foreseeable future. Indeed, this trend has continued under the Abe-administration. The challenge facing the current model of Japanese capitalism, therefore, is that of identifying a means to increase profitability without at the same time reducing the wage share further still. The solution to this conundrum is so far not forthcoming, and for that reason faltering (and failing) attempts to secure the conditions for growth and social cohesion seem likely to continue.

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